



SC KLAIPĖDOS NAFTA

**INTERIM CONDENSED FINANCIAL STATEMENTS,
PREPARED ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS,
AS ADOPTED BY THE EUROPEAN UNION**

**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2014
(UNAUDITED)**

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Statement of financial position

	Notes	2014-06-30 <i>(neaudituota)</i>	2013-12-31 <i>(audituota)</i>
ASSETS			
Non-current assets			
Intangible assets		1,243	1,266
Property, plant and equipment	3	553,813	518,650
Long-term receivables	7	3,824	2,776
Investment into associates		1,055	989
Total non-current assets		559,935	523,681
Current assets			
Inventories	5	1,752	1,155
Prepayments		562	558
Trade receivables	6	7,873	11,052
Refunds of income taxes		4,191	5,644
Other receivables	7	19,434	13,703
Other financial assets	8	-	30,146
Cash and cash equivalents	9	86,497	89,895
Total current assets		120,309	152,153
Total assets		680,244	675,834


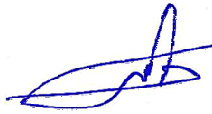

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Explanatory note, set out on pages 8 - 15, is an integral part of these financial statements.

Statement of financial position (cont'd)

	Notes	2014-06-30 <i>(neaudituota)</i>	2013-12-31 <i>(audituota)</i>
EQUITY AND LIABILITIES			
Equity			
Share capital	1	380,606	380,606
Share premium		13,512	13,512
Legal reserve		26,394	24,611
Reserve for own shares		55,000	55,000
Other reserves		95,782	62,273
Retained earnings		12,673	35,649
Total equity		583,967	571,651
Non-current liabilities			
Deferred income tax liability		7,024	6,935
Non-current employee benefits	12	912	837
Loan	10	51,212	51,212
Total non-current liabilities		59,148	58,984
Current liabilities			
Loan	10	129	134
Trade payables	11	16,968	25,189
Payroll related liabilities	12	5,389	4,782
Prepayments received		0	40
Dividends payable		39	39
Other payables and current liabilities	13	14,604	15,015
Total current liabilities		37,129	45,199
Nuosavo kapitalo ir įsipareigojimų iš viso		680,244	675,834




Explanatory note, set out on pages 8 - 15 an integral part of these financial statements.

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

Statement of comprehensive income

	Notes	For the six months period ended 30 June 2014 <i>(unaudited)</i>	For the three months period ended 30 June 2014 <i>(unaudited)</i>	For the six months period ended 30 June 2013 <i>(unaudited)</i>	For the three months period ended 30 June 2013 <i>(unaudited)</i>
Sales	14	57,750	26,868	72,070	29,917
Cost of sales	15	(36,863)	(17,543)	(41,326)	(17,490)
Gross profit		20,887	9,325	30,744	12,427
Operating expenses		(6,831)	(3,317)	(5,928)	(2,946)
Other income		58	17	50	26
Profit from operating activities		14,114	6,025	24,866	9,507
Income from financial activities	16	684	621	352	206
Loss from financial activities	16	(11)	(5)	(47)	(29)
Profit before income tax		14,787	6,641	25,171	9,684
Income tax expense		(2,114)	(863)	(3,748)	(1,468)
Net profit		12,673	5,778	21,423	8,216
Other comprehensive income (expenses)		-	-	-	-
Items that will not be subsequently reclassified to profit or loss		-	-	-	-
Items that may be subsequently reclassified to profit or loss		-	-	-	-
Total comprehensive income		12,673	5,778	21,423	8,216
Basic and diluted earnings (losses) per share, in LTL	17	0.03	0.02	0.06	0.02


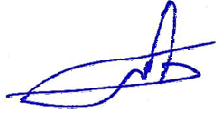

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General Manager	Rokas Masiulis		21 August 2014
Director of Finance and Administrative Department	Mantas Bartuška		21 August 2014
Head of Accounting Department	Asta Sedlauskienė		21 August 2014

Statement of changes in equity

	Notes	Share capital	Share premium	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Total
Balance as at 31 December 2012 (audituota)		380,606	13,512	22,561	55,000	23,727	41,006	536,412
Net profit for the six months		-	-	-	-	-	21,423	21,423
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	21,423	21,423
Dividends declared		-	-	-	-	-	(410)	(410)
Transfers between reserves		-	-	2,050	-	38,546	(40,596)	-
Balance as at 30 June 2013 (unaudited)		380,606	13,512	24,611	55,000	62,273	21,423	557,425
Balance as at 31 December 2013 (audituota)		380,606	13,512	24,611	55,000	62,273	35,649	571,651
Net profit for the six months		-	-	-	-	-	12,673	12,673
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	12,673	12,673
Dividends declared		-	-	-	-	-	(357)	(357)
Transfers between reserves		-	-	1,783	-	33,509	(35,292)	-
Balance as at 30 June 2014 (unaudited)		380,606	13,512	26,394	55,000	95,782	12,673	583,968




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

Cash flow statement

	Notes	For the six months period ended 30 June 2014 <i>(unaudited)</i>	For the six months period ended 30 June 2013 <i>(unaudited)</i>
Cash flows from operating activities			
Net profit	17	12,673	21,423
Adjustments for noncash items:			
Depreciation and amortization		12,589	12,337
Accrued emission rights		-	202
Accrued income	7	(1,374)	(1)
Change in employee benefit liabilities	12	75	80
Change in allowance for doubtful receivables		(2)	(1)
Change in vacation reserve	12	330	296
Income tax expenses		2,114	3,748
Interest income	16	(92)	(241)
		26,316	37,370
Changes in working capital:			
(Increase) decrease in inventories		(597)	(388)
Decrease (increase) in prepayments		(4)	(58)
Decrease (increase) in trade and other accounts receivable		3,179	5,896
Decrease (increase) in other receivables		441	(1,877)
Increase (decrease) in trade and other payables		(14,301)	(1,092)
(Decrease) increase in prepayments received		(40)	(53)
Increase (decrease) in other current liabilities and payroll related liabilities		277	(580)
		15,271	39,218
Income tax (paid)		(884)	(2,183)
Interest received	16	92	150
Net cash flows from operating activities		14,479	37,185
Cash flows from investing activities			
(Acquisition) of property, plant, equipment and intangible assets		(47,730)	(37,556)
(Acquisition) of Investments held-to-maturity		-	(131,969)
Sales of investments held-to-maturity	8	30,146	127,778
(Acquisition) of other Investments		(66)	-
Net cash flows from investing activities		(17,650)	(41,747)
Cash flows from financing activities			
Dividends (paid)		(356)	(410)
Received loans	10	401	-
Interest (paid)		(272)	-
Net cash flows from financing activities		(228)	(410)
Net increase (decrease) in cash flows		(3,398)	(4,972)
Cash and cash equivalents on 1 January 2014		89,895	79,834
Cash and cash equivalents on 30 June 2014		86,497	74,862

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

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

1 General information

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

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

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

As at 30 June 2014 all the shares were owned by 1,890 shareholders. The Company’s share capital – LTL 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of one (1) LTL. 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during six months period in 2014. The Company’s shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange.

As at 30 June 2014 and 30 June 2013 the shareholders of the Company were:

	2014 m. birželio 30 d.		2013 m. birželio 30 d.	
	Number of shares held (thousand)	Part of ownership (%)	Number of shares held (thousand)	Part of ownership (%)
Government of the Republic of Lithuania represented by the Ministry of Energy	275,241	72.32	275,241	72.32
UAB Concern Achema Group	38,975	10.24	38,975	10.24
Other (less than 5 per cent each)	66,390	17.44	66,390	17.44
Total	380,606	100.00	380,606	100.00

The average number of employees on 30 June 2014 was 379 (361 – on 30 June 2013).

2 Accounting principles

The financial statements are presented in Lit as and all values are rounded to the nearest thousand (LTL 000), except when otherwise indicated. The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter the EU).

The Company applies the same accounting policies and the same calculation methods in preparing Interim Financial Statements as they have been used for the Annual Financial Statements of the year 2013. The principles used in preparation of financial statements were presented in more detail in the Notes to the Financial Statements for 2013.

3 Non-current tangible assets

During the six months of 2014 the Company continued works in the following projects:

- *Liquefied natural gas terminal project*

As of 30 June 2014 the investments into implementation of LNG Terminal’s project amounted to LTL 142.185 thousand – the major part of which was comprised of payments paid according to the Agreement to the Lead Adviser for preparation and implementation of liquefied natural gas terminal’s project, legal and other research services and compensation received from Klaipėda’s Port of Authority, the cost was incurred for the pipeline’s construction, for the construction of jetty, prepayments and received compensation for the jetty construction from VĮ Klaipėdos jūrų uosto direkcijos. During the six months period of 2014 investment amounted to LTL 44,023 thousand (LTL 50,601 thousand for the constructions and the LTL 6,578 thousand reduce of the prepayments).

During the six months of 2014 the investment into oil terminal’s modernization amounted to 2,871 thousand. The most important and largest investments during 2014 were as follows:

- *The reconstruction of HFO (i.e. heavy fuel oil products) storage tank park* involves demolishing of the 4 old storage tanks with the capacity 5.000 m³ and construction of 2 new universal storage tanks with the capacity 32.250 m³. The aim of this investment is to expand the Company’s technological capacity by increasing the Company’s overall volume of tanks (a total increase of 44.500 m³) and the technological flexibility by enabling the storage of both light and heavy oil and products in new tanks. This increases the flexibility of the terminal as greater amounts of different petroleum products can be handled, as well as its attractiveness to customers because of the possibility to build up larger batches of products for loading onto tankers. During the six month period of 2014 the total value of the implemented works amounted to LTL 1,110 thousand.

3 Ilgalaikis materialusis turtas (tęsinys)

- *Adaptation of the HFO storage tanks for LFO (i.e. light oil products) loading.* In addition to the HFO park reconstruction project, in 2014 the Company made additional investments in order to adapt two tanks of 20.000 m³ in operation to LFO handling (up to then it was possible to load only HFO products). These investments are related to the improvement of technological versatility of the tank park as well. The total value of the works carried out during six months period of 2014 was LTL 31 thousand.
- *Modernization works of fire protection system*– investments for the upgrade of mechanical and automatic sections of the fire protection system. In 2013 the trestle firefighting equipment was upgraded as well as the reconstruction of automatic section initiated. All work is scheduled to be completed in 2014. The overall cost of the works performed during the six month period of 2014 amounted to LTL 1,198 thousand.
- *Installation works of diesel fuel loading to tank trucks location.* The total value of the works carried out during six months period of 2014 was LTL 361 thousand.
- *Other investment.* During the six month period of 2014 there were invested LTL 171 thousand.

4 Operating segments

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

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

Main indicators of the business segments of the Company included into the statement of comprehensive income for the financial year as of 30 June 2014 and Statement of financial position as of 30 June 2013, are described below:

For the six months period ended 30 June 2014	SGDT	SKB	KN	Iš viso
Revenues from external customers	-	3,243	54,507	57,750
Profit before income tax	(3,129)	744	17,172	14,787
Segment net profit	(3,129)	744	15,058	12,673
Interest revenue	-	-	91	91
Interest expense	-	-	-	-
Depreciation and amortisation	(78)	(1,393)	(11,118)	(12,589)
Impairment of assets	44,554	113	2,985	47,652
Segment total assets	117,732	50,553	513,972	682,257
Financial liabilities	51,212	-	-	51,212
Segment total liabilities	90,252	3,276	4,761	98,289
For the six months period ended 30 June 2013	SGDT	SKB	KN	Iš viso
Revenues from external customers	-	3,215	68,855	72,070
Profit before income tax	(1491)	859	25,802	25,170
Segment net profit	(1491)	859	22,055	21,423
Interest revenue	-	-	241	241
Interest expense	-	-	-	-
Depreciation and amortisation	(22)	(1,401)	(10,914)	(12,337)
Impairment of assets	24,150	-	13,406	37,556
Segment total assets	35,429	47,320	497,721	580,470
Financial liabilities	-	-	-	-
Segment total liabilities	3,529	1,719	17,797	23,045

5 Inventories

	2014-06-30	2013-12-31
Oil products, for sale	1,175	796
Spare parts, construction materials and other inventories	577	359
	1,752	1,155

5 Inventories (con't)

As of 30 June 2014 the Company had accounted write-off of inventories in the amount of LTL 5.721 thousand (LTL 5,808 thousand on 31 December 2013), that have been written off down to the net realisable value. The Company makes write-off the inventories to the net realisable value if they are not used for more than 6 months. Write-off has been accounted for mostly construction materials and spare parts, which were not used during the reconstruction (1996 – 2005).

Write-off of inventories to the net realizable value of LTL 87 thousand for the six months ended of 30 June 2014 (31 December 2013 - LTL 360 thousand) are included under operating expenses in the profit (loss).

As of 30 June 2014 the Company stored 196.37 thousand tons of oil products delivered for transshipment in its storage tanks (115.7 thousand tons as on 31 December 2013). Such oil products are not recognised in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. On 30 June 2014 the Company stored 4.244 tons of oil products collected in its Waste Water Treatment Facilities (31 March 2014– 3.522 tons).

6 Trade receivables

	2014-06-30	2013-12-31
Receivables for trans-shipment of oil products and other related services	7,988	11,168
Less: impairment allowance	(115)	(116)
	<u>7,873</u>	<u>11,052</u>

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

On 30 June 2014 trade debts to the Company in the amount of LTL 4,480 thousand were denominated in EUR (LTL 8,575 thousand – on 31 December 2013).

