MAŽEIKIŲ NAFTA AB

COMPANY FINANCIAL STATEMENTS (STAND ALONE),

ANNUAL REPORT AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2006

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Independent Auditor's Report

To the Shareholders and Board of Directors of Mažeikių Nafta AB

Report on the Financial Statements

We have audited the accompanying financial statements of Mažeikių Nafta AB (the "Company") standing alone which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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 International Financial Reporting Standards as issued by the IASB. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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.

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Basis for Qualified Opinion
In October 2005, the Company acquired subsidiary Mažeikių Elektrinė AB. In December 2006 the Company legally merged with the subsidiary and applied predecessor values method of accounting to the merger. Through the business combination in October 2005 the Company acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances and the related liabilities for the actual emissions made until the date of acquisition have not been recognised in the balance sheet of the Company. The predecessor values method of accounting for the merger is based on the carrying values of Mažeikių Elektrinė AB's assets and liabilities in the consolidated financial statements of Mažeikių Nafta AB. In accordance with International Financial Reporting Standard No. 3 "Business Combinations" the acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. In our opinion, the Company should have recognised the above allowances and related liabilities at the date of acquisition of the subsidiary and subsequently should have recognised liabilities and related expenses for the actual emissions of carbon dioxide made between the date of acquisition and 31 December 2006. In 2006, Mažeikių Elektrinė AB sold allowances to emit 1,570,000 tons of carbon dioxide. On disposal the Company should have derecognised the carrying amount of emission allowances. Prior to the merger in December 2006 the Company acquired the remaining shares of Mažeikių Elektrinė AB from minority shareholders. The resulting goodwill should have been calculated based on the carrying values of net assets of subsidiary including the above emission allowances and related liabilities. Furthermore, the Company should then have tested the recognised allowances for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable, and recognised an impairment loss, if any.

As a result, the Company's total assets in the balance sheet as of 31 December 2006 should be increased by USD 1,844 thousand or LTL 4,852 thousand (31 December 2005: total assets and minority interest increased by USD 64,324 thousand or LTL 187,196 thousand and USD 9,389 thousand or LTL 27,323 thousand respectively), retained earnings increased by USD 1,844 thousand or LTL 4,852 thousand (31 December 2005: USD 55,109 thousand or LTL 159,873 thousand), whilst profit for the year then ended should be decreased by USD 67,250 thousand or LTL 180,853 thousand (31 December 2005: increased by USD 54,859 thousand or LTL 159,148 thousand) and its part attributable to minority interest decreased by USD 9,605 thousand or LTL 25,832 thousand (31 December 2005: USD 250 thousand or LTL 725 thousand). In addition, in the financial statements for the year ended 31 December 2005 presented in USD the cumulative translation adjustment should be decreased by USD 174 thousand.

Qualified Opinion
In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Company standing alone as of 31 December 2006, 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.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements give a true and fair view of the financial position of the Company standing alone as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report for the year ended 31 December 2006 set out on pages 55-82 and have not noted any material inconsistencies between the financial information included in it and the audited financial statements for the year ended 31 December 2006.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner
Vilnius, Republic of Lithuania
17 April 2007

Ona Armalienė
Auditor's Certificate No.000008

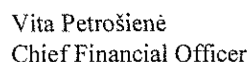
(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Balance sheet

	Note	As at 31 December 2006		As at 31 December 2005	
ASSETS		USD	LTL	USD	LTL
Non-current assets					
Property, plant and equipment	7	552,277	1,452,709	490,266	1,426,774
Intangible assets	8	7,219	18,989	3,778	10,995
Goodwill	9	4,268	11,225	1,411	4,105
Investments in subsidiaries and associates	10	26,790	70,468	26,744	77,830
Deferred income tax assets	20	35,751	94,039	20,598	59,944
Non-current receivables and prepayments	11	28,620	75,285	27,903	81,203
		654,925	1,722,715	570,700	1,660,851
Current assets					
Inventories	12	307,936	809,995	233,146	678,501
Trade and other receivables	13	124,311	326,987	152,737	444,495
Prepaid current income tax		53,630	141,068	144	419
Cash and cash equivalents	14	401,155	1,055,198	605,802	1,763,005
		887,032	2,333,248	991,829	2,886,420
Non-current assets classified as held for sale		288	758	952	2,771
		887,320	2,334,006	992,781	2,889,191
Total assets		1,542,245	4,056,721	1,563,481	4,550,042
EQUITY					
Capital and reserves					
Share capital	15	181,886	708,821	181,366	707,454
Share premium		77,507	295,548	72,752	283,040
Reserves	16	18,246	49,047	13,127	35,219
Cumulative translation adjustment		-	(243,934)	(75)	(48,433)
Retained earnings		463,970	1,141,246	404,778	978,223
		741,609	1,950,728	671,948	1,955,503
Minority interest		-	-	596	1,734
Total equity		741,609	1,950,728	672,544	1,957,237
LIABILITIES					
Non-current liabilities					
Borrowings	19	447,985	1,178,379	453,391	1,319,458
Other non-current liabilities	17	8,839	23,250	8,506	24,755
Provisions for liabilities and charges	21	2,455	6,458	11,322	32,949
		459,279	1,208,087	473,219	1,377,162
Current liabilities					
Trade and other payables	18	328,935	865,232	357,133	1,039,328
Current income tax liabilities		1,573	4,138	36,636	106,618
Borrowings	19	5,546	14,587	9,482	27,595
Provisions for liabilities and charges	21	5,303	13,949	14,467	42,102
		341,357	897,906	417,718	1,215,643
Total liabilities		800,636	2,105,993	890,937	2,592,805
Total equity and liabilities		1,542,245	4,056,721	1,563,481	4,550,042

The General Director and the Chief Financial Officer approved the financial statements on pages 5 to 54 on 22 March 2007.

Paul Nelson English
General Director

Vita Petrošienė 
Chief Financial Officer

The notes on pages 10 to 54 are an integral part of these financial statements.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Income statement

		Year ended 31 December			
		2006		2005	
	Note	USD	LTL	USD	LTL
Sales	6	4,245,136	11,679,643	3,976,610	11,033,502
Cost of sales	22	(3,942,781)	(10,847,773)	(3,327,019)	(9,231,147)
Gross profit		302,355	831,870	649,591	1,802,355
Other income	23	17,619	48,475	747	2,073
Selling and marketing costs	22	(177,865)	(489,360)	(200,356)	(555,908)
Administrative expenses	22	(81,005)	(222,869)	(75,836)	(210,415)
Operating profit		61,104	168,116	374,146	1,038,105
Finance income	24	35,467	97,580	13,405	37,194
Finance costs	25	(31,134)	(85,659)	(29,572)	(82,050)
Profit before income tax		65,437	180,037	357,979	993,249
Income tax expense	26	33	88	(44,201)	(116,544)
Profit for the year		65,470	180,125	313,778	876,705
Attributable to:					
Equity holders of the Company		63,604	174,991	313,967	877,229
Minority interest		1,866	5,134	(189)	(524)
		65,470	180,125	313,778	876,705
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD or LTL per share)					
– basic / diluted	27	0.090	0.247	0.444	1.240

The notes on pages 10 to 54 are an integral part of these financial statements.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Statement of changes in equity (in USD'000)

	Note	Capital and reserves attributable to equity holders of the Company								
		Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2005		181,366	72,752	109	-	-	196,500	450,727	-	450,727
Currency translation differences recognised directly in equity		-	-	-	-	(75)	-	(75)	(9)	(84)
Profit for the year		-	-	-	-	-	313,967	313,967	(189)	313,778
Total recognised income for 2005		-	-	-	-	(75)	313,967	313,892	(198)	313,694
Minority interest arising on business combinations	33	-	-	-	-	-	-	-	794	794
Transfer to legal reserve	16	-	-	-	13,018	-	(13,018)	-	-	-
Dividend relating to 2004	28	-	-	-	-	-	(92,671)	(92,671)	-	(92,671)
Balance at 31 December 2005		181,366	72,752	109	13,018	(75)	404,778	671,948	596	672,544
Balance at 1 January 2006		181,366	72,752	109	13,018	(75)	404,778	671,948	596	672,544
Currency translation differences recognised directly in equity		-	-	-	-	782	-	782	106	888
Profit for the year		-	-	-	-	-	63,604	63,604	1,866	65,470
Total recognised income for 2006		-	-	-	-	782	63,604	64,386	1,972	66,358
Transfer to legal reserve	16	-	-	-	5,119	-	(5,119)	-	-	-
Issue of share capital in exchange for minority interest in subsidiary	33	520	4,755	-	-	-	-	5,275	(2,568)	2,707
Transfer of cumulative translation adjustment on merged subsidiary		-	-	-	-	(707)	707	-	-	-
Balance at 31 December 2006		181,886	77,507	109	18,137	-	463,970	741,609	-	741,609

The notes on pages 10 to 54 are an integral part of these financial statements.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Statement of changes in equity (in LTL'000)

	Note	Capital and reserves attributable to equity holders of the Company								
		Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Total	Minority interest	Total equity
Balance at 1 January 2005		707,454	283,040	437	-	(231,948)	383,385	1,142,368	-	1,142,368
Currency translation differences recognised directly in equity		-	-	-	-	183,515	-	183,515	(24)	183,491
Profit for the year		-	-	-	-	-	877,229	877,229	(524)	876,705
Total recognised income for 2005		-	-	-	-	183,515	877,229	1,060,744	(548)	1,060,196
Minority interest arising on business combinations	33	-	-	-	-	-	-	-	2,282	2,282
Transfer to legal reserve	16	-	-	-	34,782	-	(34,782)	-	-	-
Dividend relating to 2004	28	-	-	-	-	-	(247,609)	(247,609)	-	(247,609)
Balance at 31 December 2005		707,454	283,040	437	34,782	(48,433)	978,223	1,955,503	1,734	1,957,237
Balance at 1 January 2006		707,454	283,040	437	34,782	(48,433)	978,223	1,955,503	1,734	1,957,237
Currency translation differences recognised directly in equity		-	-	-	-	(193,641)	-	(193,641)	(113)	(193,754)
Profit for the year		-	-	-	-	-	174,991	174,991	5,134	180,125
Total recognised income for 2006		-	-	-	-	(193,641)	174,991	(18,650)	5,021	(13,629)
Transfer to legal reserve	16	-	-	-	13,828	-	(13,828)	-	-	-
Issue of share capital in exchange for minority interest in subsidiary	33	1,367	12,508	-	-	-	-	13,875	(6,755)	7,120
Transfer of cumulative translation adjustment on merged subsidiary		-	-	-	-	(1,860)	1,860	-	-	-
Balance at 31 December 2006		708,821	295,548	437	48,610	(243,934)	1,141,246	1,950,728	-	1,950,728

The notes on pages 10 to 54 are an integral part of these financial statements.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Cash flow statement

		Year ended 31 December			
		2006		2005	
	Note	USD	LTL	USD	LTL
Cash flows from operating activities					
Cash generated from operations	29	31,817	(23,308)	497,597	1,528,228
Interest paid		(31,006)	(85,205)	(28,016)	(78,612)
Income tax paid		(100,614)	(275,627)	(58,665)	(168,445)
Net cash generated from operating activities		(99,803)	(384,140)	410,916	1,281,171
Cash flows from investing activities					
Purchases of property, plant and equipment		(121,784)	(327,462)	(57,436)	(161,280)
Change in cash restricted for investing activities		-	-	11,205	28,399
Proceeds from sale of non-current assets classified as held for sale		1,270	3,630	87	236
Purchases of intangible assets		(1,086)	(2,039)	(768)	(2,225)
Proceeds from sale of available-for-sale financial assets		-	-	19	48
Interest received		24,784	67,995	13,405	37,703
Acquisition of share in subsidiaries and contribution to the share capital		-	-	(6,141)	(16,085)
Acquisition of subsidiary, net of cash acquired	33	-	-	(5,733)	(16,466)
Dividend received		3,606	9,921		
Cash received on liquidation of subsidiary		-	-	28	80
Net cash used in investing activities		(93,210)	(247,955)	(45,334)	(129,590)
Cash flows from financing activities					
Repayments of borrowings		(9,500)	(26,220)	(9,819)	(27,186)
Dividends paid		-	-	(92,665)	(247,592)
Net cash used in financing activities		(9,500)	(26,220)	(102,484)	(274,778)
Net increase in cash and cash equivalents		(202,513)	(658,315)	263,098	876,803
Cash and cash equivalents at beginning of period	14	605,802	1,763,005	349,101	884,800
Exchange gains/(losses) on cash and cash equivalents		(2,134)	(49,492)	(6,397)	1,402
Cash and cash equivalents at end of period	14	401,155	1,055,198	605,802	1,763,005

The notes on pages 10 to 54 are an integral part of these financial statements.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Notes to the financial statements

1. General information

Mažeikių Nafta AB (hereinafter "the Company") was originally established in 1980 to refine crude oil and market refined oil products. In 1995, the Company was reorganised into a public company following a partial privatisation by the Company's employees. In 1998, the Company merged with Būtingės Nafta AB, an oil terminal operator, and Naftotiekis AB, a pipeline operator. In 2006, the Company merged with Mažeikių Elektrinė AB, manufacturer of electricity.

The Company is a limited liability company incorporated and domiciled in Lithuania. The address of its registered office is Juodeikiai, LT-89467 Mažeikių raj., Lithuania.

The Company has its primary listing on the Vilnius Stock Exchange (Lithuania).

On 15 December 2006, Yukos International UK B.V. (part of the Yukos Group) and the Government of the Republic of Lithuania (hereinafter "the Government") sold 53.7 percent and 30.66 percent, respectively, of the Company's shares to Polski Koncern Naftowy Orlen S.A. (Poland) (hereinafter "PKN ORLEN"). As at 31 December 2006 the Company's two primary shareholders were PKN ORLEN with 84.2 percent and the Government with 9.98 percent of shares (2005: Yukos International UK B.V. with 53.7 percent and the Government with 40.7 percent of shares). The remaining shares are widely held.

As at 31 December 2006 Polski Koncern Naftowy Orlen S.A. was the ultimate parent entity of the Company and the Polish State Treasury was the ultimate controlling party of the Company.

Subsidiaries and associates

The Company has seven directly or indirectly controlled subsidiaries (2005: nine subsidiaries) and one associate. The subsidiaries and associate are listed below:

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Company's share (%) as at		Profile
			31 December 2006	31 December 2005	
Subsidiaries					
Uotas UAB	Lithuania	2002	100	100	The entity is under liquidation process.
Ventus Nafta AB	Lithuania	2002	98.59	98.59	Retail of refined oil products
Mažeikių Naftos Prekybos Namai UAB	Lithuania	2003	100	100	The Company's sales commissioner in Lithuania
Mazeikiu Nafta Tirdzniecibas Nams SIA	Latvia	2003	100	100	Wholesale of refined oil products in Latvia. The entity is a wholly owned subsidiary of Mažeikių Naftos Prekybos Namai UAB.
Mazeikiu Nafta Trading House OU	Estonia	2003	100	100	Wholesale of refined oil products in Estonia. The entity is a wholly owned subsidiary of Mažeikių Naftos Prekybos Namai UAB.
Mazeikiu Nafta Trading House Sp.z.o.o.	Poland	2003	100	100	Wholesale of refined oil products in Poland. The entity is a wholly owned subsidiary of Mažeikių Naftos Prekybos Namai UAB.
Biržietiška Aibė UAB	Lithuania	1999	-	100	The entity was liquidated in January 2006
Juodeikių Nafta UAB	Lithuania	1995	100	100	Filling of tanks with oil products. The entity is under liquidation process.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

1. General information (continued)

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Company's share (%) as at		Profile
			31 December 2006	31 December 2005	
Subsidiaries					
Mažeikių Elektrinė AB	Lithuania	2005	-	85.72	The entity was merged with the Company in December 2006 (Note 33, 34)
Associates					
Naftelf UAB	Lithuania	1996	34	34	Sales of aviation fuel and construction of aviation fuel storage facilities

2. Significant matters affecting the Company

(1) Supply of crude oil

In February 2005 the Yukos Group, the Company's major shareholder until 15 December 2006 and then its major supplier of crude oil based on long term supply agreements, suspended supplies to the Company. Management subsequently took steps to ensure the continuity of supply by signing agreements with several separate oil traders and 8.2 million tons of crude oil were delivered to the refinery during 2006 (2005: 9 million tons).