7 Other receivables

	2014-06-30	2013-12-31
Long term accrued income	3,824	2,776
Long term receivables	3,824	2,776
Accrued income	1,304	978
VAT receivable	7,745	11,127
Other receivables	10,386	1,598
	<u>19,434</u>	<u>13,703</u>

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

8 Other financial assets

	2014-06-30	2013-12-31
Cession of rights in Vnesekonom bank	100	100
Loan to UAB „Žavesys“	352	354
Less: impairment allowance for receivables	(452)	(454)
Total loans and receivables	<u>-</u>	<u>-</u>
Investments into the government bonds of Lithuanian banks	-	30,146
Trumpalaikė dalis	<u>-</u>	<u>30,146</u>
Kitas finansinis turtas iš viso	<u>-</u>	<u>30,146</u>

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

Currency	2014-06-30	2013-12-31
EUR	-	17,955
LTL	-	12,191
	<u>-</u>	<u>30,146</u>

8 Other financial assets (con't)

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

9 Cash and cash equivalents

	2014-06-30	2013-12-31
Cash at bank	86,497	89,895

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

Currency	2014-06-30	2013-12-31
EUR	43,844	81,620
LTL	42,653	8,275
	86,497	89,895

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

	2014-06-30	2013-12-31
AA -	28,037	63,682
A +	58,460	56,359
	86,497	120,041

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

Cash and cash equivalents, financial assets are managed according the investment procedures approved by the Company's Board.

10 Financial liabilities

	2014-06-30	2013-12-31
Loan from European investment bank	51,212	51,212
Payable interests to European investment bank	129	134
	51,340	51,346

11 Trade debts and other payables

	2014-06-30	2013-12-31
Payable to contractors	13,456	20,140
Payable for rent of land	654	650
Payable for railway services	413	190
Other trade payables	2,445	4,207
	16,968	25,189

Trade payables are non-interest bearing and are normally settled on 30-day payment terms. On 30 June 2014 trade payables of LTL 27 thousand were denominated in GBP and 12,868 thousand were denominated in EUR (LTL 504 thousand – on 31 December 2013).

12 Liabilities related to labour relations

	2014-06-30	2013-12-31
Salaries payable	1,069	6
Social insurance payable	911	940
Income tax payable	280	6
Mokėtinios garantinio fondo įmokos	5	5
Accrued vacation reserve	2,286	1,956
Accrual of bonuses	834	1,862
Other overdraw of salary	5	7
	5,389	4,782

13 Other current liabilities

	2014-06-30	2013-12-31
Accrued tax expenses and liabilities	11	345
Accrued expenses and liabilities	14,280	13,661
Other liabilities	313	1,009
	14,604	15,015

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

14 Sales income

	For the six months period ended 31 March 2014	For the six months period ended 31 March 2013
Sales of oil transshipment services	56,419	70,356
Other sales related to transshipment	1,331	1,714
	57,750	72,070

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

15 Cost of sales

	For the six months period ended 31 March 2014	For the six months period ended 31 March 2013
Depreciation and amortization	12,234	12,073
Natural gas	6,021	10,021
Wages, salaries and social security	10,014	9,384
Railway services	2,076	2,663
Electricity	2,641	3,164
Rent of land and quays	1,079	1,025
Repair and maintenance of non-current assets	389	315
Tax on real estate	623	604
Insurance of assets	746	641
Services for tankers	227	298
Work safety costs	128	182
Emission rights expenses	-	82
Other	684	874
	36,863	41,326

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

	For the six months period ended 31 March 2014	For the six months period ended 31 March 2013
Interest income	92	241
Profit from currency exchange	-	2
Fines collected	592	109
Total income from financial activity	684	352
(Losses) from currency exchange	(11)	(47)

17 Earnings per share, basic and diluted

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

Basic and diluted earnings per share are as follows:

	2014	2013
Net profit attributable to shareholders	12,673	21,423
Weighted average number of ordinary shares (thousand)	380,606	380,606
Earnings per share (in LTL)	0.03	0.06

18 Related party transactions

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Company and transactions with them during the six months of 2014, 2013 and 2012 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions:

		Purchases	Sales	Receivables	Payables
State Tax Inspectorate at the Finance Ministry of the Republic of Lithuania	1 January-30 June 2014	72,897	-	19,692	10,731
	1 January-30 June 2013	48,034	-	-	7,562
	1 January-30 June 2012	50,649	-	-	7,690
State Social Insurance Fund Board under the Ministry of Social Security and Labour	1 January-30 June 2014	5,181	-	-	911
	1 January-30 June 2013	4,240	-	-	829
	1 January-30 June 2012	3,632	-	-	645
State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	1 January-30 June 2014	1,079	13,471	-	654
	1 January-30 June 2013	1,028	-	-	512
	1 January-30 June 2012	1,028	-	-	514
AB Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	1 January-30 June 2014	2,115	-	-	413
	1 January-30 June 2013	3,922	-	-	212
	1 January-30 June 2012	3,184	-	-	359
AB "Lesto", owned by the State of Lithuania represented by the Ministry of Energy	1 January-30 June 2014	1,283	-	-	181
	1 January-30 June 2013	1,657	-	-	216
	1 January-30 June 2012	1,323	-	-	161
AB "Lietuvos dujos", owned by the State of Lithuania represented by the Ministry of Energy	1 January-30 June 2014	4,837	-	-	1,361
	1 January-30 June 2013	8,229	-	-	1,487
	1 January-30 June 2012	8,539	-	-	1,443
VĮ Lietuvos naftos produktų agentūra	1 January-30 June 2014	-	2,514	419	-
	1 January-30 June 2013	-	2,479	413	-
VĮ Lietuvos naftos produktų agentūra	1 January-30 June 2014	-	15	6	-
	1 January-30 June 2013	-	21	2	-
	1 January-30 June 2012	-	15	1	-
Transactions with related parties, in total:	1 January-30 June 2014	87,392	16,000	20,117	14,251
	1 January-30 June 2013	67,110	2,500	415	10,818
	1 January-30 June 2012	68,355	15	1	10,812

Remuneration to the Management and other payments

The Company's Management is comprised of General Manager, Deputy General Manager, Directors of Departments and their Deputies, Managers of Departments.

	For the six months period ended 30 June 2014	For the six months period ended 30 June 2014
Labour related disbursements	3,533	2,843
Number of managers	34	32

In 2014 and 2013 the Management of the Company did not receive any loans, guarantees, or any other payments or property transfers were made or accrued.

19 Subsequent events

- On 8 July 2014, the Seimas of the Republic of Lithuania decided:
 - To grant a state guarantee to the Nordic Investment Bank (hereinafter, the NIB) regarding the loan in the amount of EUR 34,754,402 granted to AB Klaipėdos Nafta (hereinafter, the Company) for the period up to 20 years at the interest rate set by the NIB for financing the investment project "Liquefied Natural Gas Terminal" (hereinafter, the LNGT), the state assuming guarantee obligations regarding repayment of the loan of EUR 34,754,402 and payment of interest.
 - To establish that the state guarantee regarding the above-mentioned loan shall also be valid when:
 - the LNGT project implemented by the Company and/or the works and/or the assets forming it are transferred and/or the LNGT activity performed by the Company is moved to a subsidiary directly 100 percent controlled by the Company under the procedure set by legal acts;

19 Subsequent events (con't)

- 2.2. all the rights and obligations of the Company in connection with the implementation of the LNGT project and/or the works and/or the assets forming the project and/or the LNGT activity, i.e. all the assets, including the mortgage indicated in paragraph 3.1 of this notification, all the obligations, including the rights and duties regarding the loan specified in paragraph 1 of this notification and all the rights to the LNGT funds, are transferred to the above-mentioned subsidiary;
 - 2.3. the Republic of Lithuania maintains direct control over at least 67 percent of the shares of the Company and the Company maintains 100 percent of the shares of the subsidiary specified in paragraph 2.1 above throughout the entire period of the loan specified in paragraph 1.
 3. To establish that the state guarantee can be signed when:
 - 3.1. the Company mortgages/pledges future real property of the LNGT and concurrently related items, i.e. the LNGT link and its technologic commodity, which will be created in the future and/or which will come into the ownership of the Company or the subsidiary specified in paragraph 2.1 above in the future, upon the implementation of the LNGT project, by conditional mortgage (second ranking) to the Ministry of Finance of the Republic of Lithuania for the amount no less than 100 percent of the loan specified in paragraph 1 in order to secure the fulfilment of contractual obligations;
 - 3.2. the Company pays a guarantee fee equal to 0.1 percent of the loan amount specified in paragraph 1.
- On 10 July 2014 at 13.00 p.m. was convened an extraordinary general meeting of shareholders of the Company. The meeting was held in the registered office of the Company at Burių st.19, Klaipėda.
Agenda of the meeting:
 1. Regarding the approval of the decision of AB Klaipėdos Nafta Board to approve the general special terms and conditions of the agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works.Decision adopted. "To approve of the decision of AB Klaipėdos Nafta Board:
 1. In accordance with the resolution No. 1354 of November 7, 2014, of the Government of the Republic of Lithuania „On the Approval of the Natural Gas Supply Diversification Procedure Description“, resolution No. 03-104, of April 14, 2014, of the National Commission for Energy Control and Prices „On the Change of the Resolution No. 03-367 „On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section“ of September 13, 2013 of the National Commission for Energy Control and Prices“ and taking into consideration the decision of AB Klaipėdos Nafta Board made on June 2, 2014 to approve the general special conditions of the supply agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works.
 - 1.1. The amount of liquefied natural gas, necessary for the liquefied natural gas terminal commissioning works, is up to 170 000 m³.
 - 1.2. The supply costs directly related to the reasonable costs of liquefied natural gas necessary for the liquefied natural gas terminal commissioning works are up to 112,428,383 Lt.
 2. To establish that AB Klaipėdos Nafta Board's abovementioned decision provided for in paragraph 1, shall enter into force after it is supported by AB Klaipėdos Nafta General Meeting of Shareholders, as provided for in AB Klaipėdos Nafta Statutes, article 16:10."
 3. To authorize the General Manager of AB Klaipėdos Nafta to sign the supply agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works with UAB LITGAS (company code 302937277) on the basis of the general terms and conditions approved by AB Klaipėdos Nafta Board and also by the General Meeting of Shareholders, as provided for in AB Klaipėdos Nafta Statutes, article 16:10."
 - On the 23rd of July 2014, PKN Orlen, a Polish concern running the oil refinery in Mazeikių SC Orlen Lietuva, published the financial results of the concern and its Lithuanian subsidiary for the first half of 2014. The public media reports that PKN Orlen management in commenting the poor financial results of its subsidiary SC Orlen Lietuva indicates an unfavourable macroeconomic situation as the key reason and is considering a temporary shutdown of the refinery from 2015 as one of possible alternatives.
The management of SC Klaipėdos nafta (hereinafter, the Company) highlights that oil products produced by SC Orlen Lietuva constitute approximately 35 per cent of total transshipment revenues of the Company (based on preliminary transshipment results for the first half of 2014).
It should be noted that the management of the Company analyses the current situation and searches for possible solutions and new possible alternatives of activity in order to minimize the financial risk and negative effects on the financial results of the Company, if the management of PKN Orlen concern decides to temporary shut down SC Orlen Lietuva from 2015.
 - On 25th July, 2014 the Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by Klaipėdos nafta, AB, code 110648893, registered at Burių st. 19, Klaipėda (hereinafter, the "Company") against part of the ruling of the Court of Appeal of Lithuania from 17th June, 2014, in the court case according to statement of claim of the claimant Naftos Grupė, UAB, against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to Naftos Grupė, UAB, and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004 (the "Contract"), due

19 Subsequent events (con'd)

to the Company's supposed fault, as well as, the counterclaim of the Company for invalidation of the Agreement, indemnification for damages and unjust enrichment.

The Supreme Court of Lithuania had concluded that the cassation appeal lodged by the Company meets the requirements set forth in the Code of Civil Procedure of the Republic of Lithuania, and therefore is to be accepted for consideration.

The Company announced about the above mentioned ruling of the Court of Appeal of Lithuania in the notification on material event from 18th June, 2014.

- On 28th July, 2014 Klaipėdos nafta, AB, (hereinafter, the "Company") together with LITGAS UAB, concluded special conditions of the agreement on supply of liquefied natural gas (hereinafter, "LNG") for the performance of the test works of LNG terminal (hereinafter, the "Agreement").

The aforementioned Agreement was concluded in accordance with the decisions of the Board and General Meeting of the Shareholders of the Company. The Company has announced about the above mentioned corporate decisions in the notification on material event on 10th June, 2014.

- On 1st of August 2014 AB Klaipėdos Nafta (hereinafter, the Company) concluded liquefied natural gas (hereinafter, LNG) terminal user's contract with JSC LITGAS (hereinafter, the Terminal User) and therefore has completed LNG terminal capacities allocation procedure, announced on 30th of April 2014. The Company entitled the Terminal User to use 401 637 600 nm³ of foundation regasification capacities for the first transitional gas year from 1st of January 2014 until 30th of September 2015.

Taking into account the intake capacities of the natural gas transmission system, the Company announces 0,76 billion nm³ of available LNG terminal capacities for the period from 1st of January 2015 until 30th of September 2015.