The Company has in the past been dependent on receiving its crude oil deliveries from pipelines carrying oil through the Russian Federation, although it also has the capacity to import crude oil through its Būtingė oil import-export terminal. At the end of July 2006 crude oil deliveries to the Company via the pipeline were suspended and the Company has subsequently been operating by importing crude oil through the oil terminal.

On 5 January 2007 the Company signed an agreement with PKN ORLEN that gives to PKN ORLEN the exclusive rights to supply the Company with crude oil. The signing of the agreement is connected with the centralisation of crude oil purchases to the PKN ORLEN Group. The agreement is concluded for an undetermined period.

(2) Fire at the oil refinery

On 12 October 2006 a fire at the oil refinery destroyed a vacuum distillation unit which was used in the manufacturing of light oil products. After the fire until the first stage of the recovery plan was completed in February 2007, the oil refinery was able to work at approximately half capacity. The first stage of the recovery plan was completed in February 2007 with the commissioning and start-up of the refurbished old vacuum distillation tower which was previously taken out of service. The refurbished tower is capable of refining approx. 50 percent of the volume refined in the unit damaged by the fire. The management estimates that it will take from 12 to 14 months to restore full capacity. The Company has its property and business interruption losses insured in the international insurance market via the broker AON Limited, London. Property is insured at reinstatement value. The Company's civil liability is also insured in the international insurance market. As at the date of the issuance of these financial statements the fire is under investigation by the insurance companies and amounts of the compensation of losses are unknown.

(3) Going concern

The combined effects of the suspension of oil supply via the pipeline and the fire at the oil refinery had in 2006 and will continue to have in future a significant adverse effect on the Company's operations. However, the management believes that based on its actions and the Company's capital, financing and operating plans for 2007 there is no reason to doubt the appropriateness of the going concern assumption in the preparation of these financial statements.

3. Summary of significant accounting policies

3.1 Basis of preparation

These financial statements of the Company standing alone have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Standards issued by the IASB. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Company is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

The Company has prepared these stand-alone financial statements due to the requirements of the laws of the Republic of Lithuania.

The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (hereinafter together "the Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements can be obtained from Vilnius Stock Exchange.

Users of these stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2006 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

Correction of errors

The Company discovered an error made in its stand-alone financial statements for the year ended 31 December 2005 in respect of related party disclosures. Petroval PTE Ltd was disclosed as a related party, although it was not related to the Company. As a result of correcting this error, as at 31 December 2005 receivables from related parties were decreased by USD 52,187 thousand or LTL 151,875 thousand and amounts payable to related parties were decreased by USD 5,591 thousand or LTL 16,270 thousand; receivables and payables to third parties were increased accordingly. Sales to related parties were decreased by USD 10,965 thousand or LTL 28,818 thousand and purchases from related parties were decreased by USD 90,227 thousand or LTL 251,511 thousand for the year ended 31 December 2005; sales and purchases from third parties were increased accordingly.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.1 Basis of preparation (continued)

Merger accounting

On 28 December 2006 the Company merged with its wholly owned subsidiary Mažeikių Elektrinė AB and Mažeikių Elektrinė AB was liquidated. The Company used merger accounting principles for the accounting of merger (see Note 3.3). As a result, the Company's stand-alone financial statements for the year ended 31 December 2005 were restated to reflect the results of the merged companies as if the entities had always been combined. The impact of the merger accounting on the income statement and the balance sheet of the Company standing alone for the year ended 31 December 2005 is provided in Note 34.

Standards, interpretations and amendments to published standards effective in 2006

The following standards, interpretations and amendments to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but are either not relevant to the Company's operations or do not have a material effect on the financial statements:
- IAS 19 (Amendment), Employee Benefits
- IAS 21 (Amendment), Net Investment in Foreign Operation
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6, Exploration for and Evaluation of Mineral Resource
- IFRIC 4, Determining whether an Arrangement Contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Early adoption of standards, interpretations and amendments to published standards

The Company has not elected to early adopt any new standards, interpretations and amendments to published standards.

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2007 or later periods but which the Company has not early adopted:

(a) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Company will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.1 Basis of preparation (continued)

(b) IFRS 8, Operating Segments (effective from 1 January 2009)

IFRS 8 replaces IAS 14, Segment Reporting. It specifies how an entity should report information about its operating segments in annual financial statements and, as a consequential amendment to IAS 34, Interim Financial Reporting, requires an entity to report additional selected information about its operating segments in interim financial reports. It also sets out requirements for related disclosures about products and services, geographical areas and major customers. The Company is currently assessing what impact the new IFRS will have on disclosures in its financial statements. The Company will apply IFRS 8 from 1 January 2009. At the date of the issuance of these financial statements this standard was not adopted by the EU.

(c) IAS 23, Borrowing costs (revised March 2007) (effective from 1 January 2009)

IASB issued a revised IAS 23, Borrowing Costs on 29 March 2007. It supersedes IAS 23, revised in 1993. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The revised Standard applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Company believes that the revised standard will not have any impact on the Company's financial statements because currently the Company's accounting policy is to capitalise borrowing costs. At the date of the issuance of these financial statements the revised standard was not adopted by the EU.

(d) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)

The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Company's operations.

(e) IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Company's operations.

(f) IFRIC 9, Re-assessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. The management of the Company believes that this interpretation will not significantly effect the financial statements of the Company. The Company will apply this interpretation from 1 January 2007.

(g) IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006)

IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Company's accounts. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.1 Basis of preparation (continued)

(h) IFRIC 11, IFRS 2—Group and Treasury Share Transactions (effective for annual periods beginning on or after 1 March 2007)

The Interpretation addresses how to apply IFRS 2, Share-based Payments to share-based payment arrangements involving entity's own equity instruments or equity instruments of another entity in the same group. IFRIC 11 is not relevant to the Company's operations as the Company is not involved in share-based payment arrangements. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

(i) IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)

IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements. It does not address accounting for the government side of service concession arrangements. IFRIC 12 is not relevant to the Company's operations as the Company is not involved in service concession arrangements. At the date of the issuance of these financial statements this interpretation was not adopted by the EU.

Endorsement by the European Union of certain of the above new or revised IFRSs effective on or after 1 January 2007 is pending. However, management decided to include also these IFRSs in the above disclosure because the European Union may require their application to periods before the endorsement.

3.2 Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for at cost less impairment.

3.3 Merger accounting

The Company applies the predecessor values method of accounting to legal mergers with its subsidiaries. Assets and liabilities of merged entities are not restated to fair values at the date of merger, instead, assets and liabilities at their carrying values are incorporated into the financial statements prepared after the merger. The carrying values used are those that were included in the parent entity's consolidated financial statements, i.e. reflecting the fair value adjustments, minority interest and goodwill that arose on acquisition of subsidiary. Under the predecessor values method of accounting the corresponding amounts in the merged financial statements for the previous year reflect the results of the merged entities for the full year, or from the date of acquisition if later.

The purchase method of accounting is applied to determine predecessor carrying values on the date of acquisition of subsidiaries by the Company. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Company's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Company and the legally merged entity are eliminated from the date of its acquisition by the Company. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of the merged subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Company.

The Company applies a policy of treating transactions with minority interests as transactions with parties external to the Company. Disposals to minority interests result in gains and losses for the Company that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

3.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

3.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of the Company is the US dollar (USD) as it mainly influences sales prices for goods and services and material costs, the funds from financing activities are mainly generated in the USD and the Company retains the major part of receipts from its operating activities in the USD. A significant portion of the Company's business is conducted in the US dollars and management uses the USD to manage business risks and exposures and to measure performance of the business.

The financial statements are presented in US dollars, which is the Company's functional and presentation currency, and, due to the requirements of the laws of the Republic of Lithuania, in Lithuanian Litas (LTL) which is the Company's additional presentation currency. Since 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1. As at 31 December 2006 the exchange rate of US Dollar to Lithuanian Litas was USD 1 = LTL 2.6304 (2005: USD 1 = LTL 2.9102).

The financial statements of the Company, prepared in US dollars, the functional currency of the Company, are translated to presentation currency, Lithuanian Litas by using period end exchange rate for translation of assets and liabilities and average exchange rate for the year for translation of income and expenses (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates prevailing at the dates of the transactions). All resulting exchange differences are recognised as cumulative translation adjustments as a separate component of equity.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(c) Merged subsidiaries

The results and financial position of all merged subsidiaries (none of which has the currency of a hyperinflationary economy as its functional currency) that have a functional currency different from the Company's functional currency USD being a presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Goodwill and fair value adjustments arising on the acquisition of a subsequently merged subsidiary are treated as assets and liabilities of the subsidiary and translated at the closing rate.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.6 Property, plant and equipment

Property, plant and equipment is stated at cost less subsequent depreciation and impairment. Land is shown at cost less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets, except for catalysts which are depreciated using the unit of output method, and land which is not depreciated, is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

– buildings	20-90 years
– oil refinery technological equipment	5-25 years
– oil refinery constructions	15-70 years
– oil terminal sea equipment	25 years
– vehicles	5-10 years
– railway transport	13-20 years
– engineering network and systems	4-50 years
– other property, plant and equipment	3-40 years

Property, plant and equipment include spare parts that can only be used in connection with specific item of property, plant and equipment.

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually at each year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 3.8).

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. The loss arising from the retirement is included in the income statement when the asset is derecognised.

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

3.7 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of the merged subsidiaries. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately on the balance sheet. Separately recognised goodwill is tested annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of a business unit include the carrying amount of goodwill relating to the business unit sold.

3.7 Intangible assets (continued)

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Each of those cash-generating units represents the Company's investment by each primary reporting segment.

(b) Patents and licences

Patents and licences include acquired patents and licences for manufacturing technology used by the refinery. Patents and licences are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation less impairment. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives (4 years).

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years).

3.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets

The Company classifies its financial assets in the following categories for measurement purposes: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management intentions and whether the investment is quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, except for financial assets at fair value through profit or loss. Reclassifications out of or into this category after initial recognition are prohibited.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management if certain conditions are met. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date. The Company did not hold any investments in this category during the period.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.9 Financial assets (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and prepayments in the balance sheet. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 3.11). Bonds issued by financial institutions, which are not traded in an active market and are classified as part of the loans and receivables measurement category, are included in cash and cash equivalents in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. The Company did not hold any investments in this category during the period.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment or investment matures within 12 months of the balance sheet date in which case they are included in current assets.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between currency translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The currency translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Interest income on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Company's right to receive payments is established. All other changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

3.9 Financial assets (continued)

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in income statement. Impairment testing of trade receivables is described in Note 3.11.

3.10 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.11 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

3.12 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

3.13 Cash and cash equivalents

For the purposes of the cash flow statement cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3.14 Share capital

Ordinary shares are classified as equity.

3.15 Trade and other payables

Trade payables and other payables are accrued when the counterparty performed its obligations under the contract and are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the amount at initial recognition and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.17 Deferred income tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The non-monetary assets and liabilities of the Company are measured in its functional currency USD, and the Company's taxable profit and, hence, the tax base of its non-monetary assets and liabilities, is determined in LTL. Changes in the exchange rate give rise to temporary differences that result in a recognition of deferred tax liability or asset. The resulting deferred tax is charged or credited to income statement.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

3.18 Employee benefits

(a) Long-term employee benefits

The Company provides bonuses and paid leave to its employees based on the years of service. The liability recognised in the balance sheet in respect of long-term employee benefits is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated at each balance sheet date by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognised immediately in the income statement and no "corridor" is applied. All past service costs are recognised immediately.

(b) Profit-sharing and bonus plans

The Company recognises a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Other employee benefits

Wages, salaries, contributions to the state social insurance funds, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by the employees of the Company.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

3.19 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of value-added tax, returns, rebates and discounts and after eliminating sales between the Company and merged subsidiaries. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier or to a specified destination, is transferred from the Company to the buyer in accordance with the standardised terms and conditions of sale (Incoterms) agreed with the buyer, and collectability of the related receivables is reasonably assured. Excise taxes collected by the Company on behalf of the state are excluded from sales revenue.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

3.21 Leases – the Company is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.23 Emission rights

The Company participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge.

The Company measures both emission allowances and government grant at a nominal amount, i.e. zero. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances. Any excess emissions are measured at the market value of allowances at the period end.

3.23 Emission rights (continued)

When unused emission allowances are sold, sale proceeds are recognised in the income statement within "other income".

3.24 Government grants

Monetary grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Non-monetary government grants are recognised at their nominal amount.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

4. Financial risk management

4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. From time to time the Company may use derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Company's treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Polish Zloty and Lithuanian Litas. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has a foreign currency risk management strategy that utilises derivatives to reduce its exposure to unanticipated fluctuations in cash flows derived from sales to Poland caused by changes in foreign currency exchange rates.

Occasionally the Company uses forward and options contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(ii) Price risk

The Company occasionally enters into commodity swap contracts to reduce risk relating to the price volatility.

(b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments and accounts receivable. Maximum exposure to credit risk is reflected in the carrying values of the financial assets; the effect of any rights of sett-off is not significant.

The Company restricts placement of cash investments to financial institutions evaluated as highly creditworthy.

4.1 Financial risk factors (continued)

Concentrations of customers in the oil industry may impact the Company's overall exposure to credit risk, as these customers may be similarly effected by the changes in economic conditions. The Company has procedures in place to ensure on a continuous basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit established by the management. Management believes that there is no significant risk of loss to the Company beyond the provisions already established.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company's cash flow and fair value interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk.

4.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value, net of impairment provisions of trade receivables and the carrying value of accounts payable are assumed to approximate their fair values due to the short-term nature of trade receivables and payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

5.1 Critical accounting estimates and assumptions (continued)

(a) Impairment of pipeline assets

At the end of July 2006 crude oil deliveries via the pipeline from Russia to the Company were suspended and pipeline connecting Biržai pumping station with the oil refinery is not used by the Company. Net book amount of unused property, plant and equipment amounted to USD 2,212 thousand or LTL 5,818 thousand as at 31 December 2006. Total property, plant and equipment in the pipeline operating segment amounted to USD 12,110 thousand or LTL 31,854 thousand. The management of the Company believes that the interruption in crude oil supply via the pipeline is temporary, therefore no impairment loss was recognised on the pipeline operating segment's property, plant and equipment in the financial statements for the year ended 31 December 2006. If it becomes apparent in future that the interruption is of a long term nature, the pipeline assets will be tested for impairment and impairment loss, if any, will be recognised in the financial statements.

5.2 Critical judgements in applying the Company's accounting policies

(a) Accounting for pipeline fill
The Company recognises pipeline fill representing crude oil which is in the pipe connecting the refinery and Būtingė import-export oil terminal as property plant and equipment. According to the technical specifications of equipment, there must always be a certain level of crude oil in the pipe. The Company has classified the pipeline fill as property, plant and equipment because the management of the Company believes that this crude oil will be used for more than one year and its balance in tons does not change and does not impact cost of sales. Pipeline fill is depreciated to its residual value which is equal to the crude oil market price at each balance sheet date. Pipeline fill is tested for impairment annually. The balance of pipeline fill amounted to USD 8,532 thousand or LTL 22,443 thousand as at 31 December 2006 (2005: USD 8,532 thousand or LTL 24,829 thousand).

(b) Accounting for carbon dioxide emission rights
The Company participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. The Company measures both emission allowances and government grant at a nominal amount, i.e. zero. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances, i.e. zero. Any excess emissions to be purchased are measured at the market value of allowances at the period end. When unused emission allowances are sold, sale proceeds are recognised in the income statement upon sale. Management judges that this policy helps to avoid income statement volatility related to the different measurement bases and the timing of recognition of the emission rights asset and the liability arising from the emission of pollutants. The market value of remaining unused carbon dioxide allowances of the Company amounted to USD 31,720 thousand or LTL 83,436 thousand as at 31 December 2006 (2005: USD 184,649 thousand or LTL 537,365 thousand). Income from the sale of emission allowances amounted to USD 13,415 thousand or LTL 35,937 thousand during the year ended 31 December 2006 (2005: nil) (Note 23).