The Company informed about terminal capacities allocation procedure and the invitation for the potential users to submit their requests for LNG terminal capacities by publishing the notification of material event on 30th of April 2014. Capacity allocation procedure encompassed allocation of foundation regasification capacities, seasonal regasification capacities and seasonal reloading capacities.

The Company allocates foundation, seasonal and spot capacities according to the Regulations for Use of the Liquefied Natural Gas Terminal as announced in the notification of material event dated 18th of April 2014.

- On 25th August, 2014, the Supervisory Council of Klaipėdos nafta, AB, code 110648893, registered at Burių st. 19, Klaipėda (hereinafter, the "Company"), as well, adopted the following decisions:

- to recall from the Board Members of the Company Valdas Lastauskas (who has been the Company's Board Member since 24th May, 2013);

- to elect Dainius Bražiūnas as the new Board Member of the Company until the term of office of the acting Board of Klaipėdos nafta, AB.

The newly elected Board Member of the Company, Dainius Bražiūnas also acts as the Head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania, and is the Board member of Amber Grid, AB, and BALTPool, UAB.

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

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Rokas Masiulis, General Manager of SC Klaipėdos Nafta, Mantas Bartuska, Finance Director of SC Klaipėdos Nafta, and Asta Sedlauskienė, Head of Accounting Department hereby confirm that to the best of our knowledge the above-presented unaudited Interim condensed Financial Statements of SC Klaipėdos Nafta for the first six month period ended on 30th June 2014, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of SC Klaipėdos Nafta.

General Manager



Rokas Masiulis

Director of Finance and Administrative Department



Mantas Bartuška

Head of Accounting Department



Asta Sedlauskienė

**SC KLAIPĖDOS NAFTA INTERIM REPORT
FOR THE SIX MONTHS PERIOD ENDED ON 30 JUNE 2014**

Klaipeda
August, 2014

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Abbreviations:

LNGT – Liquefied Natural Gas Terminal;
LNG – Liquefied Natural Gas;
SFS - Subačius fuel storage;
KSSA – State Enterprise Klaipėda State Seaport Authority;
NCECP – National Commission for Energy Control and Prices;
EIB – European Investment Bank;
NIB - Nordic Investment Bank;
HFO - heavy oil products;
LFO - light oil products.

REPORTING PERIOD

The Annual Report is prepared for the period from 1 January 2014 until 30 June 2014. In this Annual Report, AB Klaipėdos Nafta is referred to as the Company.

DETAILS ABOUT THE COMPANY

Name of the Company:	AB Klaipėdos Nafta
Legal status:	Stock Company
Authorized share capital:	380,606,184 litas
Date and place of registration:	27 September 1994, State Enterprise Centre of Registers
Company code:	110648893
Address:	Burių g. 19, 91003 Klaipėda
Register of the Company:	State Enterprise Centre of Registers
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	info@oil.lt
Internet site:	www.oil.lt , www.sgd.lt

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

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

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

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

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

The strategic objectives of AB Klaipėdos Nafta:

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

The Company is strategic company of the Lithuanian energy sector:

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

Information about associated companies

The Company has invested into the following companies as of 30 June 2014:

Name of the company	Address	Part of owned shares, %	Activity
LITGAS UAB	Gedimino pr. 33-2, LT-01104 Vilnius	33.33	Supply of LNG through the LNG terminal being under construction and trade of natural gas (confirmed as an assigned LNG supplier on 10 February 2014)
Baltpool UAB	A. Juozapavičiaus g. 9, LT-09311, Vilnius	33.33	Development of activity of energy resources (bio-fuel, gas) exchange, administration of PSO funds)
Sarmatia Sp. z o.o.	ul. Nowogrodzka 68, Prima court, 02-014 Warszawa, Lenkija	1	Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea.

Participation in Associations

The Company is member:

- of the Association of Lithuanian Stevedoring Companies www.ljkk.lt;
- of the Baltic Ports Organization www.bpoports.com ;
- Gas LNG Europe (GLE) part of Gas Infrastructure Europe (GIE) www.gie.eu.com.

The Oil and oil products terminal

The Company is one of the largest terminals on the Baltic States market of oil and oil products transit. The terminal's core activity is to transship oil products delivered by rail tank-cars from Lithuania, Russia, Belarus and other countries into tankers. Most commonly transshipped oil products are as follows: fuel oil, vacuum gas oil (HFO), gasoline, diesel fuel, jet fuel (LFO).

The terminal capacity amounts up to 9 million tons of oil products per year. Shipment batches are stored in onshore storage tanks, overall volume of which amounts 450 thousand m³. Loading into tankers is performed at two jetties, each 270 m length.



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

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

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

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

The Subačius Fuel Storage Facility

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



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

After taking over the Subačius fuel storage facility the Company has expanded its services, adding the service of long-term oil products storage. The results of activity of the Subačius fuel storage facility for 2012-2013 are presented in the Explanatory note "Information on segments" of the Company's financial statements for the six months period ended 30 June 2014.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

- **19 February 2014.** A solemn christening ceremony of the LNG vessel-storage was held in South Korea by Norwegian Hoegh LNG in cooperation with local Hyundai Heavy Industries. The ceremony was attended by RL President Dalia Grybauskaitė. The LNG vessel-storage was given a name "Independence" symbolising the energy independence and security of the State.
- **25 February 2014.** Vilnius Regional Administrative Court by the adopted decision declined the appeal from the owners of a part of plots of land, via which it has been planned to construct the gas pipeline route of liquefied natural gas terminal. The owners asked Vilnius Regional Administrative Court to cancel the Decree Nr. 1-130 of the Minister of Energy of Lithuanian Republic dated 13 June 2013 that confirmed the LNG terminal Special plan of connected infrastructure and pipeline construction, *inter alia*, providing a possibility to construct the indicated gas pipeline route via the plots of land of the abovementioned owners.



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

- **28 March 2014.** Extraordinary General Meeting of Shareholders of the Company accepted the decision of the Company's Board:

"1. In performance of the Agreement on the Lease, Operation, and Maintenance (Repair) of the Liquefied Natural Gas Floating Storage and Regasification Unit (hereinafter, the FSRU) for the Term of 10 Years with the FSRU Purchase Right (hereinafter, the Agreement), concluded on 2 March 2012 with Höegh LNG Ltd., the winner of the public procurement organised by Company "Acquisition of the liquefied natural gas floating storage with regasification unit", to approve that the General Manager of Company, in compliance with the provisions of the Agreement, would enter into the Novation Agreement (hereinafter, the Novation Agreement), by which a part of rights and obligations of Höegh LNG Ltd. under the Agreement, except for the rights and obligations related to the right of Company to purchase the FSRU, would be assigned to Höegh LNG Klaipėda, UAB, a company indirectly fully controlled by Höegh LNG Ltd." The Novation Agreement was entered on 11 April 2014.
- **11 April 2014.** The National Commission for Energy Control and Prices (hereinafter, the NCECP) decided to approve the Rules for Use of the Liquefied Natural Gas Terminal (hereinafter, the Rules), which establish the procedure and conditions of use of the liquefied natural gas (hereinafter, LNG) terminal, requirements for persons that intend to use the LNG terminal, their rights, duties and liability, as well as other special requirements, related to the activities of the LNG terminal and its use

for bringing LNG and unloading it to the LNG terminal, regasifying LNG and delivering it to the natural gas transmission system or transshipping it into LNG carriers.

The Company, seeking to attract users of the LNG terminal and to satisfy expectations of consumers in the market, has calculated and is announcing preliminary prices of services to be provided by the LNG terminal. They were calculated according to the Methodology of Setting State Regulated Prices in the Natural Gas Sector approved by Resolution No. 03-367 of the NCECP, dated 13 September 2013 (with the latest amendments of 11 April 2014 approved at the meeting of the NCECP). The upper limits for prices of the LNG terminal services and specific prices are set and announced by the NCECP.

Referring to the Methodology of Setting State Regulated Prices in the Natural Gas Sector, the preliminary tariffs of the LNG terminal services are expected to be as follows:

- ✓ The price of liquefying (LNG regasification) service (it is established every year and adjusted annually) is LTL 0/MWh (VAT excl.), the service includes mooring of the incoming LNG carrier, unloading LNG into the LNG terminal, temporary storage and regasification;
- ✓ The price of LNG transshipping service (it is established for five years) is LTL 3.45 – 5.6/MWh (VAT excl.), the service includes mooring of the incoming LNG carrier, unloading LNG into the LNG terminal, temporary storage and LNG transshipment into the outgoing LNG carrier.

As indicated above, these tariffs are preliminary and have not been approved by the Board of the Company or the NCECP.

- **18 April 2014.** The Board of the Company decided to approve the main provisions of the Rules for Use of the Liquefied Natural Gas Terminal (hereinafter, the Rules) pre-approved by the National Commission for Energy Control and Prices (hereinafter, the NCECP). Following the above-mentioned provisions, on the same day the Rules were also approved by the General Manager of the Company.
- **29 April 2014.** The General Meeting of Shareholders of the Company was held during which:
 - ✓ the set of the audited financial statements of 2013 was approved;
 - ✓ The Company's distributable profit was distributed, part of which was allocated for dividends – LTL 356 thousand or 0.0009366255 per share;
 - ✓ Audit firm – “Ernst & Young Baltic”, UAB was appointed to audit financial statements of the year 2014, assess the annual statement and perform the audit report.
- **29 April 2014.** To renew the mandate of the acting Board of Company, consisting of the following Board Members - Valdas Lastauskas, Rokas Masiulis, Rytis Ambrazevičius and Mindaugas Jusius, for the term set forth within the Bylaws of the Company (4 years) or until the time, when the new Board is elected and starts acting.
- **30 April 2014.** The Company has announced the first of liquefied natural gas (hereinafter, LNG) terminal capacities allocation procedure and an invitation for the potential users of LNG terminal to submit their requests for allocation of LNG terminal capacities according to the conditions specified in the invitation.

During allocation procedure of LNG terminal capacities the foundation LNG regasification capacities, seasonal LNG regasification capacities as well as seasonal LNG reloading capacities shall be allocated. The Company notified about preliminary tariffs of the LNG terminal services by giving notification of material event on 11 April 2014.



- **6 May 2014.** Mantas Bartuška, the Director of Finance and Administrations Department, was awarded with the title „Director of Finances of the year 2014“ in the event organised by daily newspaper „Verslo žinios“ and by the Association of Financial Analysts. Electing the best finance manager of the year much attention was paid to strategic thinking of the Finance Manager, assigned responsibilities, implemented projects and sociability.

- **11 June 2014.** The Government of the Republic of Lithuania decided to approve the draft resolution of the Seimas of the Republic of Lithuania “On granting a state guarantee to the Nordic Investment Bank” and to present it to the Seimas of the Republic of Lithuania. According to the draft resolution, it is intended to grant the state guarantee for a term up to 20 years of the amount of EUR 34,754 thousand (LTL 120,000 thousand) for a loan to be taken by the Company from the Nordic

Investment Bank (hereinafter, the NIB), as the Company seeks to borrow this respective amount from the NIB to finance the project of the Liquefied natural gas terminal in Lithuania.

- **13 June 2014.** The Board of the NIB adopted a decision to grant Company a credit of up to EUR 34.754 thousand (LTL 120.000 thousand) for implementation of the project of liquefied natural gas terminal in Lithuania. The term of the credit – up to 20 years. Condition precedent of disbursement of the credit – an obligation to submit a State guarantee of the Republic of Lithuania ensuring the Company's monetary obligations under the credit agreement.
- **17 June 2014.** The Company received a ruling of the Court of Appeal of Lithuania of in the case according to statement of claim of the claimant UAB Naftos Grupė against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to UAB Naftos Grupė and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004 (the “Contract”), due to the Company's supposed fault.

The above-indicated ruling of the Court of Appeal of Lithuania partially reversed the judgment of the Vilnius Regional Court of 20 May 2013, which examined this case as the court of first instance, as follows:

- ✓ (i) the provision of the Contract, giving the claimant UAB Naftos Grupė exclusive rights to transshipping vacuum gas oil, was admitted to be invalid while contradicting the imperative norms of Competition Law;
- ✓ (ii) damages in the amount of LTL 2,988 thousand and 6 percent annual interest on the awarded amount for the period from initiation of the proceedings (18 April 2011) till full execution of the court decision were awarded from the respondent (the Company) for the benefit of the claimant, that is only about half of the sum, which was awarded in favour of UAB Naftos Grupė by the decision of the court of first instance and the whole sum, claimed by UAB Naftos Grupė as compensation for loss of business, was fully rejected by the Court of Appeal, also
- ✓ (iii) litigations costs were reallocated proportionally between the parties to the proceedings.

The said ruling of the Court of Appeal of Lithuania came into effect at the moment of its adoption, but it can be appealed against in the Supreme Court of Lithuania under the cassation procedure.

In the evaluation of the management of the Company, that part of the court ruling, which rejects the counterclaim of the Company to UAB Naftos Grupė in the case (on compensation of the losses of LTL 42,627 thousand incurred by the Company while executing the Agreement) and leaves the above indicated amount of damages to be indemnified for by the Company to UAB Naftos Grupė, is groundless. Therefore, the Company is going to file a cassation appeal with the Supreme Court of Lithuania.