(c) Accounting for capital investment relief
According to the Investment Agreement signed on 29 October 1999 between the Company, the Government and Williams International Company (from 19 September 2002 replaced by Yukos Finance B.V.) which was valid until 15 December 2006 when Yukos International UK B.V. sold its shareholding in the Company to PKN ORLEN, the Company could reduce its taxable profits by the capital investment relief. The Investment Agreement guaranteed that starting from 29 October 1999 for a period of 10 years the portion of taxable profit of the Company utilised for investment in property, plant and equipment was taxed at a corporate profit tax rate of 0 percent. During the reporting period the Company recognised capital investment relief for the period from 1 January 2006 to 15 December 2006. Accordingly the Company reduced its income tax expenses by capital investment relief of USD 2,667 thousand or LTL 7,337 thousand (2005: USD 4,355 thousand or LTL 12,438 thousand) (Note 26). The Company believes that the capital investment relief represents an investment tax credit. Accounting for investment tax credits is not addressed in IFRS and the Company therefore considered requirements and guidance dealing with similar and related issues. Management considered accounting treatment of the relief as a government grant under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance,* or as a tax credit under IAS 12, *Income Taxes*. However, as the relief is contingent on qualifying capital expenditures, management decided that the most appropriate accounting policy is to recognise the tax benefits of the capital investment relief in the period in which the qualifying capital expenditures are incurred.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

5.2 Critical judgements in applying the Company's accounting policies (continued)

(d) The Company's selection of the USD as its functional currency

The Company selected the USD as its functional currency because the most of its income and the majority of its costs are influenced by the international oil prices, which are set in the USD. In addition, the majority of the Company's borrowings and receipts from operating activities are in the USD. The management uses the USD to manage business risks and exposures and to measure performance of the business. The management of the Company believes that the USD is the currency of the primary economic environment in which the Company operates.

6. Segment information

(a) Primary reporting format – business segments

The Company has three reportable segments: oil refinery, oil terminal and pipeline operator.

The oil refinery produces different grades of high octane unleaded gasoline, diesel, jet fuel, bitumen, LPG and sulphur.

The Company owns an import-export oil terminal in Būtingė on the Baltic sea coast. Until the end of July 2006 the terminal was used for export of crude oil. After the crude oil supply to the Company via the pipeline from Russia was suspended, the Company started using its oil terminal for the import of crude oil which is further used in the production process of oil refinery.

The pipeline segment consists of part of the Druzhba pipeline in the territory of Lithuania and a pipeline connecting the Biržai pumping station with the oil refinery and the oil terminal. Until the suspension of crude oil supply from Russia via pipeline in July 2006 the pipeline operator transported crude oil to the oil refinery and terminal in Būtingė and crude oil and refined oil products to a terminal in Ventspils, Latvia. After July 2006 the pipeline operator transports refined oil products to a terminal in Ventspils.

The Company allocates costs between segments directly.

The segment results for the year ended 31 December 2006 are as follows:

USD	Oil refinery	Oil terminal	Pipeline	Total
Total segment sales	4,208,209	17,763	19,164	4,245,136
Operating profit / segment result	71,931	(20,984)	10,157	61,104
Finance income (Note 24)				35,467
Finance costs (Note 25)				(31,134)
Profit before income tax				65,437
Income tax expense (Note 26)				33
Profit for the year				65,470

LTL	Oil refinery	Oil terminal	Pipeline	Total
Total segment sales	11,577,178	49,208	53,257	11,679,643
Operating profit / segment result	197,303	(57,667)	28,480	168,116
Finance income (Note 24)				97,580
Finance costs (Note 25)				(85,659)
Profit before income tax				180,037
Income tax expense (Note 26)				88
Profit for the year				180,125

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

6. Segment information (continued)

The segment results for the year ended 31 December 2005 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Total
Total segment sales	3,918,359	30,158	28,093	3,976,610
Operating profit / segment result	349,347	7,312	17,487	374,146
Finance income (Note 24)				13,405
Finance costs (Note 25)				(29,572)
Profit before income tax				357,979
Income tax expense (Note 26)				(44,201)
Profit for the year				313,778

LTL

	Oil refinery	Oil terminal	Pipeline	Total
Total segment sales	10,871,510	83,932	78,060	11,033,502
Operating profit / segment result	969,022	20,490	48,593	1,038,105
Finance income (Note 24)				37,194
Finance costs (Note 25)				(82,050)
Profit before income tax				993,249
Income tax expense (Note 26)				(116,544)
Profit for the year				876,705

Other segment items included in the income statement are as follows:

USD	Year ended 31 December 2006			
	Oil refinery	Oil terminal	Pipeline	Total
Depreciation (Note 7)	23,394	18,072	2,419	43,885
Amortisation (Note 8)	1,438	39	4	1,481
Reversal of PPE impairment (Note 7)	82	-	-	82

LTL	Year ended 31 December 2006			
	Oil refinery	Oil terminal	Pipeline	Total
Depreciation (Note 7)	64,715	49,973	6,689	121,377
Amortisation (Note 8)	3,960	107	11	4,078
Reversal of PPE impairment (Note 7)	219	-	-	219

USD	Year ended 31 December 2005			
	Oil refinery	Oil terminal	Pipeline	Total
Depreciation (Note 7)	23,376	8,673	2,797	34,846
Amortisation (Note 8)	1,289	40	-	1,329
Impairment of PPE (Note 7)	1,556	-	-	1,556
(Reversal of) PPE impairment (Note 7)	(124)	-	-	(124)

LTL	Year ended 31 December 2005			
	Oil refinery	Oil terminal	Pipeline	Total
Depreciation (Note 7)	64,944	24,045	7,733	96,722
Amortisation (Note 8)	3,578	110	-	3,688
Impairment of PPE (Note 7)	4,309	-	-	4,309
(Reversal of) PPE impairment (Note 7)	(339)	-	-	(339)

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

6. Segment information (continued)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables and cash and cash equivalents. Unallocated assets comprise deferred taxation, prepaid income tax and available-for-sale financial assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as income tax liabilities, borrowings incurred for financing purposes and related interest liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 7) and intangible assets (Note 8), including additions resulting from acquisition through business combinations with merged subsidiaries (Notes 7 and 33).

The segment assets and liabilities as at 31 December 2006 and capital expenditure for the year then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Unallocated	Total
Assets	1,206,305	205,704	14,065	89,381	1,515,455
Investments in subsidiaries and associates	3,831	-	-	22,959	26,790
Total assets	1,209,991	205,704	14,065	112,485	1,542,245
Liabilities	339,656	4,263	354	456,363	800,636
Capital expenditure (Notes 7 and 8)	101,344	7,983	1,016	-	110,343

LTL

	Oil refinery	Oil terminal	Pipeline	Unallocated	Total
Assets	3,173,065	541,084	36,997	235,107	3,986,253
Investments in subsidiaries and associates	10,077	-	-	60,391	70,468
Total assets	3,182,760	541,084	36,997	295,880	4,056,721
Liabilities	893,424	11,214	931	1,200,424	2,105,993
Capital expenditure (Notes 7 and 8)	276,272	21,712	2,791	-	300,775

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Unallocated	Total
Assets	1,278,071	223,543	14,381	20,742	1,536,737
Investments in subsidiaries and associates	3,831	-	-	22,913	26,744
Total assets	1,281,902	223,543	14,381	43,655	1,563,481
Liabilities	384,678	4,054	1,548	500,657	890,937
Capital expenditure (Notes 7 and 8)	44,678	1,307	1,071	-	47,056

LTL

	Oil refinery	Oil terminal	Pipeline	Unallocated	Total
Assets	3,719,442	650,555	41,852	60,363	4,472,212
Investments in subsidiaries and associates	11,149	-	-	66,681	77,830
Total assets	3,730,591	650,555	41,852	127,044	4,550,042
Liabilities	1,119,490	11,798	4,505	1,457,012	2,592,805
Capital expenditure (Notes 7 and 8)	124,351	3,550	2,982	-	130,883

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

6. Segment information (continued)

(b) Secondary reporting format – geographical segments

The home-country of the Company is Lithuania.

Sales	2006 USD	2006 LTL	2005 USD	2005 LTL
Lithuania	989,406	2,722,153	857,476	2,367,725
Switzerland	469,127	1,290,709	503,135	1,398,189
UK	449,465	1,236,613	353,521	992,274
Estonia	362,722	997,957	269,583	747,985
Latvia	333,608	917,856	302,095	838,193
Netherlands	251,944	693,174	124,983	349,963
Poland	245,723	676,058	247,136	685,704
Canada	239,579	659,154	202,228	575,885
Singapore	156,692	431,107	26,899	74,916
Ukraine	133,773	368,050	78,103	217,828
Iceland	117,452	323,146	46,463	129,403
France	100,911	277,636	13,386	37,281
Finland	100,462	276,401	118,556	327,133
Norway	54,856	150,925	189,807	517,688
Spain	45,900	126,285	82,259	222,085
USA	41,030	112,886	179,044	500,460
Germany	5,677	15,619	105,152	285,190
Belgium	-	-	142,420	391,797
Other countries	146,809	403,914	134,364	373,803
Total	4,245,136	11,679,643	3,976,610	11,033,502

Sales are allocated based on the country in which the customer is located.

All assets of the Company are located in Lithuania and all capital expenditure is made in Lithuania.

Analysis of sales by category	2006 USD	2006 LTL	2005 USD	2005 LTL
Sales of goods	4,200,439	11,556,668	3,911,901	10,853,961
Revenue from services	44,697	122,975	64,709	179,541
	4,245,136	11,679,643	3,976,610	11,033,502

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

7. Property, plant and equipment

USD

	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
At 1 January 2005					
Cost	69,521	658,792	67,754	17,561	813,628
Accumulated depreciation and impairment	(25,151)	(287,186)	(25,396)	-	(337,733)
Net book amount	44,370	371,606	42,358	17,561	475,895
Year ended 31 December 2005					
Opening net book amount	44,370	371,606	42,358	17,561	475,895
Exchange differences	(25)	(63)	(3)	(11)	(102)
Acquisition of subsidiary (Note 33)	1,960	4,328	252	1,174	7,714
Additions	53	6,009	2,916	37,530	46,508
Retirements	-	(360)	(2,163)	-	(2,523)
Transfers	96	6,621	19	(6,736)	-
Reclassifications to non-current assets classified as held for sale	(936)	(8)	(4)	-	(948)
Reversal of impairment charge	124	-	-	-	124
Impairment charge	-	-	-	(1,556)	(1,556)
Depreciation charge	(1,658)	(28,054)	(5,134)	-	(34,846)
Closing net book amount	43,984	360,079	38,241	47,962	490,266
At 31 December 2005					
Cost	69,939	667,679	68,328	47,962	853,908
Accumulated depreciation and impairment	(25,955)	(307,600)	(30,087)	-	(363,642)
Net book amount	43,984	360,079	38,241	47,962	490,266
Year ended 31 December 2006					
Opening net book amount	43,984	360,079	38,241	47,962	490,266
Exchange differences	201	402	20	87	710
Additions	1,301	19,927	5,816	78,377	105,421
Disposals	(4)	-	-	-	(4)
Retirements	(33)	(13)	(26)	(111)	(183)
Transfers	1,185	11,583	40	(12,808)	-
Reclassifications to other assets	-	-	-	(130)	(130)
Reversal of impairment charge	52	30	-	-	82
Depreciation charge	(1,709)	(37,462)	(4,714)	-	(43,885)
Closing net book amount	44,977	354,546	39,377	113,377	552,277
At 31 December 2006					
Cost	72,643	696,779	73,172	113,377	955,971
Accumulated depreciation and impairment	(27,666)	(342,233)	(33,795)	-	(403,694)
Net book amount	44,977	354,546	39,377	113,377	552,277

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

7. Property, plant and equipment (continued)

LTL	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
At 1 January 2005					
Cost	176,201	1,669,708	171,723	44,507	2,062,139
Accumulated depreciation and impairment	(63,745)	(727,872)	(64,366)	-	(855,983)
Net book amount	112,456	941,836	107,357	44,507	1,206,156
Year ended 31 December 2005					
Opening net book amount	112,456	941,836	107,357	44,507	1,206,156
Exchange differences	16,494	136,694	15,137	11,177	179,502
Acquisition of subsidiary (Note 33)	5,629	12,430	724	3,372	22,155
Additions	147	17,195	8,207	103,782	129,331
Retirements	-	(1,002)	(5,926)	-	(6,928)
Transfers	255	18,643	50	(18,948)	-
Reclassifications to non-current assets classified as held for sale	(2,715)	(23)	(12)	-	(2,750)
Reversal of impairment charge	339	-	-	-	339
Impairment charge	-	-	-	(4,309)	(4,309)
Depreciation charge	(4,603)	(77,871)	(14,248)	-	(96,722)
Closing net book amount	128,002	1,047,902	111,289	139,581	1,426,774
At 31 December 2005					
Cost	203,536	1,943,080	198,848	139,581	2,485,045
Accumulated depreciation and impairment	(75,534)	(895,178)	(87,559)	-	(1,058,271)
Net book amount	128,002	1,047,902	111,289	139,581	1,426,774
Year ended 31 December 2006					
Opening net book amount	128,002	1,047,902	111,289	139,581	1,426,774
Exchange differences	(11,800)	(96,920)	(10,762)	(20,114)	(139,596)
Additions	3,489	53,584	16,036	214,464	287,573
Disposals	(11)	-	-	-	(11)
Retirements	(88)	(34)	(74)	(304)	(500)
Transfers	3,278	31,638	111	(35,027)	-
Reclassifications to other assets	-	-	-	(373)	(373)
Reversal of impairment charge	139	80	-	-	219
Depreciation charge	(4,702)	(103,651)	(13,024)	-	(121,377)
Closing net book amount	118,307	932,599	103,576	298,227	1,452,709
At 31 December 2006					
Cost	191,080	1,832,809	192,472	298,227	2,514,588
Accumulated depreciation and impairment	(72,773)	(900,210)	(88,896)	-	(1,061,879)
Net book amount	118,307	932,599	103,576	298,227	1,452,709

Reversal of impairment charge of USD 82 thousand or LTL 219 thousand (2005: USD 124 thousand or LTL 339 thousand) is included in administrative expenses in the income statement. Impairment charge for the year ended 31 December 2005 of USD 1,556 thousand or LTL 4,309 thousand is included in administrative expenses in the income statement.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

7. Property, plant and equipment (continued)

Depreciation expense has been allocated as follows:

	2006		2005	
	USD	LTL	USD	LTL
Cost of sales	39,577	109,462	30,387	84,345
Selling and marketing costs	2,803	7,752	1,998	5,546
Administrative expenses	1,505	4,163	2,461	6,831
	43,885	121,377	34,846	96,722

No material borrowing costs were capitalised during the years ended 31 December 2006 and 31 December 2005.

8. Intangible assets

USD

	Software	Patents and licences	Software under development	Total
At 1 January 2005				
Cost	7,431	6,057	-	13,488
Accumulated amortisation	(4,122)	(4,807)	-	(8,929)
Net book amount	3,309	1,250	-	4,559
Year ended 31 December 2005				
Opening net book amount	3,309	1,250	-	4,559
Additions	532	16	-	548
Amortisation charge	(920)	(409)	-	(1,329)
Closing net book amount	2,921	857	-	3,778
At 31 December 2005				
Cost	7,838	6,073	-	13,911
Accumulated amortisation	(4,917)	(5,216)	-	(10,133)
Net book amount	2,921	857	-	3,778
Year ended 31 December 2006				
Opening net book amount	2,921	857	-	3,778
Additions	174	-	4,748	4,922
Amortisation charge	(1,083)	(398)	-	(1,481)
Closing net book amount	2,012	459	4,748	7,219
At 31 December 2006				
Cost	7,802	6,051	4,748	18,601
Accumulated amortisation	(5,790)	(5,592)	-	(11,382)
Net book amount	2,012	459	4,748	7,219

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

8. Intangible assets (continued)

LTL

	Software	Patents and licences	Software under development	Total
At 1 January 2005				
Cost	18,834	15,351	-	34,185
Accumulated amortisation	(10,447)	(12,183)	-	(22,630)
Net book amount	8,387	3,168	-	11,555
Year ended 31 December 2005				
Opening net book amount	8,387	3,168	-	11,555
Exchange differences	1,161	415	-	1,576
Additions	1,506	46	-	1,552
Amortisation charge	(2,553)	(1,135)	-	(3,688)
Closing net book amount	8,501	2,494	-	10,995
At 31 December 2005				
Cost	22,810	17,674	-	40,484
Accumulated amortisation	(14,309)	(15,180)	-	(29,489)
Net book amount	8,501	2,494	-	10,995
Year ended 31 December 2006				
Opening net book amount	8,501	2,494	-	10,995
Exchange differences	(709)	(191)	(230)	(1,130)
Additions	483	-	12,719	13,202
Amortisation charge	(2,983)	(1,095)	-	(4,078)
Closing net book amount	5,292	1,208	12,489	18,989
At 31 December 2006				
Cost	20,521	15,918	12,489	48,928
Accumulated amortisation	(15,229)	(14,710)	-	(29,939)
Net book amount	5,292	1,208	12,489	18,989

Amortisation expense has been allocated as follows:

	2006		2005	
	USD	LTL	USD	LTL
Cost of sales	454	1,250	467	1,296
Administrative expenses	1,027	2,828	862	2,392
	1,481	4,078	1,329	3,688

The Company does not have internally generated intangible assets.