- **26 June 2014.** Extraordinary General Meeting of Shareholders of the Company approved the decision of the Board:
 - ✓ To amend Claims Assignment Agreement No. J4-17-2013 (the "Claims Assignment Agreement") entered into on 15 February 2013 on the basis of the Board's decisions dated 22 January 2013 and 6 February 2013, replacing a party to the Claims Assignment Agreement, i.e. the Bank, with the assignee of rights and obligations of the Bank, i.e. the Parent Bank.
 - ✓ Along with UAB Lietuvos Energija (code 301844044), which is the other main shareholder of the company UAB LITGAS (code 302937277), to take part in the share capital increase of UAB LITGAS, during which no more than 97,000,002 (ninety seven million and two) new ordinary shares of the nominal value of 1 (one) litas shares will be issued, the price per share issued equal to 1 (one) litas and paid in cash:
 - On a behalf of Company to sign no more than 32,333,334 (thirty two million three hundred and thirty-three thousand three hundred and thirty four) of newly issued ordinary shares of UAB LITGAS of nominal value of 1 litas and of the total issue price no more than 32,333,334 (thirty two million three hundred thirty three thousand three hundred thirty four) litas;
 - To establish that the above mentioned newly issued shares of UAB LITGAS can be signed – either at once by one share capital increase, either in several subsequent share capital increase iterations;
 - To establish that during the increase of the share capital of UAB LITGAS Company shall be entitled to sign any other smaller number of shares, but in all cases it must be guaranteed that the part of shares of Company in the share capital of UAB LITGAS remains no less than 1/3rd.
 - To establish that Company will sign the newly issued shares of UAB LITGAS after the general shareholders meeting of UAB LITGAS takes appropriate decisions regarding the increase of share capital of UAB LITGAS. Accordingly, if the share capital of UAB LITGAS would be increased in several subsequent iterations, Company will sign the newly issued shares only after the general meeting of UAB LITGAS takes appropriate decisions regarding the particular separate stage of the increase of the share capital of UAB LITGAS.
- **26 June 2014.** The Company made the significant events - that Litasco S.A, a company of Lukoil companies group, is exercising its right, to extend the services contract with the Company regarding transshipment of dark oil products concluded on 30 August 2012 for another year. The extended services contract regarding transshipment of dark oil products will be effective till the second half of 2015.

Under the above-mentioned contract Litasco should provide the Company for transshipment up to 2.7 million tons of dark oil products per year.

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

- **July 2014.** The Seimas of the Republic of Lithuania decided:
 - ✓ To grant a state guarantee to the Nordic Investment Bank (hereinafter, the NIB) regarding the loan in the amount of EUR 34,754 thousand granted to the Company for the period up to 20 years at the interest rate set by the NIB for financing the investment project "Liquefied Natural Gas Terminal" (hereinafter, the LNGT), the state assuming guarantee obligations regarding repayment of the loan of EUR 34,754 thousand and payment of interest.
 - ✓ To establish that the state guarantee regarding the above-mentioned loan shall also be valid when:
 - the LNGT project implemented by the Company and/or the works and/or the assets forming it are transferred and/or the LNGT activity performed by the Company is moved to a subsidiary directly 100 percent controlled by the Company under the procedure set by legal acts;
 - all the rights and obligations of the Company in connection with the implementation of the LNGT project and/or the works and/or the assets forming the project and/or the LNGT activity, i.e. all the assets, including the mortgage indicated in paragraph 3.1 of this notification, all the obligations, including the rights and duties regarding the loan specified in paragraph 1 of this notification and all the rights to the LNGT funds, are transferred to the above-mentioned subsidiary;

- the Republic of Lithuania maintains direct control over at least 67 percent of the shares of the Company and the Company maintains 100 percent of the shares of the subsidiary specified in paragraph 2.1 above throughout the entire period of the loan specified in paragraph 1.
- ✓ To establish that the state guarantee can be signed when:
- the Company mortgages/pledges future real property of the LNGT and concurrently related items, i.e. the LNGT link and its technologic commodity, which will be created in the future and/or which will come into the ownership of the Company or the subsidiary specified in paragraph 2.1 above in the future, upon the implementation of the LNGT project, by conditional mortgage (second ranking) to the Ministry of Finance of the Republic of Lithuania for the amount no less than 100 percent of the loan specified in paragraph 1 in order to secure the fulfilment of contractual obligations;
- the Company pays a guarantee fee equal to 0.1 percent of the loan amount specified in paragraph 1.
- **July 2014.** Extraordinary General Meeting of Shareholders of the Company approved the decision of the Board:
 - ✓ In accordance with the resolution No. 1354 of November 7, 2014, of the Government of the Republic of Lithuania „On the Approval of the Natural Gas Supply Diversification Procedure Description”, resolution No. 03-104, of April 14, 2014, of the National Commission for Energy Control and Prices „On the Change of the Resolution No. 03-367 „On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section“ of September 13, 2013 of the National Commission for Energy Control and Prices“ and taking into consideration the decision of the Company Board made on June 2, 2014 to approve the general special conditions of the supply agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works.
 - ✓ The amount of liquefied natural gas, necessary for the liquefied natural gas terminal commissioning works, is up to 170 thousand m³.
 - ✓ The supply costs directly related to the reasonable costs of liquefied natural gas necessary for the liquefied natural gas terminal commissioning works are up to 112,428 thousand Lt.
 - ✓ To authorize the General Manager of the Company to sign the supply agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works with UAB LITGAS (company code 302937277).
- **25 July 2014.** The Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by the Company against part of the ruling of the Court of Appeal of Lithuania from 17th June, 2014, in the court case according to statement of claim of the claimant Naftos Grupė, UAB, against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to Naftos Grupė, UAB, and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004 (the “Contract”), due to the Company’s supposed fault, as well as, the counterclaim of the Company for invalidation of the Agreement, indemnification for damages and unjust enrichment.

The Supreme Court of Lithuania had concluded that the cassation appeal lodged by the Company meets the requirements set forth in the Code of Civil Procedure of the Republic of Lithuania, and therefore is to be accepted for consideration.
- **28 July 2014.** The Company together with LITGAS UAB, concluded special conditions of the agreement on supply of liquefied natural gas (hereinafter, “LNG”) for the performance of the test works of LNG terminal (hereinafter, the “Agreement”).

The aforementioned Agreement was concluded in accordance with the decisions of the Board and General Meeting of the Shareholders of the Company. The Company has announced about the above mentioned corporate decisions in the notification on material event on 10th June, 2014.
- **1 August 2014.** The Company concluded liquefied natural gas (hereinafter, LNG) terminal user’s contract with JSC LITGAS (hereinafter, the Terminal User) and therefore has completed LNG terminal capacities allocation procedure, announced on 30th of April 2014. The Company entitled the Terminal User to use 401,637,600 nm³ of foundation regasification capacities for the first transitional gas year from 1st of January 2014 until 30th of September 2015.

Taking into account the intake capacities of the natural gas transmission system, the Company announces 0,76 billion nm³ of available LNG terminal capacities for the period from 1st of January 2015 until 30th of September 2015.
- **25 August 2014.** The Supervisory Council of Company adopted the following decisions:
 - ✓ to recall from the Board Members of the Company Valdas Lastauskas (who has been the Company’s Board Member since 24th May, 2013);
 - ✓ to elect Dainius Bražiūnas as the new Board Member of the Company until the term of office of the acting Board of Company.

The newly elected Board Member of the Company, Dainius Bražiūnas also acts as the Head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania, and is the Board member of Amber Grid, AB, and BALTPPOOL, UAB.

Information about public information

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

During the first six months of 2014 the Company made 30 official announcements about the significant events and other required information at the NASDAQ OMX Vilnius stock exchange (www.nasdaqomxbaltic.com).

RISK FACTORS

Risk factors of the Oil products terminal

- **Competitive environment risk factors**

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

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

- **Commercial risk factors**

The main client of the Company is ORLEN Lietuva AB. Its transshipment volume during six months of 2014 concluded 65 per cent of the Company's terminal transshipment amount or 34 per cent of total Company's income from transshipment of oil products. The Company has signed a long-term transshipment agreement with ORLEN Lietuva AB which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva. Nevertheless, the Company is enforced to look for other potential clients, flows of shipments and alternative activities because of recently strongly escalated topic on possible closing or suspension of ORLEN Lietuva AB. Also the Company reviews existing expenses and constantly search for possibilities of their optimisation.

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

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

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

- **Technological factors**

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

The facilities of the oil terminal, which are located in 35.7 ha area, allow handling of up to 9 million tons of exported and imported oil products and crude oil per year. Total capacity of all storage tanks amounts to 450 thousand m³. Each batch of oil products delivered from different oil refineries is stored separately, i.e., is not mixed with others. This allows preserving the initial quantity and quality of the delivered oil products. Modern laboratory of the oil terminal controls the quality parameters.

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

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

The LNGT project risk factors

- **Legal/ regulative risk**

The Law of the Liquefied Natural Gas terminal approved on 27 June 2013 by the Parliament of Lithuanian Republic establishes development of the LNGT at the territory of Lithuanian Republic, main principles and requirements for its operation and

exploitation, also composes legal, financial and organizational facilities for the LNGT project implementation. Until the start of LNGT exploitation date it is obligatory to create the legal base regulating the LNGT operator activity, to receive all necessary permissions and licenses, to specify all procedures of the activity. The change of the mentioned law and other already adopted laws regulating the construction, activity and exploitation of the LNGT, could result in significant losses concerning the financial and/or legal liabilities that already has been made.

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

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

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

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

- **Project finish on time risk and exploitation start risk**

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

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

- **Third parties risk**

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

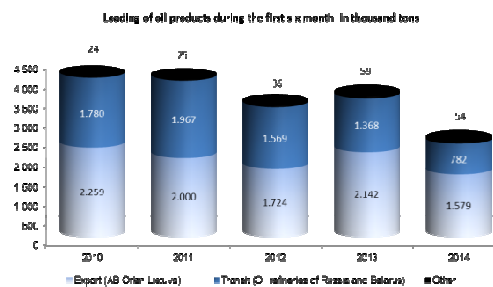
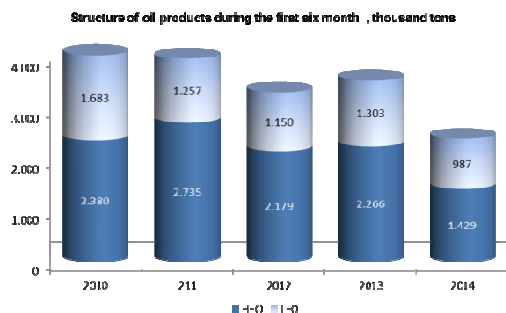
On 22 July 2014 The Government of the Republic of Lithuania approved a Resolution No. 739 on replacement of Resolution No. 199 dated 15 February 2012 "On implementation of LNG Terminal of the Republic of Lithuania", which aims to ensure precise execution of the Law on LNG Terminal of the Republic of Lithuania and continuity and sustainability of LNG Terminal Project by creating necessary conditions for the efficient operation of LNG Terminal from the beginning of exploitation.

FINANCIAL RESULTS OF ACTIVITY

These two main trends of the Company's activity: to overcome changes in oil products shipment market and ensure smooth development of LNGT project remained relevant during the first half of the year 2014. Notwithstanding unfavourable circumstances the Company retained high level of profitability by implementing shipment of oil products (net profit: 22 per cent, EBITDA margin: 46 per cent).

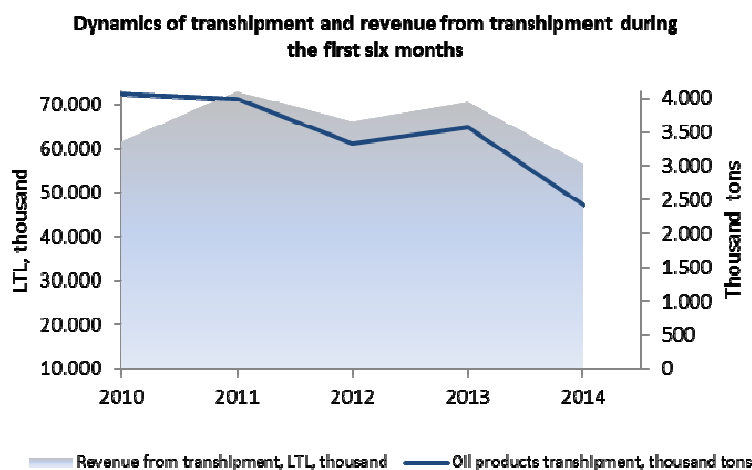
Recently oil refineries operating in European Union (EU) confront with structural problems of the sector, which are determined by essential changes in global fuel market. Due to dropped oil refinery margins Orlen Lietuva AB reduced its production volumes and accordingly shipment in the terminal: during six months of 2014 in comparison with six months of 2013, Orlen Lietuva AB transhipped 27 per cent or 584 thousand tons less oil products.

Oil products transit from Belorussia and Russia oil refineries (782 thousand) decreased by 43% in comparison with 6 months of 2013 (1,368 thousand). Russian oil products export decreased in all sea ports of the Baltic States since Russia is interested to tranship oil products through its own sea ports. Mozyr oil products refinery significantly reduced volumes of fuel oil production due to unfavourable global oil products margins, and therefore transhipment of fuel oil through Company's terminal from Belarusian refineries has also significantly decreased.