In 2005 the Company was issued allowances by the Government to emit 6,622,887 tons of carbon dioxide in 2005 – 2007. In the balance sheet the Company recognised allowances and the related government grant at a nominal amount, i.e. zero. In October 2005 through a business combination with the merged subsidiary the Company acquired additional allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances were not recognised in the balance sheet of the Company. In 2006 actual emissions of the Company and its merged subsidiary amounted to 1,943,226 tons (2005: 2,143,201 tons) and the merged subsidiary sold allowances to emit 1,570,000 tons of carbon dioxide (2005: nil). The market value of the remaining unused allowances of the Company amounted to USD 31,720 thousand or LTL 83,436 thousand as at 31 December 2006 (2005: USD 184,649 thousand or LTL 537,365 thousand).

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

9. Goodwill

	USD	LTL
At 1 January 2005	-	-
Acquisition of subsidiary (Note 33)	1,429	4,105
Exchange differences	(18)	-
At 31 December 2005	1,411	4,105
At 1 January 2006	1,411	4,105
Acquisition of share in subsidiary (Note 33)	2,707	7,120
Exchange differences	150	-
	4,268	11,225

Goodwill is allocated to the Company's cash-generating units identified according to business segment. As at 31 December 2006 and 31 December 2005 all goodwill was allocated to the oil refinery business segment.

10. Investments in subsidiaries and associates

	2006		2005	
	USD	LTL	USD	LTL
Beginning of the year	26,744	77,830	12,573	31,866
Exchange differences	-	(7,489)	-	7,190
Acquisition of share in subsidiary	-	-	208	554
Contribution to the share capital of subsidiary	-	-	14,033	38,500
Liquidation of subsidiary	-	-	(70)	(280)
Reversal of impairment of investments	46	127	-	-
End of the year	26,790	70,468	26,744	77,830

In April 2005, for USD 208 thousand or LTL 554 thousand the Company acquired 40% of shares in its subsidiary Juodeikių Nafta UAB from the minority shareholders increasing its ownership to 100%.

In 2005, the Company contributed USD 14,033 thousand or LTL 38,500 thousand to the share capital to its wholly owned subsidiary Uotas UAB.

11. Non-current receivables and prepayments

	2006		2005	
	USD	LTL	USD	LTL
Trade receivables	1,971	5,185	1,897	5,521
Less: provision for impairment of receivables	(1,377)	(3,622)	(1,308)	(3,807)
Trade receivables – net	594	1,563	589	1,714
Prepayments for PPE and intangible assets	27,731	72,946	15,093	43,924
Reimbursement for environmental obligations receivable from the Government (Notes 21, 32)	-	-	10,807	31,449
Prepayment for real estate tax (Note 32)	-	-	1,134	3,300
Loans to employees	195	513	191	557
Other non-current receivables	100	263	89	259
	28,620	75,285	27,903	81,203

The fair values of non-current receivables and prepayments approximate their carrying values.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

12. Inventories

	2006		2005	
	USD	LTL	USD	LTL
Raw and supplementary materials (at cost)	16,907	44,472	24,216	70,473
Raw and supplementary materials (at net realisable value)	114,561	301,341	769	2,238
Finished goods and goods for resale (at cost)	13,017	34,240	153,592	446,983
Finished goods and goods for resale (at net realisable value)	115,077	302,699	1,016	2,957
Semi-finished goods (at cost)	4,588	12,068	12,501	36,380
Semi-finished goods (at net realisable value)	11,946	31,423	20,475	59,586
Spare parts and other (at cost)	31,840	83,752	20,577	59,884
	307,936	809,995	233,146	678,501

Semi-finished goods include oil products that are produced by the oil refinery and used in further stages of production. However, these products might also be sold in the market.

Inventory amounting to USD 112,500 thousand or LTL 295,920 thousand (2005: USD 90,000 thousand or LTL 261,918 thousand) is provided as collateral for letters of credit and guarantees issued by the banks on behalf of the Company.

13. Trade and other receivables

	2006		2005	
	USD	LTL	USD	LTL
Trade receivables	53,001	139,414	105,710	307,637
Less: provision for impairment of receivables	(17,530)	(46,111)	(15,183)	(44,186)
Trade receivables – net	35,471	93,303	90,527	263,451
Receivables from related parties (Note 32)	80,107	210,714	46,991	136,753
Prepaid and recoverable taxes, other than corporate income tax (Note 32)	2,361	6,210	2,731	7,948
Accrued income and deferred charges	4,198	11,043	10,449	30,409
Other receivables	2,174	5,717	2,039	5,934
	124,311	326,987	152,737	444,495

The fair values of trade and other receivables approximate their carrying values.

Receivables from certain customers amounting up to USD 61,770 thousand or LTL 162,479 thousand (2005: up to USD 50,145 thousand or LTL 145,933 thousand) are provided as collateral for letters of credit issued by the banks on behalf of the Company. As at 31 December 2006 receivables from those customers amounted to USD 14,794 thousand or LTL 38,914 thousand (2005: USD 16,240 thousand or LTL 47,262 thousand).

14. Cash and cash equivalents

	2006		2005	
	USD	LTL	USD	LTL
Cash at bank and in hand	253,757	667,482	504,743	1,468,903
Bonds issued by financial institutions	82,300	216,482	-	-
Short-term bank deposits	65,098	171,234	101,059	294,102
	401,155	1,055,198	605,802	1,763,005

The effective interest rate on short-term bank deposits was 4.98% (2005: 3.59%). These deposits have an average maturity of 47 days (2005: 30 days).

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

14. Cash and cash equivalents (continued)

Bonds issued by financial institutions of USD 82,300 thousand or LTL 216,482 thousand (2005: nil) consist of short-term bonds which are not traded in an active market. The effective interest rate on the bonds was 5.14 %. They have an average maturity of 32 days.

Cash and cash equivalents required to be maintained under the terms of letters of credit and guarantees issued by banks for settlements with suppliers is presented below:

	2006		2005	
	USD	LTL	USD	LTL
Cash and short-term deposits held at banks to secure issued letters of credit	206,892	544,209	457,788	1,332,255
Cash held at banks to secure guaranties issued by banks	6,563	17,263	6,418	18,678
Bonds held at banks to secure issued letters of credit	82,300	216,482	-	-
	295,755	777,954	464,206	1,350,933

Cash at bank and short-term bank deposits to be maintained under the terms of letters of credit and guarantees issued by banks were classified as cash and cash equivalents for the purposes of the cash flow statement because these funds are held for meeting short term operating cash commitments and are restricted for periods shorter than three months.

Cash at bank amounting to USD 10,646 thousand or LTL 28,003 thousand (2005: USD 54,339 thousand or LTL 158,137 thousand) is provided as collateral for letters of credit and guarantees issued by banks on behalf of the Company.

The carrying amounts of cash and cash equivalents are denominated in the following currencies:

	2006		2005	
	USD	LTL	USD	LTL
US dollar	325,847	857,108	539,015	1,568,641
Lithuanian Litas	42,404	111,539	50,499	146,962
Euro	31,118	81,853	6,962	20,261
Other	1,786	4,698	9,326	27,141
	401,155	1,055,198	605,802	1,763,005

15. Share capital

As at 31 December 2006, the Company's authorised share capital comprised 708,821,122 (2005: 707,454,130) ordinary registered shares with a par value of LTL 1 per share. All issued shares are fully paid.

On 28 December 2006 the Company issued 1,366,992 shares to the shareholders of Mažeikių Elektrinė AB as the purchase consideration for 14.28% of Mažeikių Elektrinė AB ordinary share capital. The fair value of the shares issued amounted to USD 5,275 thousand or LTL 13,875 thousand (USD 3.86 or LTL 10.15 per share) (Note 33).

There were no movements in number of shares outstanding during 2005.

16. Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of profit available for distribution is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. As at 31 December 2006 the legal reserve amounted to USD 18,137 thousand or LTL 48,610 thousand (2005: USD 13,018 thousand or LTL 34,782 thousand).

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

17. Other non-current liabilities

	2006		2005	
	USD	LTL	USD	LTL
Long-term employee benefits	3,876	10,195	3,543	10,312
Government grant relating to purchases of PPE (Note 32)	4,963	13,055	4,963	14,443
	8,839	23,250	8,506	24,755

Long-term employee benefits include bonuses and paid leave provided to the employees of the Company based on the years of service.

Government grant relating to purchases of PPE includes financing of USD 4,963 thousand or LTL 13,055 thousand (2005: USD 4,963 thousand or LTL 14,443 thousand) received from the Government for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. The Government fully financed the construction of these apartment blocks as part of an agreement to enable Russian citizens (former employees of oil refinery) to move from Lithuania back to Russia. The construction was completed in 1998 and the buildings with a carrying value of USD 4,963 thousand were included within other PPE balance in property, plant and equipment of the Company. Subsidies will be netted off against property, plant and equipment after an appropriate decision is taken by the Government supporting this course of action.

18. Trade and other payables

	2006		2005	
	USD	LTL	USD	LTL
Trade payables	286,933	754,748	311,408	906,264
Amounts due to related parties (Note 32)	101	266	1,207	3,509
Advances received	952	2,504	2,975	8,658
Accruals and deferred income	13,539	35,616	12,839	37,364
Taxes other than corporate income tax (Note 32)	25,519	67,124	25,990	75,635
Social security contributions (Note 32)	1,671	4,395	2,550	7,421
Other current liabilities	220	579	164	477
	328,935	865,232	357,133	1,039,328

19. Borrowings

	2006		2005	
	USD	LTL	USD	LTL
Non-current				
Bank borrowings	157,895	415,326	163,158	474,822
Loans from related parties (Note 32)	290,090	763,053	290,233	844,636
	447,985	1,178,379	453,391	1,319,458
Current				
Bank borrowings	5,264	13,845	9,244	26,902
Loans from related parties (Note 32)	282	742	238	693
	5,546	14,587	9,482	27,595
Total borrowings	453,531	1,192,966	462,873	1,347,053

Borrowings amounting to USD 163,159 thousand or LTL 429,171 thousand (2005: USD 172,402 thousand or LTL 501,724 thousand) are guaranteed by the Government.

Borrowings amounting to USD 163,159 thousand or LTL 429,171 thousand (2005: USD 172,096 thousand or LTL 500,833 thousand) are bearing floating interest rate with repricing period between 3 and 6 months. Borrowings of USD 290,372 thousand or LTL 763,795 thousand (2005: USD 290,777 thousand or LTL 846,220 thousand) are bearing fixed interest rate.

19. Borrowings (continued)

Maturity dates for borrowings bearing fixed interest rate are as follows:

	2006		2005	
	USD	LTL	USD	LTL
6 months or less	139	366	270	786
6-12 months	143	376	274	797
1-5 years	181,742	478,054	109,487	318,629
Over 5 years	108,348	284,999	180,746	526,008
	290,372	763,795	290,777	846,220

The maturity of non-current borrowings is as follows:

	2006		2005	
	USD	LTL	USD	LTL
Between 1 and 2 years	5,566	14,641	5,518	16,058
Between 2 and 5 years	277,821	730,780	173,377	504,562
Over 5 years	164,598	432,958	274,496	798,838
	447,985	1,178,379	453,391	1,319,458

The effective interest rates at the balance sheet date were as follows:

	2006		2005	
	USD	Other	USD	Other
Bank borrowings	6.5%	-	5.2%	-
Loans from related parties	7%	5%	7%	5%

The fair value of non-current borrowings bearing fixed interest rate is as follows:

	2006		2005	
	USD	LTL	USD	LTL
Borrowings	297,763	783,236	308,472	897,715

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 6.36 % (2005: 5.70%). The carrying amounts of non-current borrowings bearing floating interest rate and short-term borrowings approximate their fair value.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2006		2005	
	USD	LTL	USD	LTL
US dollar	452,086	1,189,166	461,329	1,342,560
Other currencies	1,445	3,800	1,544	4,493
	453,531	1,192,966	462,873	1,347,053

The Company has the following undrawn borrowing facilities:

	2006		2005	
	USD	LTL	USD	LTL
Floating rate				
– expiring within one year	29,000	76,282	107,329	312,349

19. Borrowings (continued)

The borrowings outstanding as at 31 December 2006 and 31 December 2005 were subject to a number of covenants, such as exclusive use of loans and restricted management ability to pledge, mortgage or sell the assets, the acquisition of which was financed by loans or which value exceeds amounts specified in the loan agreements, restricted entering into lease agreements or assuming any obligations on behalf of third parties pursuant to guarantees, asset pledge or any other agreements if the Company commitments exceed the amounts specified in loan agreements, restricted investments into other entities if the Company's commitments exceed the amounts specified in the loan agreements, prohibited granting of loans to the third parties if the loan amount exceeds the amount specified in the loan agreements, throughout the duration of the loan agreements without the lenders' approval. The management believes that the Company has complied with these covenants.

20. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2006		2005	
	USD	LTL	USD	LTL
Deferred tax assets:				
– to be recovered after more than 12 months	25,568	67,254	17,843	51,927
– to be recovered within 12 months	10,571	27,806	3,057	8,895
	36,139	95,060	20,900	60,822
Deferred tax liabilities:				
– to be recovered after more than 12 months	(388)	(1,021)	(279)	(812)
– to be recovered within 12 months	-	-	(23)	(66)
	(388)	(1,021)	(302)	(878)
	35,751	94,039	20,598	59,944

The gross movement on the deferred income tax account is as follows:

	2006		2005	
	USD	LTL	USD	LTL
Beginning of the year	20,598	59,944	16,631	42,151
Exchange differences	-	(7,595)	-	690
Income statement benefit (Note 26)				
- relating to the origination and reversal of temporary differences	13,391	36,842	3,967	17,103
- relating to changes in tax rates	1,762	4,848	-	-
	15,153	41,690	3,967	17,103
End of the year	35,751	94,039	20,598	59,944

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

20. Deferred income tax (continued)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions, is as follows:

USD

Deferred tax assets	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Accrued expenses and provisions**	**Valuation of inventory at net realisable value**	**Other**	**Total**
At 1 January 2005	17,066	-	-	-	17,066
Credited to income statement	1,806	1,562	318	148	3,834
At 31 December 2005	18,872	1,562	318	148	20,900
(Charged) / credited to income statement	9,058	1,635	4,566	(20)	15,239
At 31 December 2006	27,930	3,197	4,884	128	36,139

Deferred tax liabilities	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Total**
At 1 January 2005	(435)	(435)
Credited to income statement	133	133
At 31 December 2005	(302)	(302)
(Charged) to income statement	(86)	(86)
At 31 December 2006	(388)	(388)

LTL

Deferred tax assets	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Accrued expenses and provisions**	**Valuation of inventory at net realisable value**	**Other**	**Total**
At 1 January 2005	43,254	-	-	-	43,254
Exchange differences	439	212	43	20	714
Credited to income statement	11,228	4,334	882	410	16,854
At 31 December 2005	54,921	4,546	925	430	60,822
Exchange differences	(5,782)	(635)	(1,234)	(38)	(7,689)
(Charged) / credited to income statement	24,328	4,498	13,156	(55)	41,927
At 31 December 2006	73,467	8,409	12,847	337	95,060

Deferred tax liabilities	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Total**
At 1 January 2005	(1,103)	(1,103)
Exchange differences	(24)	(24)
Credited to income statement	249	249
At 31 December 2005	(878)	(878)
Exchange differences	94	94
(Charged) to income statement	(237)	(237)
At 31 December 2006	(1,021)	(1,021)

20. Deferred income tax (continued)

Deferred income tax liabilities of USD 4,019 thousand or LTL 10,572 thousand (2005: USD 4,012 thousand or LTL 11,676 thousand) arising on investments in subsidiaries and associates have not been recognised because the Company does not expect to sell its subsidiaries or associates in the foreseeable future and dividends received are not taxable.