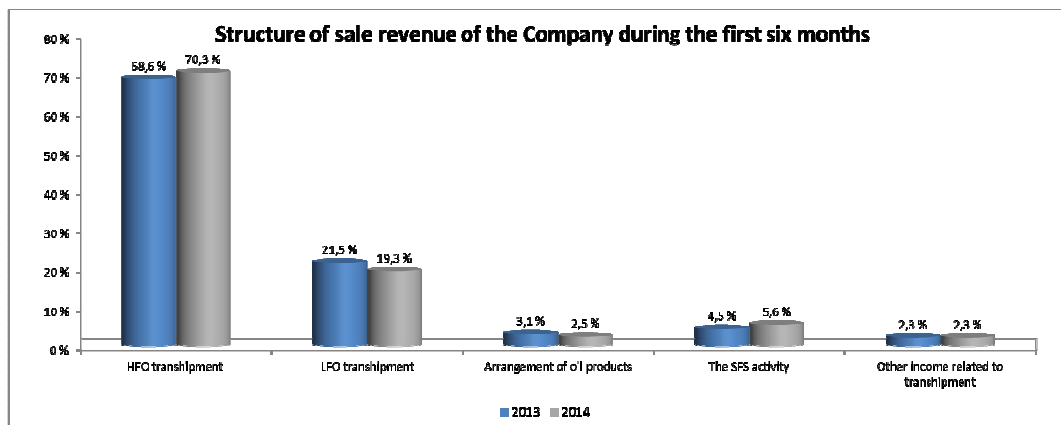
After transshipment of oil products has been reduced, management of the Company analyses the situation and looks for possible solutions, as well as possible alternatives of the activity in order to control financial risk and reduce negative after-effects on financial results of the Company. During the first half-year of 2014, certain processes of the activity were reviewed and possibilities of optimisation were searched for. It is forecasted that already in the second half of 2014 optimisation results give financial effect.

In June of 2014 the Company and Litasco S.A was extended the services contract with the Company regarding for transshipment up to 2.7 million tons of dark oil products per year with applying “take-or-pay” conditions. In case of unstable oil products market, the Company applying “take-or-pay” conditions ensures its stable revenue from the main activity, even if transshipment is not performed or storage tanks are not loaded with oil products. By applying this principle the Company seeks to negotiate the maximum quantity to be delivered at the terminal and also addressing the guarantees that, if products are not delivered as agreed, the certain fee has to be paid by the client.



Sales revenues of the six-months-period of 2014 amounted to LTL 57,750 thousand; if compared with the revenues of the same period in 2013 (LTL 72,070 thousand) decreased by LTL 14,320 thousand (or 19.87%):

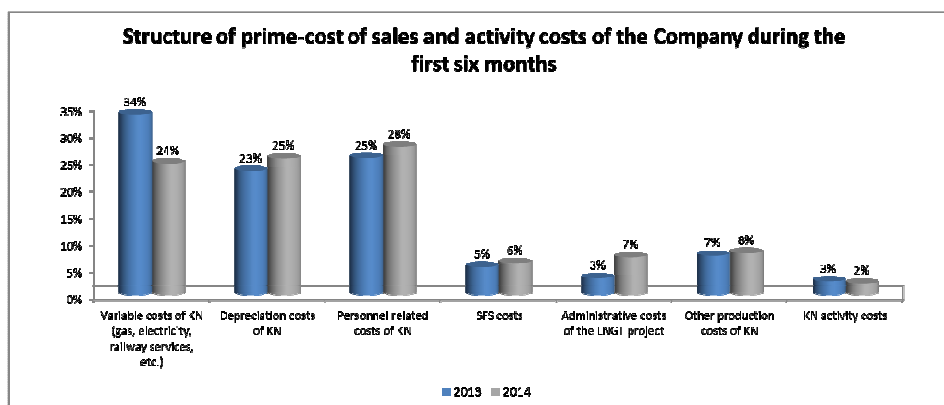
- LTL 13,937 thousand or 19.8% less oil products transshipment revenue. Oil products transshipment services comprise more than 98% of the overall sale revenue.
- Other revenue related to transshipment decreased by LTL 383 thousand. Such decrease is a result of revenue compared mooring of sea vessels (LTL – 381 thousand). Remaining revenue related to trade of fresh water, transportation of ship crew, sold stores, etc.



Net profit of first six months of 2014 amounts to LTL 12,673 thousand, a decrease of 41% or LTL 8,750 thousand compared to the same period 2013 (LTL 21,423 thousand).

Decreasing of net profit during the first months of 2014 was influenced by the main factor - less oil transhipment and storage revenue. All oil transhipment and storage revenue decreased LTL 13,967 thousand.

Cost of sales of the first six months of 2014 (LTL 36,863 thousand) decreased by 11% or LTL 4,465 thousand compared to the same period of 2013 (LTL 41,326 thousand). Of their variable costs (gas, electricity, railway services and other) decreased LTL 5,198 thousand that constitutes decreasing by 33%, when transhipment volume decreased is 32%. These figures demonstrate that the Company operated effectively and used energy and other resources in optimal way.



Profit of the first six months of 2014 before taxes, interest margin, depreciation and amortization (EBITDA) seeks LTL 26,619 thousand and decreased 28% or 10,538 LTL thousand compared to the same period of 2013 (LTL 37,157 thousand).

Key financial and operating figures

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

Operating figures	2014 06 30	2013 06 30	2012 06 30
Transshipment of oil products (net, thousand tons)	2,414	3,569	3,329
Investments (PP&Eacquisitions)	47,730	37,556	12,839
<i>Oil terminal</i>	3,103	13,406	6,203
<i>Liquefied natural gas terminal</i>	44,554	24,150	6,636
<i>Subačius fuel storage facility</i>	73	-	-
Financial figures			
Sales revenue	57,750	72,070	68,105
Gross profit	20,887	30,744	27,435
EBITDA	26,619	37,157	34,745
EBIT	14,114	24,866	23,575
Financial and investment activities result	673	304	1,237
Profit before taxation	14,787	25,171	24,814
Net profit	12,673	21,423	20,994
Non-current assets	559,935	472,869	433,757
Current assets	120,309	107,958	103,243
Total assets	680,244	580,827	537,000
Shareholders' equity	583,967	557,425	516,905
Profitability			
Return on assets (ROA)	5.0%	7.4%	9.3%
Return on equity (ROE)	5.9%	7.8%	9.6%
Gross profit margin	36%	43%	40%
EBITDA margin	46%	52%	51%
EBIT margin	24%	35%	35%
Net profit margin	22%	30%	31%
Turnover			
Accounts receivable, days	25	19	11
Accounts payable, days	34	15	11
Financial structure			
Debt ratio	0.16	0.04	0.04
Capital to assets ratio	0.86	0.96	0.96
Gross liquidity ratio (current ratio)	3.31	7.03	10.52
Market value ratios			
Share price to earnings per share ratio (P/E), times	11.2	10.6	9.5
Net profit per share (EPS), LTL	0.03	0.06	0.06

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

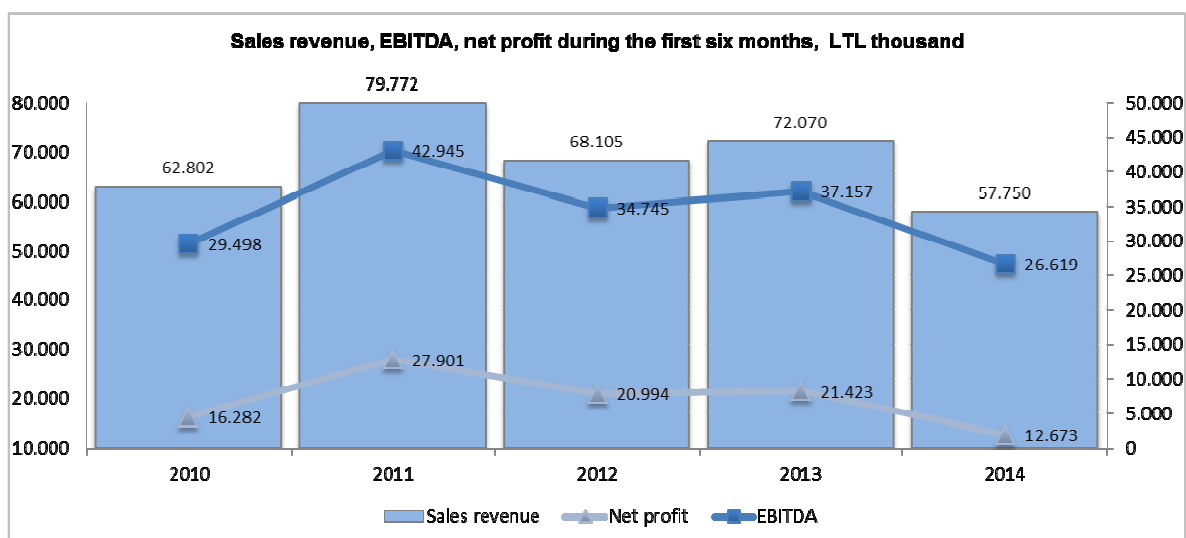
EBIT = earnings before interest and taxation.

Return on equity (ROE) = net profit of the last twelve months / (total average equity at the end of the period + total average equity at the beginning of the period) / 2.

Return on assets (ROA) = net profit of the last twelve months / (total average assets at the end of the period + total average assets at the beginning of the period) / 2.

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

Gross liquidity ratio = ((total current assets at the end of the period + total current assets at the beginning of the period) / 2) / ((total current liabilities at the end of the period + total current liabilities at the beginning of the period) / 2).



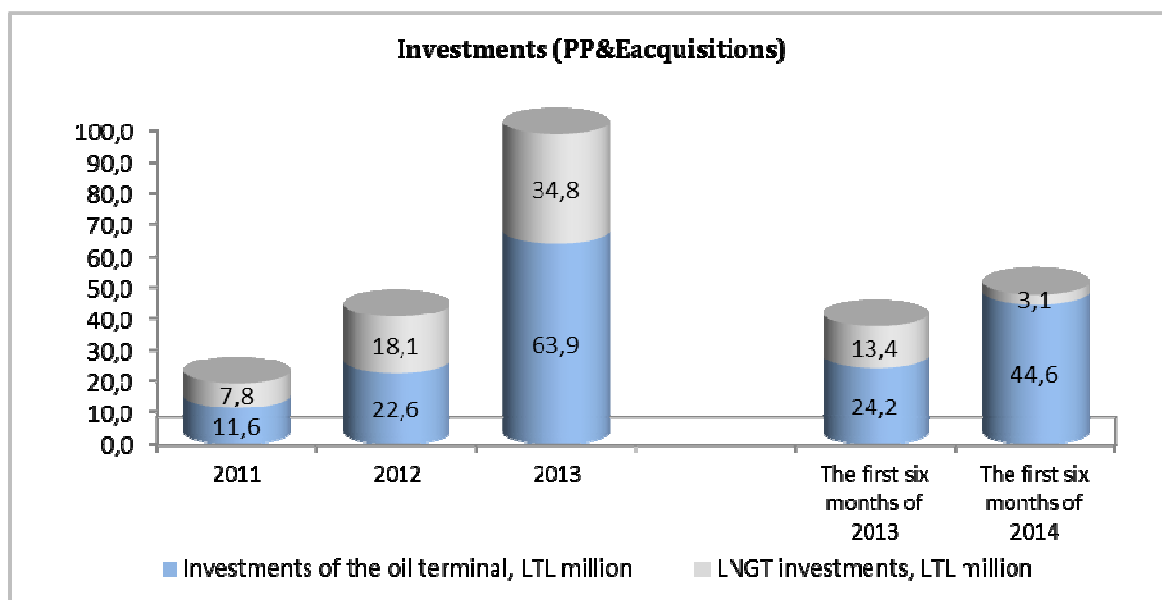
ACTIVITY PLANS AND FORECASTS

The most important goal for the Company is to complete the construction of the LNG terminal by the end of 2014 and successful start the LNG terminal operation.

The Company will also seek to be active participant of oil products market and implement technically and economically reasoned policy of investments. In order to maintain flows of oil products transshipment new possibilities to retain stable and high level income will be searched for. From the other side, the Company will continue to look for possibilities for optimisation of the activity in order to adapt to existing transshipment flows as much effectively as possible and to maintain the high level of profitability.

Also the Company will seek to ensure the requirements of environment protection as much effectively as possible to protect the Company, its employees and surrounding areas against air and environment pollution.

Investments of 2014



Investments of the oil terminal

The Company invested LTL 3,592 thousand into modernisation of the oil terminal within six months of 2014. For performance of final works of construction was assigned (LTL 1,110 thousand) of two new storage tanks each 32,250 m³, for modernisation works of the fire safety system (LTL 1,198 thousand), for expanding of tankers' filling station (LTL 361 thousand) by installing additional filling station and for other projects:

- In 2014, construction of the two new storage tanks, each of 32,250 m³, was successfully completed. This investment allowed to expand technological capacities of the Company by increasing the Company's overall capacity of tanks (a total

increase is 44,500 m³) and to enlarge technological flexibility by enabling to store both light and heavy oil products in the new storage tanks. It increases competitive advantages and attractiveness since using new storage tanks will allow to tranship more oil products of different types and to accumulate larger batches of oil products for transshipment into oil tankers.

- An amount of LTL 1,198 thousand was assigned for continuation of automatic works of modernisation of fire safety system. This Project is intended for upgrading and modernisation of mechanical and automatic parts of the fire safety system in order to get as much reliability of operation of fire safety system as possible.
- In 2014, Klaipėdos nafta AB implemented important effectiveness of fuel supply through auto carriers which will ensure the project: it built new technologic point of fuel filling into auto carriers. Due to this equipment it is possible to fill in tanker with fuel and under necessity to increase supply of imported fuel into Lithuanian market through Klaipėda terminal.

After additional technologic equipment were built at fuel filling station, the terminal of the company is now able to fill in 3 fuel transporting tankers and to tranship more than 2000 t of fuel into auto carriers within one day. This amount is sufficient for satisfaction of half of Lithuanian fuel demand.

The company invested about LTL 361 thousand into improvement of technologies of fuel filling station, and total project value amounts to about LTL 500 thousand.

While implementing environment protection and fire safety requirements at Subačius fuel storage facility in the II half of 2014, the following investments were made:

- Reconstruction of cleaning facilities, during which new and effective cleaning facilities ensuring minimum pollution of nature will be built;
- Fire safety takeover investments; from 2014, in accordance with legal acts the Company was obliged to establish departmental forces for implementation of SKB fire safety functions on its own account. Therefore, it will be necessary to purchase fire safety autos and other fire safety mechanisms.

Works of LNGT project implementation

In the I half-year of 2014, investments into LNGT amounted to LTL 44.554 thousand. In 2014, main works related to implementation of LNGT project, were performed:

Date	Works implemented
25 February 2014	LNGT pipeline construction permit for construction from LNG ship – storage unit to high pressure arms was issued.
27 February 2014	Vilnius Regional Administrative Court decided to dismiss the complaint of a part of the owners of the land plots through which the connective main gas pipeline route of the liquefied natural gas Terminal shall be constructed.
28 February 2014	HDD drilling from jetty to Kiaulės nugaros island and immersing of 600 m gas pipeline string.
28 March 2014	Jetty mooring base system (Quick release hooks, Berthing AID display board and components of automatic system).
27 March 2014	178 piles for gas metering station were installed.
7 April 2014	All 134 piles for construction of LNGT jetty were driven.
April 2014	Mounting of facade plates of jetty's service platform was completed.
10 April 2014	600 m HDD works under Wilhelm channel for installation of optical cable were completed.
10 April 2014	Wall traveling crane is delivered to construction site.
11 April 2014	Novation agreement of LNG ship – storage unit with Hoegh LNG was signed
12 April 2014	After all testing works at shipyard and elimination of defects were completed, on 12 of May, Hoegh LNG officially took over FSRU ship from Hyundai Heavy Industries shipyard.
18 April 2014	Rules for Terminal usage were approved.
30 April 2014	Start of capacities distribution procedure.
13 May 2014	HDD pilot drilling (600 m distance under Wilhelm channel) for gas pipeline drill hole was completed.
15 May 2014	2032 m HDD for installation of optical cable was drilled (2300 m length)
15 May 2014	16,7 km from 18 km of connective gas pipeline pipe was welded and fixed into entrenchment.
21 May 2014	Completed top slab of Service platform (SP)
24 May 2014	High pressure loading arms (HPLA) are delivered to construction site
4 June 2014	Valve stations No.1 and No.2 connected to the gas pipeline.
9 June 2014	Completed installation of casings - closed trench (19 pcs.) under roads.
10 June 2014	2270 m HDD FOC Pipe Pull in

Date	Works implemented
11 June 2014	The Government of the Republic of Lithuania confirmed to issue a state guarantee regarding the loan in the amount of EUR 34.754 thous. (120.000 thous. LT) for the period up to 20 years from the Nordic Investment Bank (NIB). The Company intends to borrow the amount to finance LNGT project.
13 June 2014	Executive board of the NIB decided to issue a credit to finance the LNGT project.
19 June 2014	Two diesel-eletric generators delivered to the construction site.
26 June 2014	Atmospherical steel tanks, foam concentrate tanks and Ship-Shore Link are delivered to the construction site
26 June 2014	Extraordinary General Meeting of Shareholders of the Company confirmed a replacement of Claims Assignment Agreement of 15 February 2014 with Nordea Bank Finland Plc, replacing a party to the Claims Assignment Agreement, i.e. the Bank, with the assignee of right and obligations of the Bank – i.e. the parent Bank. Approval was made along with UAB Lietuvos Energija, which is other main shareholder of the company UAB LITGAS, to take part in the share capital increase of UAB LITGAS.
27 June 2014	HPLA are prepared for transportation to the installation place on High pressure gas platform (HPGP)
1 July 2014	Completed top slab of HPGP
8 July 2014	The Seimas of the Republic of Lithuania decided to grant a state guarantee to the NIB regarding the loan and to set the validity for the guarantee and terms of signing.
10 July 2014	Extraordinary General Meeting of Shareholders of the Company confirmed a replacement regarding „On the Approval of the Price Establishment Methodology of State Regulated Prices of Natural Gas Section“ and approved main special terms of the supply agreement. The General Manager of the Company was authorized to sign the LNG supply agreement with UAB LITGAS.
14 July 2014	Installed two HPLA on HPGP
17 July 2014	2300 m HDD gas pipeline pilot drilling
19 July 2014	Completed 28” intermediate 600 m HDD gas pipeline borehole reaming under Wilhelm canal.
22 July 2014	Completed top slab of mooring dolphin MD-4
23 July 2014	Completed floor concreting on HPGP
28 July 2014	The Company signed special terms of the LNG supply agreement with UAB LITGAS.
1 August 2014	The Company signed the LNGT service agreement with UAB LITGAS and completed LNGT capacity allocation process.
13 August 2014	Completed infrastructure works of Valve stations No.1 and No.2
13 August 2014	Completed 42” 600 m HDD gas pipeline borehole reaming under Wilhelm canal. Ongoing borehole calibration works.
16 August 2014	Installed monitor tower with access gangway system
19 August 2014	600 m HDD gas pipeline pull in under Wilhelm canal.
20 August 2014	Completed top slab of mooring dolphin MD-5
22 August 2014	Installed engines of firefighting pumps and Wall traveling Jib Crane
26 August 2014	Completed 30” intermediate 2300 m HDD gas pipeline borehole reaming

Legal acts adopted for implementation of LNGT project during six months of 2014:

Date	Legal act	Effect on the LNGT project
31 January 2014	The NCCPE Resolution No. 03 - 35 “On coordination of rules for usage of AmberGrid AB natural gas transmitting system”	Guidelines for communication of LNG system’s operator with PSO and information exchange provisions are provided.
10 February 2014	Resolution of the Minister of Energy on assignment of LitGas UAB as assigned supplier.	LitGas UAB was approved as assigned supplier, who will have to ensure continuous activity of LNGT. LitGas UAB will supply to LNGT minimum required amount of natural gas, i.e. 540 million cubic metres per year, which is necessary for maintaining continuous activity of LNGT.
17 February 2014	Resolution of the Minister of Communications No. 3 - 70 -(E) “On approval of rules for usage of Klaipėda State Seaport Authority”	Requirements for LNGT were established.

Date	Legal act	Effect on the LNGT project
7 April 2014	Resolution on replacement of the order of the Minister of Communication of the Republic of Lithuania No. 3-246 "On application of rules for charges of Klaipėda State Seaport Authority" dated 30 June 2008	A charge for floating LNG storage unit mooring at the jetty lasting longer than one month and a charge of tonnage of floating LNG storage unit payable monthly is included.
8 April 2014	Replacement of Resolution No. 534 "On approval of provisions of real estate cadastre" (Registry of Legal Acts, 07/04/2014, No. 2014 - 04139)	After provisions of Real estate cadastre were replaced, it became more simpler to register special conditions of land usage into the Registry of Real estate
14 April 2014	NCCPE Resolution No. 03 - 103 "On coordination of Rules for Use of the Liquefied Natural Gas Terminal" (Registry of Legal Acts, 15/04/2014, No. 2014 - 04458)	Rules establish the procedure and conditions of use of the liquefied natural gas (hereinafter referred to as LNG) terminal, requirements for persons that intend to use the LNG terminal, their rights, duties and liability, as well as other special requirements, related to the activities of the LNG terminal and its use for bringing LNG and unloading it to the LNG terminal, regasifying LNG and delivering it to the natural gas transmission system or transshipping it onto LNG carriers.
14 April 2014	NCCPE Resolution No. 03 - 104 "On Resolution No, 03-367 "On the Change of the Resolution No. 03-367 „On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section“ of September 13, 2013 of the National Commission for Energy Control and Prices" (Registry of Legal Acts, 15/04/2014, No. 2014-04457)	Principles and order of determination of natural gas liquefaction price upper limit were specified in this methodology. Besides, methodology is supplemented with order and provisions of calculation of natural gas terminal transshipment service price, which regulate order of price calculation of assigned supplier's natural gas.
23 April 2014	Resolution of the Government No. 372 "On dividends of stock company "Klaipėdos nafta" „ (Registry of Legal Acts, 29/04/2014, No. 2014 - 04922)	The Ministry of Energy as Manager of the Company's shares was assigned to entitle its representative at the General Meeting of Shareholders to propose a decreasing of a part of the 2013 Company's distributable profit dividends to 1 percent and to vote for it.
23 April 2014	Resolution of the Minister of Energy No. 1-94 "On the Change of the Resolution of the Minister of Energy of the Republic of Lithuania No. 1-245 December 27, 2013 "On the Approval of accounting policies of natural gas"	Resolution clarifies provisions on natural gas accounting related to LNGT activity.
29 April 2014	NCCPE Resolution No. 03 - 111 "On coordination of conditions of standard contracts on energy producers and assigned supplier" (Registry of Legal Acts, 30/04/2014, No. 2014 - 04937)	This Resolution coordinates Natural gas purchase-selling contracts conditions of energy producers and assigned supplier, on the grounds of which energy producers first of all purchase an amount of natural gas transported through LNGT, corresponding LNGT required amount. This Resolution establish rights and obligations of the parties, order and conditions of distribution of LNGT required amount for energy producers, order of price establishment and payment for supplied gas.
22 May 2014	Resolution of the Government No. 463 "On the Change of the Resolution of the Government No. 543 May 11, 2011 "On the conclusion of the commission for the liquefied natural gas project implementation" (Registry of Legal Acts, 26/05/2014, No. 2014-05653)	This Resolution changes the conclusion of commission of liquefied natural gas terminal project implementation and clarifies functions of it.
26 May 2014	Resolution of the Minister of Energy No. 1-138 on "On the Resolution of the Minister of Energy of the Republic of Lithuania No. 1-194 October 4, 2013" "On approval of quality requirements of natural gas"	This Resolution changes the provisions of quality of natural gas.

Date	Legal act	Effect on the LNGT project
18 June 2014	Resolution of the Minister of Energy No. 1-160 "On the Approval of admissible loss calculations in liquefied natural gas terminal" (Registry of Legal Acts, 23/06/2014, No. 2014-09063)	Resolution determines calculation of admissible loss rate of liquefied natural gas terminal and general conditions of assignment.
7 July 2014	Resolution of the Minister of Communications No. 3-274-(E) "On the Change of Resolution of the Minister of the Communications No. 3-327 September 10, 2008 "On approval of rules for usage of Klaipėda State Seaport Authority" (Registry of Legal Acts, 07/07/2014, No. 2014-09869)	Necessary regulation of provisions implementing LNGT and LNG gas carrier in Klaipėda State Seaport.
22 July 2014	Resolution of the Government "On the Change of the Resolution of the Government No. 199 February 15, 2012 "On the Change of the Law of liquefied natural gas of the Republic of Lithuania implementation" (Registry of Legal Acts, 28/07/2014, No. 2014-10564)	It was stated that all questions related to implementation of LNGT project have status of urgency, also seeking implementation of LNGT purposes and continuity of the project, organisational conditions were approved in order to ensure LNGT will effectively work from the start of operation.
22 July 2014	Resolution of the Government No. 724 "On the Change of Resolution of the Government No. 534, April 15, 2002 "On approval of provisions of real estate cadastre of the Republic of Lithuania" (Registry of Legal Acts, 25/07/2014, No. 2014-10536)	The result of the change of provisions of real estate cadastre was that it was easier to perform procedures of real estate measurements and registration at real estate cadastre.
28 July 2014	NCCPE Resolution No. 03-353 "On the Change of the Resolution of NCCPE No. 03-294 October 9, 2012 "On the Approval of the description of the procedure for administration of the funds designated for compensation of the LNGT's infrastructure and the link and for compensation of all or part of exploitation costs of the LNG terminal" (Registry of Legal Acts, 29/07/2014, No. 2014-10562)	Resolution changes the amount from Litas to the amount in Euros.
28 July 2014	NCCPE Resolution No. 03-226 "On the Change of the Resolution of NCCPE No. 03-316 July 18, 2013 "On the Approval of Natural gas companies accounting separations, allocations of costs and description of requirements related to accounting separations" (Registry of Legal Acts, 28/07/2014, No.2014-10569)	Natural gas companies accounting separations, allocations of costs and description was supplemented by provisions related to implementation of natural gas diversification procedure.
28 July 2014	NCCPE Resolution No. 03-349 "On the Change of the Resolution of NCCPE No. 03-367 September 13, 2013 "On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section" (Registry of Legal Acts, 29/07/2014, No. 2014-10626)	Methodology is supplemented by provisions regulating the order of appointed supplier's natural gas price calculation which is sold to the producer, the order of calculation of price for LNGT overloading services, also settlement of principles and order of liquefaction upper limit of natural gas price were clarified.
28 July 2014	NCCPE Resolution No. 03-440 "On the Change of the Resolution of the NCCPE No. 03-445 October 11, 2013 "On the additional component of the security of natural gas supply added to the natural transmission price."	The Resolution expresses additional component in Litas.