21. Provisions for liabilities and charges

USD	Claim received from customer	Claim received from the supplier	Environmental obligations	Penalty imposed by the Competition Council	Total
At 1 January 2006	571	2,900	11,322	10,996	25,789
Charged/(credited) to income statement					
- additional provisions	-	-	855	-	855
- unused amounts reversed	-	-	(8,544)	-	(8,544)
Used during the year	-	-	(90)	(11,173)	(11,263)
Exchange differences	-	-	744	177	921
At 31 December 2006	571	2,900	4,287	-	7,758

LTL	Claim received from customer	Claim received from the supplier	Environmental obligations	Penalty imposed by the Competition Council	Total
At 1 January 2006	1,662	8,440	32,949	32,000	75,051
Charged to income statement					
- additional provisions	-	-	2,320	-	2,320
- unused amounts reversed	-	-	(23,168)	-	(23,168)
Used during the period	-	-	(243)	(32,000)	(32,243)
Exchange differences	(160)	(812)	(581)	-	(1,553)
At 31 December 2006	1,502	7,628	11,277	-	20,407

Analysis of total provisions:	2006		2005	
	USD	LTL	USD	LTL
- non-current (environmental obligations)	2,455	6,458	11,322	32,949
- current	5,303	13,949	14,467	42,102
	7,758	20,407	25,789	75,051

(a) Claim received from customer

Provision of USD 571 thousand or LTL 1,502 thousand (2005: USD 571 thousand or LTL 1,662 thousand) has been made against probable losses in relation to a claim received from Yukos Oil Company OAO. In 2002 the Company received a claim of USD 1,602 thousand from Yukos Oil Company OAO for compensation of losses incurred due to the accident in oil terminal which let to a vessel being remaining unloaded. In 2003 the claim was reduced to USD 571 thousand (equivalent to LTL 1,502 thousand as at 31 December 2006). The Company decided to accept the claim and made a provision for USD 571 thousand or LTL 1,502 thousand (2005: USD 571 thousand or LTL 1,662 thousand).

(b) Claim received from the supplier

A provision of USD 2,900 thousand or LTL 7,628 thousand (2005: USD 2,900 thousand or LTL 8,440 thousand) has been made against probable losses in relation to the claim received from PPS Pipeline Systems (PPS), the contractor of the oil terminal project, to compensate Lithuanian VAT.

21. Provisions for liabilities and charges (continued)

In 2000, the Company received a claim from PPS to compensate Lithuanian VAT in the amount of USD 2,138 thousand which was incurred until registration of PPS in Lithuania and, therefore, was not recovered from the state budget. Following advice of its lawyers the Company rejected these claims as ungrounded. In 2003, the Company received a repeated claim from PPS in the total amount of USD 2,900 thousand which also included accumulated late payment of interest of USD 662 thousand and PPS Pipeline Systems branch office costs of USD 100 thousand. Furthermore, in 2003 PPS Pipeline Systems submitted an additional claim of USD 646 thousand to the Company for the extra works reimbursement according to the Oil Terminal contract. The dispute over the recovery of VAT first arose in 1997 and despite many threats, arbitration proceedings have still not been initiated by PPS.

The management believes that it is more likely than not that an outflow of resources will be required to settle the above obligation, therefore the provision was recognised in the financial statements of the Company.

(c) Environmental obligations

As at 31 December 2006 provisions for environmental obligations consist of the provisions recognised by the Company amounting to USD 3,717 thousand or LTL 9,777 thousand (2005: USD 10,807 thousand or LTL 31,449 thousand) and contingent liabilities recognised in a business combination amounting to USD 570 thousand or LTL 1,500 thousand (2005: USD 515 thousand or LTL 1,500 thousand) (Note 33).

In the production process the oil refinery causes contamination. A provision was recognised for the costs to be incurred for the treatment of the waste which was accumulated before the end of 2006. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Company is required to clean up all contamination that it causes before 2012. It is expected that the provision of USD 1,885 thousand or LTL 4,958 thousand will be used after 2007. The remaining amount of USD 1,832 thousand or LTL 4,819 thousand will be used in 2007. In 2006 the Company reduced its provision for environmental obligations by USD 8,544 thousand or LTL 23,168 thousand due to the changes in estimates of the expenses to be incurred for cleaning up the contamination caused by the oil refinery.

As at 31 December 2005 a reimbursement for environmental obligations receivable from the Government of USD 10,807 thousand or LTL 31,449 thousand was recognised in the financial statements (Note 11). According to the Investment Agreement signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.) the Government committed itself to compensate all losses to the strategic investor and the Company incurred before the privatisation. In 2006 the reimbursement was written off because after Yukos International UK B.V. sold its shares in the Company to PKN ORLEN, the Investment Agreement expired and the Government is not liable for compensation of expenses incurred by the Company in relation to environmental obligations.

Contingent liabilities recognised in a business combination amounting to USD 570 thousand or LTL 1,500 thousand as at 31 December 2006 (2005: USD 515 thousand or LTL 1,500 thousand) were recognised for the contamination caused by Mažeikių Elektrinė AB. It is expected that the whole provision will be used after 2007. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, Mažeikių Elektrinė AB is required to clean up all contamination that it causes before 2011.

(d) Penalty imposed by the Competition Council

In July 2004, the Lithuanian Competition Council commenced an investigation against the Company to determine whether the higher price of fuel in Lithuania is the result of violations and abuse of its dominant position in the market. The investigation resulted from the fact that the prices of fuel in Lithuania are higher than those in Latvia and Estonia, despite the fact that with effect from May 2004 all three countries have unified fuel excise and customs duties. The investigation was completed in July 2005. The Lithuanian Competition Council concluded that the Company abused its dominant position in the Lithuania, Latvia and Estonia market of petrol and diesel in 2002 – 2004. The Lithuanian Competition Council obligated the Company to terminate the activities violating the laws of the Republic of Lithuania and European Union and imposed a penalty of LTL 32,000 thousand on the Company. In 2006 the Company paid the penalty in full.

The Company has appealed the decision of the Competition Council in court. As at the date of the issuance of these financial statements, no final decision was taken by the court.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

22. Expenses by nature

	2006		2005	
	USD	LTL	USD	LTL
Depreciation and amortisation (Notes 7 and 8)	45,366	125,455	36,175	100,410
Wages and salaries	55,628	153,052	52,423	145,453
Social security costs (Note 32)	17,237	47,424	16,217	44,996
Costs of crude oil, feedstock and other inventory	3,747,489	10,263,176	3,255,629	9,082,560
Additives and catalysts	5,399	14,854	7,192	19,955
Changes in inventories of finished goods and work in progress	42,956	165,476	(87,396)	(291,981)
Transit and freight	73,689	202,741	80,933	224,557
Railway services	48,924	134,605	56,736	157,420
Electricity	34,181	94,042	41,582	115,373
Terminal and laboratory services	23,695	65,192	29,188	80,985
Steam power	-	-	15,387	42,693
Intermediary services	15,962	43,916	18,217	50,545
Consumables and office supplies	15,384	42,326	15,391	42,704
Taxes, other than corporate income tax (Note 32)	7,523	20,698	8,033	22,288
Insurance	7,871	21,655	7,393	20,513
Operating lease	6,950	19,122	6,595	18,298
Professional fees	13,789	37,938	5,428	15,061
Change in provision for impairment of receivables	11,306	31,106	(842)	(2,336)
Long-term employee benefits	643	1,769	3,233	8,970
Provision for penalty imposed by the Competition Council (Note 21)	-	-	11,044	32,000
Change in provision for impairment of inventory	-	-	3,161	8,771
Change in provision for environmental obligations (Note 21)	(7,689)	(20,848)	-	-
Reversal of impairment charge of PP&E (Note 7)	(82)	(219)	(124)	(339)
Impairment charge of PP&E (Note 7)	-	-	1,556	4,309
Other expenses	35,430	96,522	20,060	54,265
	4,201,651	11,560,002	3,603,211	9,997,470

	2006		2005	
	USD	LTL	USD	LTL
Classified as:				
– cost of sales	3,942,781	10,847,773	3,327,019	9,231,147
– selling and marketing costs	177,865	489,360	200,356	555,908
– administrative expenses	81,005	222,869	75,836	210,415
	4,201,651	11,560,002	3,603,211	9,997,470

23. Other income

	2006		2005	
	USD	LTL	USD	LTL
Income from sale of emission allowances	13,415	35,937	-	-
Insurance reimbursement	-	-	441	1,274
Dividend income	3,606	9,921	-	-
Other	598	2,617	306	799
	17,619	48,475	747	2,073

Income from sale of emission allowances represent income received from sale of 1,570,000 carbon dioxide emission allowances received from the Government free of charge.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

24. Finance income

	2006		2005	
	USD	LTL	USD	LTL
Interest income	25,260	69,498	13,405	37,194
Foreign exchange transaction gains	10,207	28,082	-	-
	35,467	97,580	13,405	37,194

25. Finance costs

	2006		2005	
	USD	LTL	USD	LTL
Interest expense:				
– borrowings	31,134	85,659	28,316	78,566
Foreign exchange transaction losses	-	-	1,194	3,313
Other finance costs	-	-	62	171
	31,134	85,659	29,572	82,050

26. Income tax expense

	2006		2005	
	USD	LTL	USD	LTL
Current tax	15,120	41,602	48,168	133,647
Deferred tax (Note 20)	(15,153)	(41,690)	(3,967)	(17,103)
	(33)	(88)	44,201	116,544

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to the Company:

	2006		2005	
	USD	LTL	USD	LTL
Profit before income tax	65,437	180,037	357,979	993,249
Tax calculated at 19% (2005: 15%)	12,433	34,207	53,697	148,987
Effect of changes in tax rates	(1,762)	(4,848)	-	-
Non-taxable exchange gains	(13,433)	(36,958)	(2,434)	(12,496)
Exchange differences related to prior periods for which deferred income tax was created	-	-	(4,549)	(12,622)
Income not subject to tax	(1,162)	(3,197)	(171)	(474)
Expenses not deductible for tax purposes	7,693	21,168	2,629	7,294
Capital investment relief	(2,667)	(7,337)	(4,355)	(12,438)
Charity expenses deductible twice for tax purposes	(660)	(1,817)	(774)	(2,145)
Utilisation of previously unrecognised tax losses	(475)	(1,306)	-	-
Tax losses for which no deferred income tax asset was recognised	-	-	158	438
Tax charge	(33)	(88)	44,201	116,544

26. Income tax expense (continued)

The Company's taxable profit is determined in Lithuanian Litas. Non taxable exchange gains relate to impact of the changes in foreign exchange rates on assets and liabilities of the Company which are measured in US dollars for financial reporting purposes and in Lithuanian Litas for tax purposes.

According to the Investment Agreement signed on 29 October 1999 between the Company, the Government and Williams International Company (from 19 September 2002 replaced by Yukos Finance B.V.), which was valid until 15 December 2006 when Yukos International UK B.V. sold its shareholding in the Company to PKN ORLEN, the Company could reduce its taxable profits by the capital investment relief. The Investment Agreement guaranteed that starting from 29 October 1999 for a period of 10 years the portion of taxable profit of the Company utilised for investment in property, plant and equipment will be taxed at a corporate profit tax rate of 0 percent. In 2006 the Company recognised capital investment relief for the period from 1 January 2006 to 15 December 2006. Uncertainties relating to certain provisions of the Investment Agreement based on the Constitutional Court decision are described in Note 30.

Corporate income tax in Lithuania increased from 15% in 2005 to 19% in 2006. In 2005, the Law on Social Tax was adopted, which provides that the tax base for this tax is taxable profit calculated in accordance with the procedure stipulated in the Lithuanian Law on Corporate Profit Tax. Social tax rates are set at 4% for 2006 and 3% for 2007. The Company treats the social tax as an increase in corporate income tax rate because this tax is calculated using the same base as for the corporate income tax.

27. Earnings per share

Basic
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2006		2005	
	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	63,604	174,991	313,967	877,229
Weighted average number of ordinary shares in issue (thousands)	707,469	707,469	707,454	707,454
Basic earnings per share (USD or LTL per share)	0.090	0.247	0.444	1.240

Diluted
The Company does not have potentially dilutive ordinary shares.

28. Dividends per share

No dividends in respect of 2005 were declared. At the Annual General Shareholders' meeting on 29 April 2005, a dividend in respect of 2004 of LTL 0.35 per share equivalent to USD 0.131 per share amounting to a total dividend of LTL 247,609 thousand (USD 92,671 thousand) were declared.

29. Cash generated from operations

	2006		2005	
	USD	LTL	USD	LTL
Profit for the year	65,470	180,125	313,778	876,705
Adjustments for:				
– tax (Note 26)	(33)	(88)	44,201	116,544
– depreciation (Note 7)	43,885	121,377	34,846	96,722
– amortisation (Note 8)	1,481	4,078	1,329	3,688
– (profit)/loss on sale of non-current assets classified as held for sale	(577)	(892)	18	28
– (profit) on sale of PPE	(5)	(6)	-	-
– retirement of PPE (Note 7)	183	500	2,523	6,928
– reversal of impairment charge of PPE (Note 7)	(82)	(219)	(124)	(339)
– impairment charge on PPE (Note 7)	-	-	1,556	4,309
– (profit)/loss on liquidation of subsidiary	-	-	42	200
– reversal impairment charge of investments in subsidiaries (Note 10)	(46)	(127)	-	-
– interest income (Note 24)	(25,260)	(69,498)	(13,405)	(37,194)
– interest expense (Note 25)	31,134	85,659	28,316	78,566
– dividend income (Note 23)	(3,606)	(9,921)	-	-
– net movement in provisions for liabilities (Note 21)	(18,952)	(53,091)	22,051	63,449
– exchange (gains)/losses on borrowings	158	(127,867)	(60)	175,467
Changes in working capital:				
– inventories	(74,790)	(131,494)	(44,989)	(200,488)
– trade and other receivables	40,850	153,777	(9,472)	(87,926)
– trade and other payables	(27,993)	(175,621)	116,987	431,569
Cash generated from operations	31,817	(23,308)	497,597	1,528,228

Non-cash transactions

During the year ended 31 December 2006 the main non-cash transaction was issuance of the Company's shares with the fair value of USD 5,275 thousand or LTL 13,875 thousand as the purchase consideration for the acquisition of shares in subsidiary (Notes 15, 33). During the year ended 31 December 2005 the principal non-cash transaction was contribution to the share capital of subsidiary by converting loan granted to the share capital amounting to USD 8,100 thousand or LTL 22,969 thousand.

30. Contingencies

Claim from Klevo Lapas UAB

In 2003, based on a decision of the Competition Council, stating that the Company did not comply with the Competition Law and which allows the customers affected by the Company's pricing policy to claim damages from the Company, legal proceedings initiated by Klevo Lapas UAB against the Company in 2000 were renewed and the Court appointed an independent expert committee to evaluate the possible amounts of damages caused to Klevo Lapas UAB. As at 31 December 2006, the claim from Klevo Lapas UAB amounted to LTL 7,451 thousand (equivalent to USD 2,833 thousand as at 31 December 2006). As at 31 December 2006 the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 2,014 thousand as at 31 December 2006), which was provided in full. As at the date of the issuance of these financial statements the expertise was not completed. The management does not expect that the final amount of this claim will exceed the amount receivable from Klevo Lapas UAB, therefore, no provision for the claim was made in the financial statements for the year ended 31 December 2006 (2005: nil).

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

30. Contingencies (continued)

Payment request from a group of inventors

The Company had received a payment request from a group of individuals in the amount of LTL 14,000 thousand (equivalent to USD 5,322 thousand as at 31 December 2006) related to a production improvement process invented and patented by the group and subsequently implemented by the oil refinery covering the period 1996 – 2001. Management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, rejected the payment request. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totalling LTL 400 thousand (equivalent to USD 152 thousand as at 31 December 2006). The first instance court rejected the claim as ungrounded in February 2006. The inventor appealed against the decision of the court. Management believes that the charges are without merit and, accordingly, no accrual for this contingent liability has been made in these financial statements.

Claim from Rietumu Banka AS

In 1999, the Company received a claim from Rietumu Banka AS for the total amount of USD 1,250 thousand related to unperformed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on 23 March 1998 with Rietumu Banka AS and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable balance outstanding and did not perform the shipment of products. Management has taken legal advice and believes that the claim is without merit, therefore, no provision for the claim amount was made in the financial statements for the year ended 31 December 2006 (2005: nil).

Other litigations and claims

The Company is involved in other litigations and has claims against it for the matters arising in the ordinary course of business, which have not been described above. In the opinion of the management, the outcome of these claims will not have a material adverse effect on the Company's operations.

Decision of the Constitutional Court of the Republic of Lithuania

On 18 October 2000, the Constitutional Court of the Republic of Lithuania concluded that certain provisions of the Law of the Republic of Lithuania on Reorganization of Public Companies Būtingės Nafta AB, Mažeikių Nafta AB and Naftotiekis AB, which entitled the Government to assume, on behalf of the State, major property-related obligations to the strategic investor and (or) Mažeikių Nafta AB, contravened the Constitution of the Republic of Lithuania. The Constitutional Court concluded that the provision in the Law on compensation of losses to the strategic investor and Mažeikių Nafta AB is formulated in such a way that the State would have an obligation to compensate from the State budget even if the losses were incurred due to the fault of the strategic investor Williams International Company and (or) Mažeikių Nafta AB, and thus contradicts the Constitution of the Republic of Lithuania.

The Investment Agreement signed on 29 October 1999 between the Company, the Government and Williams International Company (from 19 September 2002 replaced by Yukos Finance B.V.) established that the Government undertook to ensure the economic conditions for the Company's operations (i.e. laws and other legal acts of the Republic of Lithuania) will not be changed in a manner that would adversely affect or impede implementation of the Management Plans of the Company until the later of the termination of the Management Agreement, the Shareholders' Agreement or the Financing Agreements (as such Management Plans and agreements defined in contractual documentation signed by the parties). The strategic investor and/or the Company can claim compensation from the Government for any losses incurred due to the Government's failure to ensure these matters. In addition, under the provisions of the Investment Agreement the Company is indemnified by the Government from certain obligations and losses, if any, arising from the contingencies that were present when the agreement was signed. In 1999 and 2000, the Company received LTL 140,000 thousand (USD 35,000 thousand) as crude oil interruption compensation. In 2001 and 2002, the Company received LTL 33,431 thousand (USD 8,671 thousand) under the provisions of the Investment Agreement for indemnification from certain obligations and losses. In accordance with the amendments made to the Investment Agreement as at 8 July 2003, the provision allowing the Company the unilateral right of set off of amounts receivable from the Government with the amounts payable to the Government was abolished. The Investment Agreement was valid until 15 December 2006.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

30. Contingencies (continued)

The management of the Company believes that the Company will not have to repay compensations received, therefore no provision has been established in the financial statements for the year ended 31 December 2006 (2005: nil).

Dispute with Klaipėdos nafta AB over surplus balance of oil products

The Company is a sole exporter of light oil products via a terminal owned by Klaipėdos nafta AB. In 2006 during a stocktake at the terminal, a surplus balance of light oil products comprising 28,793 tons (2005: 26,239 tons), which was accumulated during 1999- 2006 was identified. The surplus would amount to USD 15,230 thousand or LTL 40,061 thousand at year-end oil products prices. The Company claims that all surplus of light oil products and share of heavy fuel oil is the ownership of the Company. However, the agreement between the parties was not reached and the Company has not recognised its share of the surplus balance as an asset as at 31 December 2006 (2005: nil).

Guarantees under waste treatment plans

As required by waste treatment plans approved by the Ministry of Environment of the Republic of Lithuania in 2004, the banks on behalf of the Company issued guarantees to the regional departments of the Ministry of Environment for a total amount of LTL 11,970 thousand (equivalent to USD 4,551 thousand as at 31 December 2006) (2005: USD 4,113 thousand). Guarantees are valid until 2 December 2007. Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process. In the financial statements for the year ended 31 December 2006 the Company made a provision for the environmental obligations amounting to USD 4,287 thousand or LTL 11,277 thousand (2005: USD 11,322 thousand or LTL 32,949 thousand) (Note 21).

Emission allowances

The Company participates in a carbon dioxide cap and trade scheme. In 2005 the Company was set a target by the Government to reduce its emissions of carbon dioxide to 6,622,887 tons (the cap) in 2005 - 2007. The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. Allowances obtained at no cost are recorded at a zero basis by the Company. In addition, in 2005 through the business combination the Company acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007 (Note 33). The management believes that the actual emission of carbon dioxide will not exceed the allowances received therefore no accrual for additional costs was established in the financial statements for the year ended 31 December 2006 (2005: nil).

Tax audits

No full-scope tax audits were carried out by the tax authorities at the Company for the years 2001-2006. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

31. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	31 December 2006		31 December 2005	
	USD	LTL	USD	LTL
Property, plant and equipment	65,202	171,507	44,002	128,055

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

32. Related-party transactions

Until 15 December 2006 Yukos International UK B.V was the majority shareholder of the Company. According to the provisions of the Investment Agreement, Yukos Finance B.V. had management control rights over the Company. As at 31 December 2006 PKN ORLEN was the majority shareholder of the Company after it acquired the majority of shares of the Company on 15 December 2006 (Note 1).

Petroval SA is an entity related to the Yukos Group.

The Government has significant influence over the Company. For the purposes of the related party disclosure the Government includes state authorities and excludes local authorities.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2006		2005	
	USD	LTL	USD	LTL
Subsidiaries	889,824	2,448,173	727,379	2,018,186
Associates	30,229	83,168	23,584	65,809
Yukos Group* (related until 15 December 2006)	10	28	26	70
Petroval SA (related until 15 December 2006)	-	-	124,264	351,142
PKN ORLEN Group** (related from 15 December 2006)	309	850	-	-
	920,372	2,532,219	875,253	2,435,207

(b) Purchases of goods and services

	2006		2005	
	USD	LTL	USD	LTL
Subsidiaries	3,880	10,676	3,698	10,260
Petroval SA (related until 15 December 2006)	115	316	1,512	4,214
Yukos Finance B.V. (management fee) (related until 15 December 2006)	4,040	11,115	1,458	4,049
Yukos Group* (purchase of crude oil) (related until 15 December 2006)	-		896	2,356
	8,035	22,107	7,564	20,879

(c) Tax expenses – the Government

	2006		2005	
	USD	LTL	USD	LTL
Income tax (Note 26)	33	88	44,201	116,544
Taxes, other than income tax (Note 22)	7,523	20,698	8,033	22,288
Social security costs (Note 22)	17,237	47,424	16,217	44,996
	24,793	68,210	68,451	183,828

(d) Key management compensation

	2006		2005	
	USD	LTL	USD	LTL
Salaries and other short-term employee benefits	862	2,355	554	1,846

Key management includes 7 (2005: 7) members of the management of the Company.

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

32. Related-party transactions (continued)

(e) Acquisition of subsidiary

On 12 October 2005 the Company acquired 85.72% of the share capital of Mažeikių Elektrinė AB from the Government (Note 33).

(f) Year-end balances arising from sales/purchases of goods/services

Amounts receivable from related parties:	2006		2005	
	USD	LTL	USD	LTL
Trade and other receivables (Note 13):				
Yukos Group* trade receivables (related until 15 December 2006)	-	-	2,160	6,287
Less: provision for impairment of receivables	-	-	(2,159)	(6,284)
Yukos Group* trade receivables – net (related until 15 December 2006)	-	-	1	3
Petroval SA (related until 15 December 2006)	-	-	147	428
PKN ORLEN Group** (related from 15 December 2006)	689	1,812	-	-
Associates	29	76	701	2,040
Subsidiaries	79,389	208,826	46,142	134,282
	80,107	210,714	46,991	136,753
Reimbursement for environmental obligations receivable from the Government (Note 11)	-	-	10,807	31,449
	80,107	210,714	57,798	168,202

Amounts due to related parties (Note 18):

Amounts payable to related parties:	2006 USD	2006 LTL	2005 USD	2005 LTL
Yukos Finance B.V. (related until 15 December 2006)	-	-	320	931
Petroval SA (related until 15 December 2006)	-	-	350	1,019
Subsidiaries	30	79	418	1,216
Government	15	40	-	-
	45	119	1,088	3,166
Advance payments received from related parties:				
Associates	56	147	-	-
Subsidiaries	-	-	119	343
	101	266	1,207	3,509
Provision for claim from Yukos Group* (related until 15 December 2006) (Note 21)	-	-	571	1,664
Government grant relating to purchases of PPE (Note 17)	4,963	13,055	4,963	14,443
	5,064	13,321	6,741	19,616

(g) Investments in subsidiaries and associates (Note 10)

	2006 USD	2006 LTL	2005 USD	2005 LTL
Investments in subsidiaries	25,590	67,312	25,544	74,338
Investments in associates	1,200	3,156	1,200	3,492
	26,790	70,468	26,744	77,830

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

32. Related-party transactions (continued)

(h) Year-end balances arising from taxes paid/payable – the Government

Prepaid and recoverable taxes:	2006		2005	
	USD	LTL	USD	LTL
Long term portion of prepayment for real estate tax (Note 11)	-	-	1,134	3,300
Prepaid current income tax	53,630	141,068	144	419
Prepaid and recoverable taxes, other than corporate income tax (Note 13)	2,361	6,210	2,731	7,948
	55,991	147,278	4,009	11,667

Taxes payable:	2006		2005	
	USD	LTL	USD	LTL
Current income tax payable	1,573	4,138	36,636	106,618
Taxes other than corporate income tax (Note 18)	25,519	67,124	25,990	75,635
Social security contributions (Note 18)	1,671	4,395	2,550	7,421
	28,763	75,657	65,176	189,674

Deferred taxes:	2006		2005	
	USD	LTL	USD	LTL
Deferred income tax assets (Note 20)	35,751	94,039	20,598	59,944

(i) Loans from related parties – the Government (Note 19)	2006		2005	
	USD	LTL	USD	LTL
Beginning of year	290,487	845,376	288,983	732,427
Acquisition of subsidiary (Note 33)	-	-	1,717	4,932
Interest charged	20,578	56,599	20,525	57,235
Interest paid	(20,546)	(56,511)	(20,603)	(57,448)
Loan repayments made	(258)	(695)	(113)	(329)
Exchange differences	126	(80,935)	(22)	108,559
End of the year	290,387	763,834	290,487	845,376

Loans from related parties consist of loans granted by the Government to the Company amounting to USD 288,927 thousand or LTL 759,994 thousand (2005: USD 288,927 thousand or LTL 840,837 thousand) and Mažeikių Elektrinė AB amounting to USD 1,445 thousand or LTL 3,801 thousand (2005: USD 1,544 thousand or LTL 4,492 thousand) plus interest accrued amounting to USD 15 thousand or LTL 39 thousand (2005: USD 16 thousand or LTL 47 thousand). After the Company merged with Mažeikių Elektrinė AB on 28 December 2006, the loan granted by the Government to Mažeikių Elektrinė AB was transferred to the Company.

An interest of 7 percent per annum (2005: 7 %) is payable on the loan granted by the Government to the Company. Loan has to be repaid by 11 July 2013. The first instalment is due in 2009.

An interest of 4.95 percent per annum (2005: 4.95 %) is payable on the loan granted by the Government to Mažeikių Elektrinė AB. Loan has to be repaid by 15 April 2011.

*Yukos Oil Company OAO, Yukos Finance B.V., Yukos Export Trade OOO, Samaraneftegas OAO are treated as the Yukos Group companies.

**Orlen Gaz Sp.z.o.o., ORLEN PetroCentrum Sp.z.o.o., ORLEN Morena Sp.z.o.o. are treated as PKN ORLEN Group companies.

33. Acquisitions

Business combinations

There were no business combinations in the year ended 31 December 2006.

On 12 October 2005 the Company acquired 85.72% of the share capital of Mažeikių Elektrinė AB, a company involved in manufacture, supply and distribution of electricity and thermal energy. The acquired business contributed revenues of USD 33 thousand or LTL 96 thousand and incurred net loss of USD 1,598 thousand or LTL 4,636 thousand to the Company for the period from 1 October 2005 to 31 December 2005 (after elimination of intragroup transactions). If the acquisition had occurred on 1 January 2005, the Company's revenue would have been USD 3,976,918 thousand or LTL 11,034,502 thousand, and profit for the year would have been USD 312,276 thousand or LTL 872,538 thousand. These amounts have been calculated using the Company's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment, intangible assets and inventory had applied from 1 January 2005, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration - cash paid	6,198	17,800
Fair value of net assets acquired	(4,769)	(13,695)
Goodwill (Note 9)	1,429	4,105

The goodwill is attributable to the synergies expected to arise after the Company's acquisition of Mažeikių Elektrinė AB.

The assets and liabilities arising from the acquisition are as follows:

	Fair value		Acquiree's carrying amount	
	USD	LTL	USD	LTL
Cash and cash equivalents	465	1,334	465	1,334
Property, plant and equipment (Note 7)	7,714	22,155	13,203	37,918
Licences and software	-	-	19	55
Inventories	3,351	9,623	2,992	8,591
Trade and other receivables	2,114	6,073	2,114	6,072
Prepaid current income tax	55	157	55	157
Borrowings	(1,717)	(4,932)	(1,717)	(4,932)
Trade and other payables	(5,897)	(16,933)	(5,897)	(16,933)
Provisions for liabilities and charges (Note 21)	(522)	(1,500)	-	-
Net assets	5,563	15,977	11,234	32,262
Minority interest (14.28%)	(794)	(2,282)		
Net assets acquired	4,769	13,695		

	USD	LTL
Purchase consideration settled in cash	6,198	17,800
Cash and cash equivalents in subsidiary acquired	(465)	(1,334)
Cash outflow on acquisition	5,733	16,466

The fair values of property, plant and equipment were determined based on the valuations of assets performed by the independent valuers.

Through the above business combination the Company acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances (intangible assets) with the fair value at the date of acquisition of USD 74,279 thousand or LTL 213,322 thousand and the related liabilities for the actual emissions made until the date of acquisition with the fair value of USD 5,903 thousand or LTL 16,953 thousand at the date of acquisition were not recognised in the balance sheet of the Company.

33. Acquisitions (continued)

Acquisition of share in subsidiary

On 28 December 2006, the Company acquired 14.28% of shares in its subsidiary Mažeikių Elektrinė AB from the minority shareholders increasing its ownership to 100%. On 28 December 2006 the Company merged with Mažeikių Elektrinė AB and Mažeikių Elektrinė AB was liquidated.