Most important works of LNGT project until start of exploitation:

Construction of jetty:

- ✓ To install main constructions of berthing and mooring dolphins MD-1, MD-2, MD-3, MD-4, MD-5, MD-6, BD-1, BD-2, BD-3;

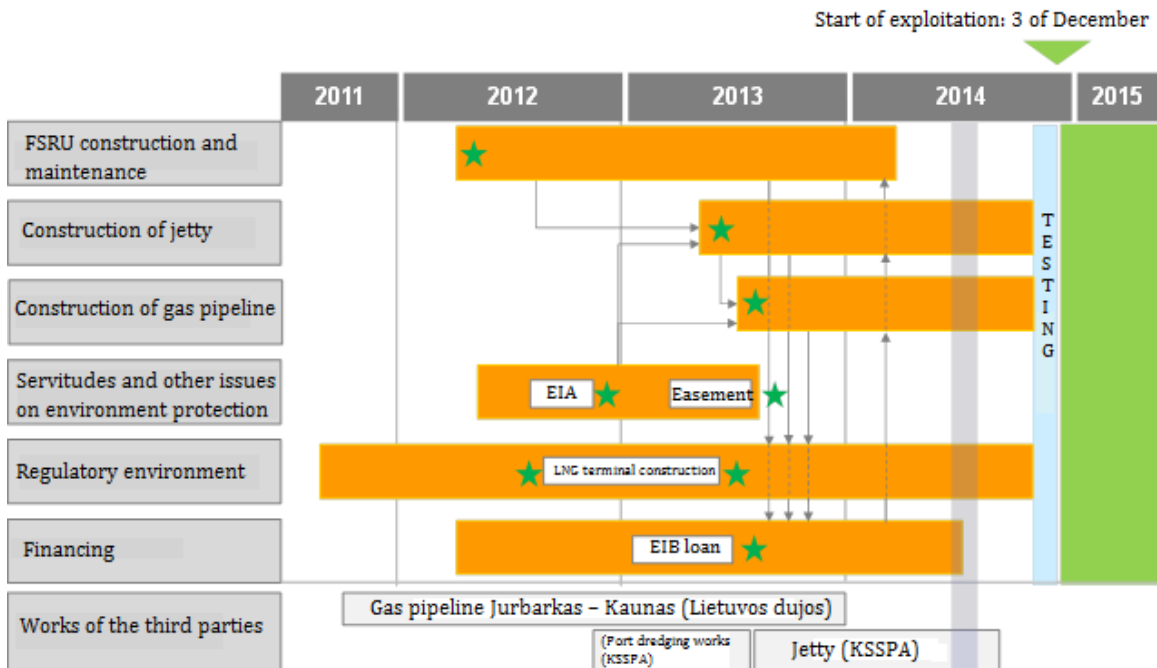
- ✓ To install main equipment;
- ✓ Perform mechanical tests on equipment;
- ✓ To hand over jetty to state commission;
- ✓ Bring the jetty into exploitation.

Construction of gas pipeline:

- ✓ Complete construction of section 1 (HDD – Jetty);
- ✓ Complete construction of section 2 (HDD);
- ✓ Complete construction of section 3 (Gas pipeline in Klaipėda city);
- ✓ Complete construction of section 4 (Gas pipeline in Klaipėda district);
- ✓ Complete construction of section 5 (Gas metering station);
- ✓ Connect to gas-main system (to Ambergrid);
- ✓ Get conclusion of State Commission;
- ✓ Perform final testing by filling from FSRU.

Preparation to exploit LNG terminal:

- ✓ Coordinate document of investments project (budget if LNG terminal with NCCPE);
- ✓ Conclude an agreement with Klaipėda State Seaport Authority (KSSPA) on conditions of jetty lease;
- ✓ Coordinate safety component 2015, liquefaction tariff's upper limit and LNG transshipment service particular price with NCCPE
- ✓ Establish particular price for liquefaction service;
- ✓ Make and approve schedules on usage of LNG terminal;
- ✓ Conclude land lease contract with KSSPA;
- ✓ Coordinate testing shipment assigned supplier's direct expenditure with NCCPE;
- ✓ Receive liquefaction license.



INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY

The Company's shares are traded on the regulated market; they are listed in the Baltic Secondary list of the Stock Exchange of NASDAQ OMX AB Vilnius.

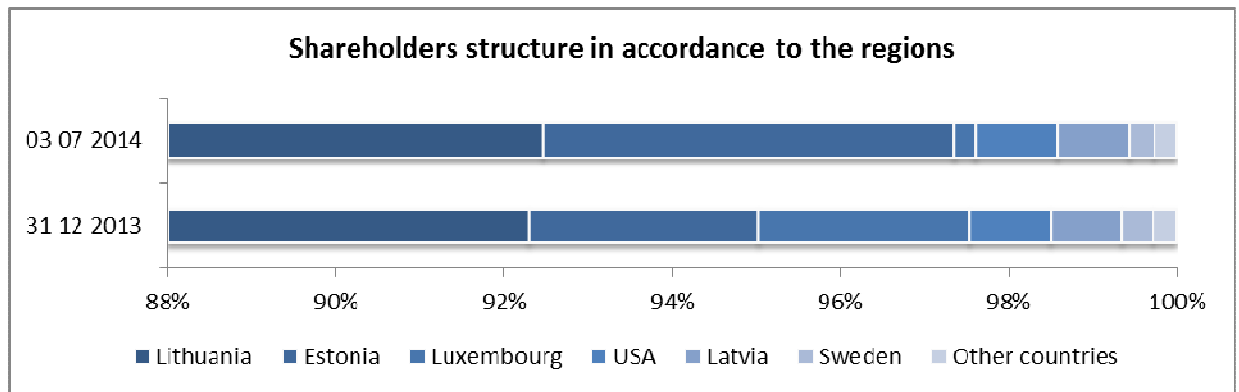
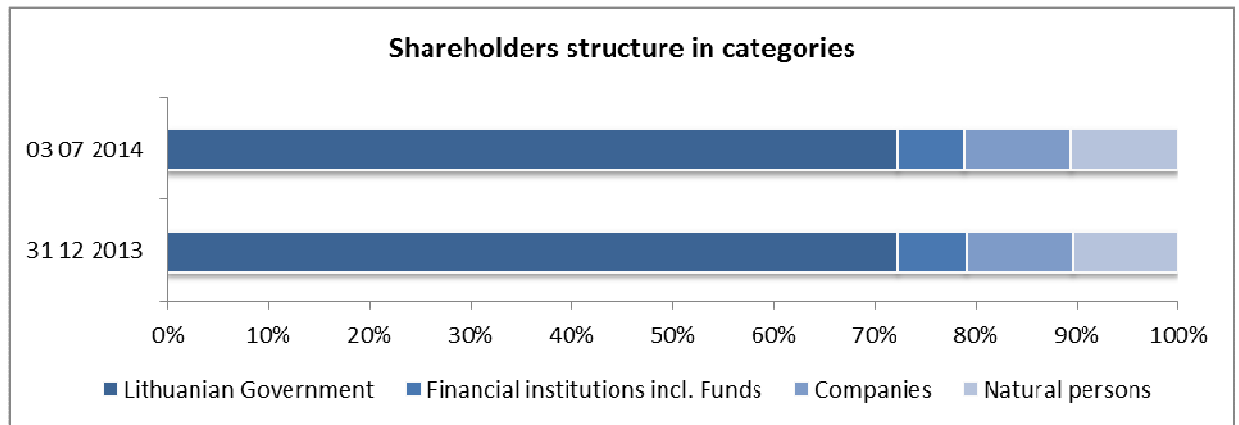
The main data about the Company's shares:

ISIN code	LT0000111650
Abbreviation	KNF1L
Share emission (pcs.)	380,606,184

As at 3 July 2014 all the shares of the Company were owned by 1,890 shareholders (31 December 2013 – 1,820).

The shareholders who have more than 5% of the authorized capital of the Company as at 30 June 2014 and 31 December 2013:

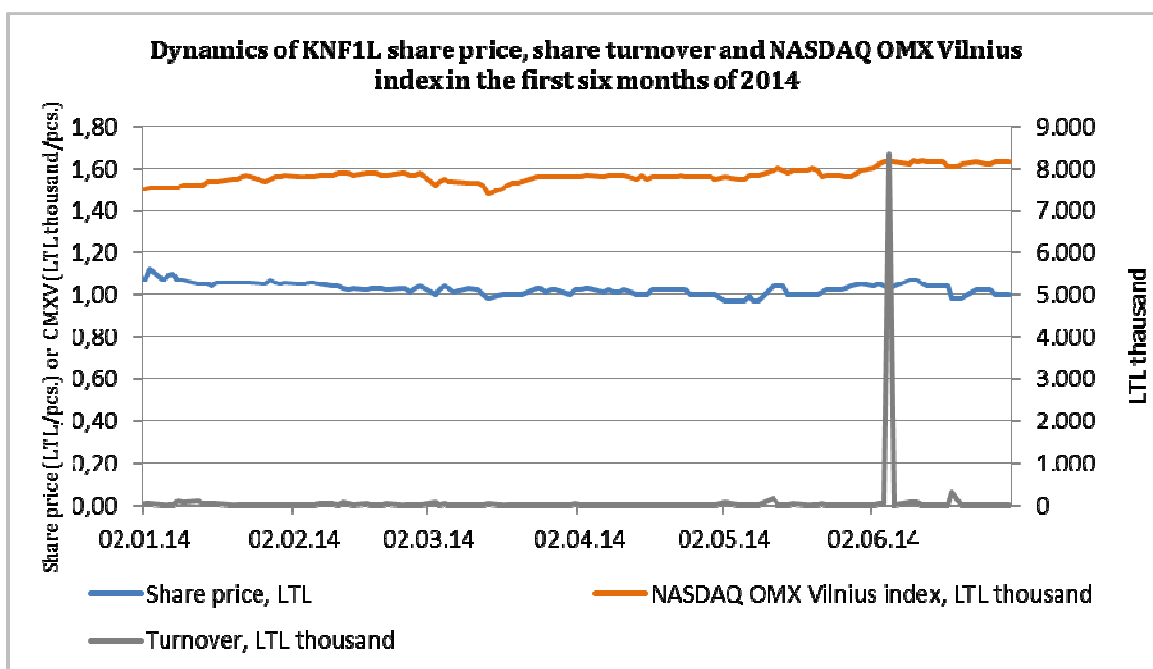
Shareholder's name (company's name, address, company code of registration)	30 June 2014		31 December 2013	
	Number of owned shares (unit)	Part of authorized capital (%)	Number of owned shares (unit)	Part of authorized capital (%)
The Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania (Gedimino pr. 38/2, Vilnius, 302308327)	275,241,290	72.32	275,241,290	72.32
Concern Achemos grupė UAB (Jonalaukis village, Jonava district, 156673480)	38,975,150	10.24	38,975,150	10.24
Other (each owning less than 5%)	66,389,744	17.44	66,389,744	17.44
Total	380,606,184	100.00	380,606,184	100.00



Development of the share price at NASDAQ OMX Vilnius for the six months of 2014

	Highest price per share	Lowest price per share	Price per share at the end of the period	Average price per share	Turnover, pcs.	Turnover
LTL	1.12	0.97	1.00	1.03	10,634,197	10,990,406
EUR	0.32	0.28	0.29	0.30	10,634,197	3,183,042

As of 30 June 2014 the Company's market capitalization was LTL 380,606 thousand (EUR 110,231 thousand), in the same period of 2013 – LTL 449,115 thousand (EUR 130,073 thousand).



Authorized capital of the Company

The Company's authorized capital amounted to LTL 380,606 thousand as of 30 June 2014. All the shares of the Company are fully paid and no restrictions on the transfer of securities are applied to them. The authorized capital is divided into 380,606,184 (three hundred eighty million six hundred six thousand hundred and eighty-four) ordinary shares with a par value of 1 LTL. The Authorized capital has not altered during the reporting period.

Information on the Company's own shares

The Company did not acquire own shares in 2014.

Dividends

On 29 April 2014, the ordinary General Meeting of Shareholders was held which approved the financial reports and profit (LTL 35,649 thousand) distribution project of 2013. In order to ensure the Company's possibility to finance the LNGT project from its own and borrowed funds it was determined to allocate to the Shareholders smaller than usual amount – LTL 356 thousand or LTL 0,0009366255 for one share from the 2013 profit. (Shareholders distributable profit of 2012 was distributed for dividends (LTL 410 thousand)).