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration – fair value of shares issued (Note 15)	5,275	13,875
Carrying value of net assets acquired	(2,568)	(6,755)
Goodwill (Note 9)	2,707	7,120

34. Merger accounting

The following reconciliations provide an impact of the merger accounting on the income statement and balance sheet of the Company standing alone for the year ended 31 December 2005:

	Year ended 31 December 2005 USD			LTL		
	Before restatement	Effect of merger accounting	As restated	Before restatement	Effect of merger accounting	As restated
Sales	3,982,243	(5,633)	3,976,610	11,049,131	(15,629)	11,033,502
Cost of sales	(3,331,179)	4,160	(3,327,019)	(9,242,689)	11,542	(9,231,147)
Gross profit	651,064	(1,473)	649,591	1,806,442	(4,087)	1,802,355
Other income	731	16	747	2,028	45	2,073
Selling and marketing costs	(200,356)	-	(200,356)	(555,908)	-	(555,908)
Administrative expenses	(77,710)	1,874	(75,836)	(215,614)	5,199	(210,415)
Operating profit	373,729	417	374,146	1,036,948	1,157	1,038,105
Finance income	13,404	1	13,405	37,191	3	37,194
Finance costs	(29,555)	(17)	(29,572)	(82,003)	(47)	(82,050)
Profit before income tax	357,578	401	357,979	992,136	1,113	993,249
Income tax expense	(44,202)	1	(44,201)	(116,547)	3	(116,544)
Profit for the year	313,376	402	313,778	875,589	1,116	876,705
Attributable to:						
Equity holders of the Company	313,376	591	313,967	875,589	1,640	877,229
Minority interest	-	(189)	(189)	-	(524)	(524)
	313,376	402	313,778	875,589	1,116	876,705
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD or LTL per share)						
– basic / diluted	0.443	0.001	0.444	1.238	0.002	1.240

(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

34. Merger accounting (continued)

	At 31 December 2005 USD			At 31 December 2005 LTL		
ASSETS	Before restatement	Effect of merger accounting	As restated	Before restatement	Effect of merger accounting	As restated
Non-current assets						
Property, plant and equipment	482,790	7,476	490,266	1,405,015	21,759	1,426,774
Intangible assets	3,778	-	3,778	10,995	-	10,995
Goodwill	-	1,411	1,411	-	4,105	4,105
Investments in subsidiaries and associates	30,942	(4,198)	26,744	90,047	(12,217)	77,830
Deferred income tax assets	20,598	-	20,598	59,944	-	59,944
Non-current receivables and prepayments	27,903	-	27,903	81,203	-	81,203
	566,011	4,689	570,700	1,647,204	13,647	1,660,851
Current assets						
Inventories	229,742	3,404	233,146	668,595	9,906	678,501
Trade and other receivables	157,570	(4,833)	152,737	458,560	(14,065)	444,495
Prepaid current income tax	-	144	144	-	419	419
Cash and cash equivalents	605,620	182	605,802	1,762,476	529	1,763,005
	992,932	(1,103)	991,829	2,889,631	(3,211)	2,886,420
Non-current assets classified as held for sale	952	-	952	2,771	-	2,771
	993,884	(1,103)	992,781	2,892,402	(3,211)	2,889,191
Total assets	1,559,895	3,586	1,563,481	4,539,606	10,436	4,550,042
EQUITY						
Capital and reserves						
Share capital	181,366	-	181,366	707,454	-	707,454
Share premium	72,752	-	72,752	283,040	-	283,040
Reserves	13,127	-	13,127	35,219	-	35,219
Cumulative translation adjustment	-	(75)	(75)	(48,295)	(138)	(48,433)
Retained earnings	404,187	591	404,778	976,583	1,640	978,223
	671,432	516	671,948	1,954,001	1,502	1,955,503
Minority interest	-	596	596	-	1,734	1,734
Total equity	671,432	1,112	672,544	1,954,001	3,236	1,957,237
LIABILITIES						
Non-current liabilities						
Borrowings	452,085	1,306	453,391	1,315,658	3,800	1,319,458
Other non-current liabilities	8,197	309	8,506	23,854	901	24,755
Provisions for liabilities and charges	10,807	515	11,322	31,449	1,500	32,949
	471,089	2,130	473,219	1,370,961	6,201	1,377,162
Current liabilities						
Trade and other payables	357,027	106	357,133	1,039,020	308	1,039,328
Current income tax liabilities	36,636	-	36,636	106,618	-	106,618
Borrowings	9,244	238	9,482	26,902	693	27,595
Provisions for liabilities and charges	14,467	-	14,467	42,104	(2)	42,102
	417,374	344	417,718	1,214,644	999	1,215,643
Total liabilities	888,463	2,474	890,937	2,585,605	7,200	2,592,805
Total equity and liabilities	1,559,895	3,586	1,563,481	4,539,606	10,436	4,550,042

ANNUAL REPORT OF PUBLIC COMPANY MAZEIKIU NAFTA FOR THE YEAR 2006

The year 2006 was significant as well as historical for AB Mazeikiu Nafta (hereinafter – the Company) due to the management, organizational and operational changes.

Ownership changes

On December 14, 2006, Polski Koncern Naftowy Orlen SA (hereinafter - PKN ORLEN) acquired 379,918,411 shares from Yukos International UK BV, with subsequent acquisition of 216,915,941 shares from the Government of the Republic of Lithuania on December 15, 2006, this way becoming entitled to 84.36 per cent of the total number of shares of the Company. The number of the Company shares owned by the Government of the Republic of Lithuania then amounted to 10.0 per cent, while the remaining portion of shares were held by the minority shareholders of the Company.

Upon closing of the transaction for transfer of the Company shares to PKN ORLEN and acquisition of shares granting more than 40 per cent of all votes in the Company's General Meeting of Shareholders, the Mandatory Takeover Bid was announced by PKN ORLEN on December 22, 2006, for purchase of all shares of the Company traded publicly on the Vilnius Stock Exchange.

Based on the Terms of Reorganization prepared on October 28, 2006, AB Mazeikiu Nafta and AB Mažeikių elektrinė have been reorganized pursuant to Article 2.97(3) of the Civil Code of the Republic of Lithuania by way of merger of AB Mažeikių elektrinė, wound up as a legal person after reorganization, into AB Mazeikiu Nafta continuing its activities after reorganization. After reorganization closing on December 28, 2006, the authorized capital of the Company was increased from LTL 707,454,130 to LTL 708,821,122. Upon exchange of the shares issued by AB Mažeikių elektrinė for the shares of AB Mazeikiu Nafta, continuing its activities after reorganization, at the exchange ratio of 0.859757 share of AB Mazeikiu Nafta against 1 share issued by AB Mažeikių elektrinė, and allocation of the newly issued shares of AB Mazeikiu Nafta pursuant to the principles of shares allocation provided for in the Terms of Reorganization, the shareholders of AB Mažeikių elektrinė became entitled to 1,366,992 ordinary registered shares of AB Mazeikiu Nafta with a nominal value of LTL 1 each.

After the reorganization PKN ORLEN became entitled to 84.2 per cent, the Government of the Republic of Lithuania – to 9.98 per cent, and the minority shareholders – to 5.82 per cent of the shares of the Company. Information on compliance of the Company's governance structure to the Corporate Governance Code for Companies Listed on the National Stock Exchange is presented in Annex no.1 to this Annual Report.

Financial and operating results

The net profit of the Company in 2006 under the International Financial Reporting Standards amounted to USD 65.5 million (LTL 180.1 million), while the net profit of the Company for the year 2005 was USD 313.8 million (LTL 876.7 million).

The revenues of the Company increased by 6.8 per cent reaching the total amount of USD 4.245 billion (LTL 11.679 billion) for the year 2006. Relatively weaker results of the Company, if compared to 2005, had a respective impact on the changes of its financial indicators. Profitability indicators reduced, as follows: the return on assets was 0.04 USD/USD (0.20 USD/USD in 2005), and the return on equity was 0.09 USD/USD (0.47 USD/USD in 2005). Changes of other indicators were as follows: the long term debt to equity ratio was 0.62 (0.70 in 2005), the current ratio was 2.6 (2.37 in 2005), and the asset turnover ratio was 2.75 (2.54 in 2005).

Notwithstanding the fire of 12th October 2006, which regarded to the Vacuum Distillation column of the Vacuum Unit, the Company ended the year with profit. Working under the complicated conditions the Company managed to produce high-quality products and satisfy the demand of its target markets. Shortages that occurred due to the temporary reduction of the refining capacities of the Company have been covered by purchasing the products on the market; therefore no fuel deficit has been faced by the Baltic market. Dynamics of profit in the year 2006, if compared to previous year, has changed: everything what was granted by the market in 2005 was taken in 2006; therefore, the profit of the Company after the fire reduced significantly.

The main reasons that had an impact on reduced net profit of the Company, if compared to the year 2005, are as follows:

- reduction of the world refining margins and petroleum product prices in August-December 2006;

- interruption of crude oil supplies by pipeline since August 2006; crude oil import through Būtingė Oil Terminal is relatively more expensive if compared to the pipeline supplies. In addition, no revenues have been received for crude oil transportation by pipeline and transshipment via Būtingė Oil Terminal (revenues of the Terminal reduced by 41.1 per cent if compared to the same period of 2005, while reduction of revenues from the pipeline transportation services amounted to 31.8 per cent year on year);

- due to the consequences of the fire in October 2006, refining efficiency reduced followed by less quantity of light petroleum products obtained from the crude oil refined. Management of the Company set the following main tasks right after the fire and oriented at improvement of the situation: refurbishment, within three months, of the vacuum tower in Bitumen Production Unit with the capacity of the tower being twice less than that of KT 1/1 Complex, (which was done by February 14th 2007), and rebuild of the damaged vacuum tower in KT 1/1 Complex until the end of 2007.

Sales of petroleum products by the Company in 2006 amounted to 7.963 million tons, compared to 8.511 million tons of petroleum products in 2005. Western Europe remained the largest market for the Company with 39 per cent of the total sales volume (3.091 million tons). Other large markets for the Company remained Lithuania (23 per cent) and the USA (16 per cent or 1.250 million tons). Estonia and Latvia each made for 7 per cent, while Poland made for 6 per cent of the total sales volume (566 thousand, 556 thousand, and 453 thousand tons respectively). The remaining 3 per cent of sales (214 thousand tons) came from Ukraine and Moldova.

The Company continued increase of petroleum products sales in the target markets. The amount of petroleum products sold in Lithuanian market in 2006 was 1.834 million tons, i.e. increased by by 4.9 per cent versus 2005; the amount of petroleum products sold in 2006 in Latvian and Estonian markets was 1.122 million tons (increase by 3.2 per cent versus 2005). Increase of the sales in such markets witnesses the continued dynamic sales policy implemented by the Company, active sales in cooperation with the largest as well as minor clients, pursuit of the strategic objectives of the Company, recognition of petroleum products by such markets and increasing demand for higher quality taking into consideration the growing attention of society to the environmental issues and, consequently, the stricter quality requirements.

Business activities of the Company are closely related to the foreign markets; therefore the Company faces challenges associated with the volatility of refining margins, prices of goods, rate of interest, credit and currency associated risks. For this reason, risk management activity is being followed by the Company and based on the written risk management policies.

Highest standards of financial operations

As a measure of professional standards, the Group has engaged the international rating agency Fitch Ratings. It is aimed at precise evaluation of the risks of the Group, stability of its business environment and perspectives, as well as achieving establishment of reasonable payment conditions in terms of economics when concluding agreements with its suppliers and borrowing funds from banks, In September 2006 the agency assigned B+ long-term foreign currency credit rating and B short-term rating to the Group. Despite the fire in Refinery, the agency has not changed to AB Mazeikiu Nafta the assigned rating of B+ on Rating Watch Positive and short-term rating at B. In Fitch Ratings' view the fire in the Company's Refinery does not presently warrant a rating action as it is expected that the Company shall substantially cover its reconstruction costs and business interruption losses via insurance claims.

Aspect of crude supply and fire at refinery

Previously Company was receiving the crude oil for refining by pipelines through the territory of the Russian Federation; however the Company also had a possibility of importing crude oil through its flexible import and export terminal in Būtingė. At the end of July 2006 the Company faced interruption of crude oil supplies by pipeline and started import of crude oil through its Oil Terminal. Therefore crude oil costs relatively increased. Due to the fire of October 12, 2006, the refinery now is operating approx. at half of its capacity. Based on assessments of the Company management, the total period required for reinstatement of the previous capacities would be up to 12 months, that is, by the

end of 2007. As the Company has the property and business interruption insurance policies concluded, the insurers are to cover the damaged property associated replacement costs as well as the fixed costs incurred within business interruption period.

Modernization program

The Company also continued its activities under the second phase of Modernization Program. The total amount of investments into the long-term and intangible assets during 2006 comprised USD 110 million. The projects implemented in 2006 were mainly intended, as in the year 2005, for ensuring the compliance of petroleum products with the EU clean fuel and emissions-regulating requirements.

The major part of investments was intended for implementation of the projects under Modernization Program. Construction of new PRIME G+ Unit intended for hydrotreatment of catalytic cracking gasoline was made at the intensive speed. Upon commissioning of this unit, sulfur content in all gasoline made by the Company shall be less than 10 ppm that is in accordance with EU standards. The total investments for implementation of the FCC Gasoline Selective Hydrotreatment Unit in 2006 amounted to USD 18.1 million. The total amount of investments for completion of the project for production of fuel with bio-components amounted approx. to USD 2 million; production of bio-gasoline and bio-diesel was started in spring of 2006. The total amount of USD 8.4 million was spent for modernization of Truck Loading Terminal for loading of light petroleum products. The purpose of this project is to reduce the hydrocarbon emissions. The amount spent in 2006 on one of the biggest efficiency improvement projects – replacement of the heater in Atmospheric Distillation Unit of LK-2 – comprised USD 16.2 million. The total amount of USD 24.6 million was spent on preparatory activities for modernization of KT 1/1 Complex.

In 2006 the Company has started considerable investments for upgrade of its process units and liquidation of the consequences of fire in October 2006: refurbishment of the vacuum tower in Bitumen Production Unit – USD 11.3 million, rebuild of the vacuum tower in KT 1/1 Complex – USD 2.9 million. The amount spent for replacement of Būtingė Terminal SPM and liquidation of the consequences of the 29th December 2005 incident was USD 8.4 million, upgrading of crude oil tank RZ21 – USD 1.2 million, and modifications of fuel oil tank – USD 1 million.

Social and environmental responsibility

The Company employs 3,495 people. If compared to the number of employees at the end of 2005, it reduced by 98 people in the year 2006.

On June 16, 2006, the Company and the Joint Representative Team of Trade Unions signed the new Collective Agreement for the period ending on December 31, 2008.

The new Collective Agreement formalizes the continuity of the previous obligations of the Company with respect to the compensation, social benefits and guarantees, establishes the arrangement on the new labor market-oriented compensation policy based on the principles of internal equity and external competitiveness. Following the above, the Company undertook to participate in the annual surveys of Lithuanian labor market and ensure payment of base salaries not lower than the median of Lithuanian labor market. Increase of the base salaries by Company will be based on the following major factors: work efficiency, inflation level and labor market changes.

The Company dedicates special attention to employees' qualification improvement and professional training.

The Company has the license issued by the Ministry of Education and Science of the Republic of Lithuania for vocational training of employees under 33 vocational education and training programs.

In 2006 Medical Center of the Company conducted the First Aid Training and Hygiene Training courses.

Taking into consideration the importance of vocational training and professional education the Company allocated funds for establishment of the new modern equipped Training Center opened in 2006.

The Company was also one of the first business enterprises in Lithuania which started in 2005 and continued in 2006 the implementation of projects financed from the EU structural funds according to the SPG measure "Development of Labor Force Competencies and the Ability to Adapt to Changes". 362 employees participated in the courses and sessions on business ethics, English language courses, refining processes control and efficiency increase courses.

Individual groups of employees attended seminars and courses on project management, project leadership, implementation of employees' safety and health management system, improvement of the skills of graphic documents preparation and other management and motivation associated subjects.

In 2006 the Refinery of AB Mazeikiu Nafta operated under the Integrated Pollution Prevention and Control (IPPC) Permit issued under the requirements of Directive 96/61/EC under the "Reference Document on Best Available Techniques for Mineral Oil and Gas Refineries".

The Company also dedicates special attention to the environmental issues in its Būtingė Oil Terminal. Starting the year 1999, with commencement of the Terminal operations, the Company introduced and started implementation of Būtingė Terminal Monitoring Program. The program covers monitoring of sea and ground waters, seashore and seabed, as well as sea flora and fauna. The monitoring is performed 4 times a year. Būtingė Oil Terminal puts all efforts for ensuring safety of crude oil loading operations.

Būtingė Oil Terminal was the first port facility in Lithuania to have implemented the provisions of the International Ship and Port Facility Security Code. The vessels serviced by the Terminal are applied with strict environmental requirements – only vessels with segregated ballast water tanks containing the Baltic Sea or the North Sea water may moor to the Terminal SPM.

In 2006 the Company implemented the following environmental measures mitigating its negative impact on the environment:

- New Vapor Recovery Unit was commissioned in the Petroleum Product Loading Terminal for reduction of air pollution. Low NOx burner was installed in the Heater 20Kr-1 of Sulfur Production Unit. 3,670 tons of oil sludge (accumulated earlier) were treated in the Company's centrifuge.

- The 1st stage of petroleum products-contaminated ground water treatment was initiated.

- Section of 1.76 kilometers of the drinking water piping was replaced with polyethylene piping in the territory of the Company, and Environmental Laboratory equipment changed.

Having secured its leading position in the Lithuanian economy, the Company also seeks to become a leader in the area of social responsibility having positive influence on the Company's business results and improving quality of life of the Company's employees and their families as well as communities of Mažeikiai, Biržai and Palanga and the entire Lithuanian community. In 2006 the Company granted financial support and sponsored a lot of good initiatives in line with the provisions of the Company's Social Policy.