Agreements with intermediaries of public securities trading

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

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

MANAGEMENT OF THE COMPANY

Information on adherence to the Governance Code

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

Management structure

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

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

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

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

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

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

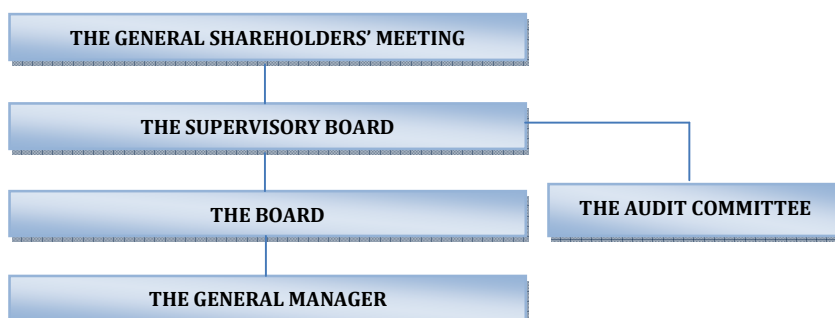
The Supervisory Board by its decision has established an **Audit Committee** as an advisory body. The Audit Committee is comprised of 3 (three) members elected for the office term of the Supervisory Board. "The rules of formation and conduct of the Audit Committee of Klaipėdos Nafta AB, approved by the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

The Board is a management body of the Company consisting of 5 (five) members, who are elected by the Supervisory Board for the period of 4 (four) years. *(Note: During the period of time from 20 March 2013 till 30 June 2014 including, in the Company 4 out of 5 Board members were elected and managed).* The Board members elect the Chairman of the Board. *(Note: During the period of time from 20 March 2013 till 30 June 2014 including, in the Company constant Chairman of the Board has not been elected, therefore, every time by ad hoc principle the Chairman of the Board was elected from the Board members).*

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

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

Organizational management structure



Members of the Supervisory Board as at 30 June 2014, their participation in the other companies



Agnė Amelija Petravičienė

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



Romas Švedas

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



Eimantas Kiudulas

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

During the first six months of 2014 no remuneration has been calculated for the member of the Supervisory Board. They did not receive any loans, guarantees or assets.

Members of the Audit Committee as at 30 June 2014 and their participation in the other companies



Eimantas Kiudulas

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



Simonas Rimašauskas

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



Linas Sasnauskas

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

During first six month of 2014 the calculated remuneration the Audit Committee members S.Rimašauskas and L.Sasnauskas for work in the Audit Committee amounts to LTL 25 thousand. Members of the Audit Committee did not receive any loans, guarantees or assets.

The members of the Audit Committee are remunerated according to the Remuneration payment order for the activity of independent audit committee members of Klaipėdos nafta AB, determined by the Supervisory Board.

Members of the Board as of 30 June 2014, their participation in the other companies and organizations



Rytis Ambrazevičius

(born 1967) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 October 2011. The Supervisory renewed the mandate on 29 April 2014 for 4 years or until the time, when the new Board is elected and starts acting. Education: Kaunas University of Technology, faculty of mechanics - engineer diploma (1989), International Business School at Vilnius University - MBA in international trade (2003), Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2012). Participation in the activity of other companies: by the 22 November 2013 - Board member of LITGAS UAB, from November 2013, Baltik vairas, UAB - Board member. Rytis Ambrazevičius has no direct interest in the share capital of the Company.



Mindaugas Jusius

(born 1979) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 October 2011. The Supervisory renewed the mandate on 29 April 2014 for 4 years or until the time, when the new Board is elected and starts acting. Education: Vilnius University, Master in Banking (2003), ISM University of Management and Economics, EMBA (2008). London Business School, leadership program (2008); Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2010). Employment: Swedbank Life Insurance SE Lithuanian branch, chairman of the Board and CEO; by the 22 November 2013 - Board member of LITGAS UAB. Mindaugas Jusius has no direct interest in the share capital of the Company.



Valdas Lastauskas

(born 1967) - Member of the Board of the Company. Elected as the Board member by the Supervisory Board on 24 May 2013. The Supervisory renewed the mandate on 29 April 2014 for 4 years or until the time, when the new Board is elected and starts acting. Education: Vilnius University faculty of law, qualification - lawyer (1992). Employment - Chancellor of Ministry of Energy of the Republic of Lithuania. Participation in the activity of other companies: Member of the Board of Lietuvos dujos AB from 25 April 2013. Valdas Lastauskas has no direct interest in the share capital of the Company.



Rokas Masiulis

(born 1969) - Member of the Board of the Company, General Manager. Elected as the Board member by the Supervisory Board on 17 September 2010. The Supervisory renewed the mandate on 29 April 2014 for 4 years or until the time, when the new Board is elected and starts acting. Education: Vilnius University faculty of economics and industry management, economist diploma (1994), Vilnius University Institute of international relations and political science, bachelor in international relations and politics (1994). Participation in the activity of other companies: vice-president and Council member of Lithuania seaways shipping companies association; by the 22 November 2013 - Board member of LITGAS UAB, by the 9 September 2013 - General Manager of LITGAL UAB. 100% owner of Is partneriai, UAB Rokas Masiulis has no direct interest in the share capital of the Company.

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

Independent member of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. During the first six months of 2014 the calculated remuneration for independent members of the Board M. Jusius and R. Ambrazevičius for work in the Company's Board amounted to LTL 30 thousand. Member of the Board R. Masiulis received remuneration associated only with labour relationship; additionally for work in the Board he has not been paid. Members of the Board did not receive any loans, guarantees or assets.

▪ **25 August 2014.** The Supervisory Council of Company adopted the following decisions:

- ✓ to recall from the Board Members of the Company Valdas Lastauskas (who has been the Company's Board Member since 24th May, 2013);
- ✓ to elect Dainius Bražiūnas as the new Board Member of the Company until the term of office of the acting Board of Company.

The newly elected Board Member of the Company, Dainius Bražiūnas also acts as the Head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania, and is the Board member of Amber Grid, AB, and BALTPool, UAB.

The Directors of the Company



Rokas Masiulis

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



Osvaldas Sabaliauskas

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



Mantas Bartuška

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



Gediminas Vitkauskas

(born 1957) – Director of Department of Oil products terminal. Works at the Company since 16 October 1995. Education: Kaunas university of Technology, diploma of mechanical engineering (1980), Vilnius University, diploma of philologist, English lecturer (1987). No participation in other companies management. Gediminas Vitkauskas has 3,600 shares of the Company, that comprise 0,00001 per cent of share capital and voting rights.



Sigitas Zakalskis

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



Rolandas Zukas

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

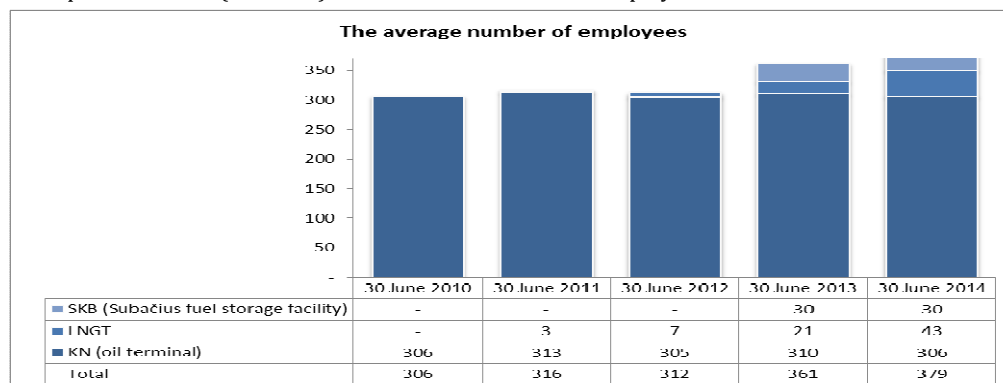
No members of the Company's management have been convicted of crimes against property, business or finances.

INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

Personnel

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

The average number of employees (total 379) for the six months of 2014 has an increase by 18 employee compared with the same period of 2013 (total 361). Increase in the number of employees resulted to the formation of LNGT personnel.



Workers for the six months of 2014 accounted for 58 percent (in the same period of 2013 - 63 percent.), specialists for 33 percent (in the same period of 2013 - 29 percent.), managers for 9 percent (in the same period of 2013 - 9 percent.) of all employees.

Employees of the Company according to categories

Employee category	Average number of employees		Change, in percent
	The six months of 2014	The six months of 2013	
Managers ¹⁾	34	32	6.3
Specialists	126	103	22.3
Workers	219	226	-3.1
Total	379	361	10.5

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

On 30 June 2014 the Company employed 73 percent of males and 27 percent of females. This is due to the Company's activities: traditionally engineering-technical works and hard work outdoors is preferred by males.

Payroll system

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

Average monthly salary according to employee groups

Employee group	Average monthly salary (gross), LTL	
	The six months of 2014	The six months of 2013
Managers ¹⁾	11,650	11,254
Specialists	5,394	5,111
Workers	3,476	3,603
Total	4,177	4,081

Notes:

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

²⁾ The average monthly salary includes accumulated annual bonuses for 2013.

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

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

The Company's management payroll system

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

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

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

The Collective Agreement

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

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

- ✓ An annual one-time allowance equal to 2.5 MM is paid before the school year on 1 September to an employee raising three or more children under the age of 18;
- ✓ A funeral allowance equal to 1.5MM is paid to the employees of the Company after the death of a family member (spouse, parent, child, adopted child);
- ✓ A one-time funeral allowance is paid to the family of a deceased employee;
- ✓ A one-time allowance equal to 2 MM is paid to an employee for the birth of a child on a day of his/her birth;
- ✓ Anniversary allowances equal to 1 MM are paid to the employees of the Company on anniversary occasions (50th, 60th, 70th anniversaries);
- ✓ Other allowances are paid based the decisions of Administration in the following cases: employee's difficult material situation, the employee suffered losses due to natural disasters, fire, flood, etc.

During the first six months of 2014 29 employees were awarded these social benefits.

Development of Competencies

The Company organizes two types of trainings for employees:

- ✓ The Company continually instructs and teaches safe working methods to all employees. Introductory safety and health, fire safety and civil protection instructions are conducted by the employees of the Safety and Health Department of the Company.
- ✓ The general trainings for the development of competencies of employees are performed by sending staff to the seminars and conferences organized by external parties.

Health of employees

The Company is one of the few companies in Lithuania that has a licensed infirmary. It provides the immediate first aid and initial preventive practical and theoretical health support. A range of physiotherapy treatments are provided based on the doctor's referral. Physical medicine and rehabilitation room with modern and approved practice-proven equipment is set in the infirmary. Employees are provided with free vaccines against tick-borne encephalitis, typhoid, flu and other illnesses.

During six months of 2014 1 (one) minor work accidents occurred (50 calendar days were spent on sick leave due to the accidents).

SOCIAL RESPONSIBILITY OF THE COMPANY

In its business, the Company follows the principles of business ethics and social responsibility. The Company strives to become a reliable social partner and contribute to solving of important social problems. The funds allocated for support first of all are diverted to support environmental, infrastructural, health and social security projects associated with the region, where the oil terminal functions. During the first six month of 2014 the Company allocated LTL 148 thousand for the support purposes (during the same period of 2013 – LTL 464 thousand).

The Company sponsors significant cultural centres of the Lithuania region – libraries, Drama and Musical theatres. It has always been the primary sponsor of the main events of the city of Klaipeda, such as the Sea Festival, Klaipeda jazz festival. Special attention is paid to the organizations that are located near the Company's territory: kindergarten "Giliukas", baby care home for kids with special needs, Klaipeda children's activity centre, Klaipeda Children Hospital. The Company also supports the local sportsmen; supports the activities of disabled sportsmen.

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

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

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

ENVIRONMENT PROTECTION

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

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

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

In 2014, the Company plans to implement VOC (volatile organic compounds) monitoring system, the purpose of which is to determine sources of atmosphere pollution during technologic process in order to objectively take elimination factors of pollution sources so that vapour would not spread to surrounding territories.

During the six months of 2014, the Company did not experience any accidents or malfunctions which could affect environment. The Company performs constant environmental monitoring of:

- underground and surface water (it has been measured that underground pollution with oil products, which accumulated over the period of activities of the old terminal, is reducing);
- discharged waste water (biological treatment facilities of the Company guarantee less pollution of open water basins than allowed in the Integrated Permit of Pollution Prevention and Control);
- impact on ambient air (limits of volatile organic compounds and nitrogen oxides defined by the EU and national limit values were not exceeded outside the boundaries of the sanitary zone of the Company);
- stationary sources of air pollution (the amount of pollutants allowed in the Environment Protection Permit was not exceeded).

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

In the six months of 2014 the expenses for environment protection amounts of LTL 1,526 thousand (in the same period of 2013 – LTL 1,526 thousand). Additionally LTL 200 thousand (in the same period of 2013 – LTL 28 thousand) were allocated for different environmental studies (investigation of pollutants and etc.) and LTL 11 thousand (in the same period of 2013 – LTL 10 thousand) of pollution tax was paid.

REFERENCES AND ADDITIONAL EXPLANATIONS ABOUT FINANCIAL STATEMENTS

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

OTHER INFORMATION

Procedure of changing Articles of Association

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

Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented to the Company's financial statements for the six months period ended 30 June 2014.

Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is detailed in the Explanatory Notes to the Company's Interim Financial Statements for the six months of 2014. From 2012, there were no changes in type of transactions with related parties, which could have made impact on the Company's financial activity.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Rokas Masiulis, General Manager of Klaipėdos Nafta AB, Mantas Bartuska, Director of Finance and administration department of Klaipėdos Nafta AB, and Asta Sedlauskienė, Head of Accounting Department of Klaipėdos Nafta AB, hereby confirm that to the best of our knowledge the above-presented Annual Report of Klaipėdos Nafta for the six months period ended 30 June 2014 gives a true and fair view of the business development and performance, description of the Company.

General Manager



Rokas Masiulis

Director of Finance and Administrative Department



Mantas Bartuska

Head of Accounting Department



Asta Sedlauskienė