In June 2006, the Company being a member of Global Compact, the network of socially-responsible business, together with other Lithuanian enterprises and organizations – members of the Global Compact as well – signed Declaration acknowledging their commitment to honest and transparent compensation policy, protection of employees' rights, and respect for the national laws and community.

Treasury shares

The Company has not acquired and is not in possession of its own shares. In 2006 the Company did not acquire or transfer any of its own shares either.

PKN ORLEN – new shareholder with value oriented character

On January 5, 2007, the Company signed the Agreement with PKN ORLEN granting PKN ORLEN the exclusive right for the crude oil supply to the Company. The Agreement has been concluded for an indefinite period, and its conclusion was associated with centralization of crude oil purchases in PKN ORLEN Group.

One the key initiative of the new shareholder of the Company is the Value Creation Program which was launched at the very beginning of 2007. The Program is intended for establishment of the strategy and business directions of the Company and its Group going forward. The Program would - above others - extract and build additional improvement of the Company's management processes, cost reduction, improvement and implementation of new processes and technologies to achieve the ambitious objectives for the years to come.

Participants of the Program will generate new ideas which later on will be transformed by value creation teams into the properly developed initiatives covering production and its development,

logistics, wholesale and retail, human resources management, procurement and cost control, IT, finance management and other areas of he Company's business.

Year 2007 – positive ventures ahead

With the commissioning and start-up of the refurbished vacuum tower in Bitumen Production Unit on February 14, 2007, light petroleum products yield could possibly improve.

The forecasted throughput at the refinery for 2007 is 6.5 million tons of feedstock, with import volumes through Būtingė Oil Terminal amounting to 5.8 million tons of crude oil, and transportation volumes through Biržai pipeline reaching 6.8 million tons of diesel fuel in Ventspils direction.

In 2007 the Company will continue implementation of the projects under its Modernization Program. Upon implementation of such projects the Company is planning on further increase its refining efficiency and profitability per ton of refined crude.

The Company will further pursue the goal of creating shareholder value by aiming to achieve the operational excellence in the spheres of crude refining, production, marketing, logistics, and financial management and organizational improvements, by becoming one of the most successful and efficient oil companies in North East Europe.

Chairman of the Board P. Kownacki

22 March 2007

Annex 1 to Annual Report of AB Mazeikiu Nafta for the year 2006

Disclosure form concerning the compliance with the Governance Code for the companies listed on the regulated market

The public company *Mazeikiu Nafta*, legal person's code 166451720, following Section 3 of Article 21 of the Law of the Republic of Lithuania on Securities and item 20.5 of the Trading Rules of the Vilnius Stock Exchange (VSE), discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	No	The Company's approved Management Plans defining the Company's development strategy are not in public domain because, in order to retain the competitive advantages, they have been included into the list of the corporate commercial secrets in accordance with the procedure established by the Articles of Association.
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	All bodies of the Company act in implementation of the business objectives provided for by the Company's Articles of Association.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's Board and CEO develop and implement in close cooperation the Company's process technologies, plans of modernization of the process units, and introducing more efficient business management methods/systems; the Company's Supervisory Council supervises and evaluates the activities of the management bodies, monitors the Company's financial situation.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company takes all reasonable actions to ensure rights and interests of the shareholders, other persons involved in or associated with the Company's activities (employees, creditors, suppliers, clients, local community) strictly in compliance with the principles of law protecting them, terms and conditions of the transactions concluded, being a member of the Global Compact holding socially responsible companies, granting financial support in accordance with the procedure established by applicable laws, etc.
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 shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company complies with this recommendation; the following bodies have been established in accordance with the procedure defined in its Articles of Association: the General Meeting Of Shareholders, the Supervisory Council, the Board, and the Company's CEO (General Director).
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 Company's collegial management body – the Board – is responsible for the strategic management of the company and implements other key functions of the corporate governance, and the collegial supervisory body – the Supervisory Council – is responsible for efficient supervision of the Company's management bodies.
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 the Supervisory Council and the Board.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	No	Considering the reasons presented with regard to implementation of recommendations as per Principles III and IV.
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.[2]	Yes	The Company's Board consists of seven (7) members, i.e. their number is two times the minimum number set by Section 2 of Article 33 of the Law on Companies; the Company's Articles of Association also provide for the greater majority of votes required for adoption of decisions than stipulated in Section 4 of Article 35 of the Law on Companies, i.e. the number of votes "in favor" shall constitute more than one half of the members present at the meeting, except for the cases when adoption of decisions with respect to approval of certain draft decision: for example, approval of the Company's development projects, establishment of other legal persons, acquisition of any interest in other persons, providing loans, establishment or closing of branches and representative offices, investment, transfer, acquisition of the high-value long-term assets (the value

[1] Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

[2] Definitions *'executive director'* and *'non-executive director'* are used in cases when a company has only one collegial body.

		exceeding 1/20 of the Company's authorized capital), approval and amendment of the Work Regulations of the Board, etc., requires at least five members voting "in favor." The Company's Supervisory Council consist of nine (9) member, i.e. their number is three times the minimum number set by Section 2 of Article 31 of the Law on Companies, which forms 3/5 of their maximum number permitted; the Company's Articles of Association also provide for the greater majority of votes required for adoption of decisions than stipulated in Section 8 of Article 32 of the Law on Companies, i.e. the number of votes "in favor" shall constitute more than one half of the members present at the meeting, except for the cases when (i) submission of proposals to the Board or the Company's CEO to revoke their adopted decisions (ii) adoption of the decision regarding approval/ disapproval of dismissal of the Company's CEO and CFO, or (iii) approval or amendment of the Work Regulations of the Supervisory Council require that more than one half of the member present at the meeting vote "in favor", but not less than four members; and decision on recalling of the member of the Board is adopted if at least 2/3 of the members present at the meeting vote in favor.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The term of the members of the Supervisory Council is four (4) years. The Company's Articles of Association and practices do not prohibit election of new members (removal of the members before expiry of the term).
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	The Chairman of the Company's Supervisory Council has never acted as the Company's CEO.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]

[3] Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	No	The existing procedure for election of the Supervisory Council members established by the Articles of Association does not provide for mechanism of election of independent members.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	No	Disclosure of names and surnames of the candidates to become members of the Supervisory Council, information about their education, qualification, professional background, positions taken, other material professional commitments and potential conflicts of interest to the Company's shareholders before the General Meeting of Shareholders is not always ensured. There is no practice in the Company that all circumstances (excluding such provided by applicable laws) that may affect the candidate's independence as per the sample list set out in Recommendation 3.7 should be disclosed and that the Supervisory Council should be informed on any subsequent changes in the information provided. The Supervisory Council does not collect and does not disclose the data of such nature in the Company's Annual Report.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	No	Information on specific competences of individual members of the Supervisory Council which competences are directly related to their service on the collegial body is not disclosed in the Company's Annual Report as such obligation is not set by the applicable legal acts and is not governed by the Company's administrative documents.
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	No	There are no practices applied in the Company that the Supervisory Council of the Company establishes its desired composition with regard to the Company's structure and activities, and the respective periodic evaluation is not conducted; the Company's Supervisory Council does not form the Audit Committee.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	No	The Company has no special programs focused on introducing members of the Supervisory Council with their duties, corporate organization and activities. The Supervisory Council has not so far practiced annual reviews to identify fields where its members need to update their skills and knowledge.

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[4] number of independent[5] members.	No	The Company does not follow this Recommendation because the independence of the Supervisory Council members has not been evaluated so far; the contents of the "sufficient number" of independent members have not been defined in the Company.
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 dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than 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	No	Due to insignificantly small number of the votes held by the minor shareholders, the election of the members of the Supervisory Council depends on votes of two major shareholders. The practice still exists in the Company that the candidates to the members of the Supervisory Council are nominated, as a rule, from persons having employment relations with the controlling shareholders. The Supervisory Council has not defined the term "independence."

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 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 shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 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 shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents. 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.		
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	No	The Company has not applied the practice of evaluation and disclosure of independence of the Supervisory Council members.

3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	No	Considering the reasons presented with regard to implementation of recommendations as per Principle III.
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.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Not applicable	The members of the Company's Supervisory Council have not been remunerated from the Company's funds.

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] 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 shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	The Supervisory Council elected in the Company make proposals and comments to the General Meeting of Shareholders on the Company's annual financial statements, the draft of distribution of profit, annual report of the Company, activities of the Board and the General Director as well as performs other functions assigned to the Supervisory Council in association with supervision of the activities of the Company and its management bodies.

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[7] See Footnote 3.

[8] See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best of the Company's knowledge, all members of the Supervisory Council act in good faith with respect to the Company and in the interests of the Company but not in their own or third parties' interests.
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[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	No	The Company has not notified the Company's shareholders of the cases when a member of the Supervisory Council has participated at less than a half of the Supervisory Council meetings throughout the financial year because the procedure of such notification has not been established, if the General Meeting of Shareholders is not convened.
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.	No	The role of the Supervisory Council members, when communicating with and committing to the shareholders, has not been clearly defined in the Company.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	No	Transactions described in this recommendation are not approved by the Supervisory Council because the Articles of Association do not provide for such approval; moreover, the Company's Supervisory Council does not have independent members.

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	No	Independence of the Supervisory Council members from persons who elected them is not ensured and/or the latter influence their decisions, also considering the fact that persons nominated to the Supervisory Council by the Government of the Republic of Lithuania and elected to it in accordance with the procedure established are also the state officials voting in accordance with a respective administrative document issued by the state government body.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	No	The committees have not been formed considering the fact that the Supervisory Council has no independent members; for these reasons the nomination committee was not formed because, subject to Paragraph 1 of Section 1 of Article 32 of the Law on Companies and the Articles of Association of the Company, the Supervisory Council has the right to elect (appoint) only board members (directors); therefore the functions of this committee are performed by the Supervisory Council itself; the remuneration committee was not formed considering the fact that, subject to provisions of the Law on Companies and Articles of Association of the Company, establishment of remuneration to the Board Members and the Company's CEO (directors) is not within the competence of the Supervisory Council; the audit committee was not formed because the functions of this committee are performed by the Supervisory Council itself, based on the authority assigned.

[10] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	No	The committees have not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	No	The committees have not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	No	The committees have not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	No	The committees have not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • 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	No	The nomination committee has not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.

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; • 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; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • 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; • 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; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • 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); • 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	No	The remuneration committee has not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.

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 directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • 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 chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • 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); • 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; • 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; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed 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	No	The audit committee has not been formed within the Supervisory Council so far, considering the reasons presented in explanation regarding implementation of recommendation 4.7 under Principle IV.

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; • 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 centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 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 (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 organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	No	The Company has no annual practice with respect to the evaluation of the Supervisory Council and/or disclosure of information thereof.
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	The recommendation is implemented through organization of the activities of the Company's Supervisory Council and the Board.
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[11].	No	The Company has established the frequency of the meetings of the Supervisory Council and the Board; however, there is no practice to approve specific schedules of meetings of the collegial bodies. The meetings of the Company's Supervisory Council were not held every quarter in the reporting year; however, seven meetings were held during the indicated period. It is intended to convene the meetings of the Company's Board at least once a quarter; however actually, they were convened more than 14 times during the reporting year.
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's existing practice complies with the recommendation; however, the Work Regulations of the Supervisory Council and the Board provide for possibility of submission of documents related to the agenda of meetings later than the notification of the meeting convened is sent out, but not later than three days prior to a respective meeting.

[11] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company's existing practice complies with the recommendation.
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 ordinary registered shares forming the Company's authorized capital grant equal rights to all shareholders of the Company.
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, in accordance with the procedure established by applicable legal requirements, announces the Company's Articles of Association and other mandatory documents/notifications which establish/indicate the rights granted by the shares of the new issue or those issued earlier.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[12] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.	No	The Company's Articles of Association doe not provide for the criteria of the important transactions based on which transactions which require approval of the General Meeting of Shareholders are selected.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	The Company's existing practice complies with the recommendation; however, the Company has no formal procedure based on which the Company's shareholders would have a possibility, before the General Meeting of Shareholders, to ask the members of the Company's supervision and management bodies questions related to the agenda of the General Meeting of Shareholders and to obtain answers. However, all shareholders have the right to address to the Company the relevant questions and obtain answers.

[12] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorised capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[13]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	No	The Company has not established a procedure based on which the documents prepared for the General Meeting of Shareholders would be published in advance on the Company's publicly accessible website.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The Company's shareholders may exercise their right to participate at the General Meeting of Shareholders in person and through a representative, if such person has the appropriate proxy or if an agreement for transfer of the voting right has been concluded with such person in accordance with the procedure established by applicable legal acts; the Company also creates conditions for the shareholders to vote by completing the general voting ballot, as provided by the Law on Companies.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	No	The Company does not follow this recommendation to create possibilities for the shareholders to vote at the meetings of shareholders via terminal equipment of telecommunications because it does not have technical capabilities to ensure signature identification of the voting person, considering the large number of the shareholders, to create satisfactory conditions, from the technical and economic standpoint, for watching the meetings of the shareholders by means of modern technologies.

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	To the best of the Company's knowledge, all members of the Supervisory Council act in good faith with respect to the Company and in the interests of the Company but not in their own or third parties' interests.

[13] The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
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	
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	To the best of the Company's knowledge, all members of the Supervisory Council act in good faith with respect to the Company and in the interests of the Company but not in their own or third parties' interests.

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 it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.

8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	No	The Company doe not make public statements on remuneration under recommendations of this code because the members of the Company's Supervisory Council and the Board (directors) have not been remunerated so far.
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	The Company does not prepare the remuneration statement considering the reasons presented in explanation regarding implementation of recommendations 8.1 under Principle VIII.

8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	The Company does not prepare the remuneration statement considering the reasons presented in explanation regarding implementation of recommendations 8.1 under Principle VIII.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	The Company does not prepare the remuneration statement considering the reasons presented in explanation regarding implementation of recommendations 8.1 under Principle VIII.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	No	
8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	The Company does not prepare the remuneration statement considering the reasons presented in explanation regarding implementation of recommendations 8.1 under Principle VIII.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional	No	The Company does not prepare the remuneration statement considering the reasons presented in explanation regarding implementation of recommendations 8.1 under Principle VIII.

remuneration paid to directors for special services outside the scope of the usual functions of a director; • 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; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 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: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • 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; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 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.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	The Company does not implement schemes under which the directors are remunerated in shares, share options or any other right to purchase shares, or be remunerated on the basis of share price movements.

8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • 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.		
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 shareholders' annual general meeting.		
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The Company complies with the related requirements established by applicable legal acts and related obligations undertaken by agreements.
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. 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 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.	No	The Company does not disclose information about the individual remuneration of the Company's CEO, as provided under Principle VIII (i.e. only data of top seven officers, including the Company's CEO, are disclosed), nor it discloses the information about the relations between the Company and the stakeholders, such as employees, creditors, suppliers, local community, because such disclosure is not required by the mandatory legal acts.
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 implements this recommendation, i.e. discloses the information in the Lithuanian and English languages simultaneously, to the possible extent, through the information disclosure system of the Vilnius Stock Exchange. The Stock Exchange publishes the information received on its website and in its trade system, ensuring, hence, simultaneous announcement of information to all. Additionally, the Company puts efforts to announce information before and after the trading session of the Vilnius Stock Exchange and to present such information to all markets where the Company's securities are traded; however, announcement of notices about material events before and after the trading session of the Vilnius Stock Exchange is not ensured at all times, and also considering explanations presented with regard to implementation of recommendation 10.1 under

		Principle X. The Company's notices about the material events are also disclosed on the Company's website. The Company does not disclose information that may affect the price of its securities issued in the commentaries, interviews or otherwise until such information is publicly announced through the stock exchange information system.
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	In order to ensure fair, timely and cost-efficient access to information, the Company discloses it on the Company's website in the Lithuanian, English and Russian languages.
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 implements this recommendation.
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	An independent audit company audits the Company's interim financial statements, annual 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 shareholders' meeting.	No	A candidate of the audit company has always been proposed to the General Meeting of Shareholders by the decision of the Board.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	No	The company has not disclosed to the shareholders information that the Company's audit company provided remunerated non-audit services to the Company in 2006 in association with development of the Company Group's accounting policy because there is no procedure established for such disclosure unless the General Meeting of Shareholders is convened.