KNOWLEDGE DRIVEN

KN

STOCK COMPANY KLAIPĖDOS NAFTA

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

FOR THE FINANCIAL YEAR ENDING
ON 31 DECEMBER 2016

CONTENT

Building a better working world

UAB „Ernst & Young Baltic"
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com

Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Klaipedos nafta AB

Opinion

We have audited the financial statements of Klaipedos nafta AB (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on Audit of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition of regulated activities of Liquefied natural gas terminal

Revenue from Liquefied natural gas terminal services is regulated by the National Commission for Energy Control and Prices (further – NCC) and are generated from LNG regasification service, LNG reloading service and additional security supplement. As disclosed in Note 22 to the financial statements, the largest component - additional security supplement – is set by the NCC annually and is aimed at covering of operating costs of the LNG terminal, it also provides for a fixed return on investments. Annual actual collection of the additional security supplement depends on the gas consumption capacities, which can differ from the planned gas consumption capacities used in determining the additional security supplement by the NCC. Similarly, actual operating costs of the LNG terminal can materially differ from the costs used in determining the additional security supplement by the NCC. Also, the NCC periodically carries out the review of historical costs from the regulatory perspective. All of these factors may result in the adjustment of future period(s) regulated price and this could lead to material fluctuations of the Company's results in the future, as is disclosed by the management in the financial statements (Note 30). This area is material and significant to our audit as due to regulation, because the current period revenue recognized in accordance with IFRS may not be an indication of future revenue amounts due to the above-described regulatory mechanisms, and therefore the Company's disclosures in the financial statements related to this matter are important.

Building a better
working world

Our procedures included, amongst others, understanding of the process for revenue recognition of regulated activities of the LNG terminal and understanding of the regulatory environment changes by performing a review of the laws and regulations related to the LNG terminal activities We have confirmed the amount of total revenue from the LNG terminal services recognized for the year 2016 with the transmission system operator, responsible for payment collection from the gas capacities holders as well as carried out cut-off testing procedures. We have also performed audit procedures on segment disclosure, which includes regulated activity as separate segment. Finally, we have assessed the adequacy of the Company's disclosures included in Note 2.21, Note 22 and Note 30 about the accounting policy applied and legal regulation of the LNG terminal activities.

Contingencies related to legal disputes

As disclosed in Note 30 of the financial statements, the Company has contingent liabilities arising from various legal disputes. Since an adverse outcome of these contingencies could have a material effect on the financial position, results of operations and cash flows of the Company and it involves a significant management judgment to assess the probable outcomes of the uncertainties and the related amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements, we considered the matter to be significant to our audit.

Our procedures included, amongst others, an assessment of the legal advice obtained by the Company's internal Legal department representatives as well as periodic meetings with the management to discuss developments in legal proceedings. We also obtained responses from the Company's external legal counsels in order to understand the key fact pattern and their view on possible outcome of the legal proceedings in order to assess the management's position on measurement and/or disclosures for each of the material contingencies. Furthermore, we have considered the adequacy of the Company's disclosure of these contingent liabilities in Note 30 of the financial statements.

Classification of LNG Floating Storage and Regasification Unit lease

As disclosed in Note 30 of the financial statements, on 2 March 2012 the Company has concluded a Build, Operate and Transfer lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit. As disclosed in Note 2.24, the Company assessed indicators that individually or in combination could lead to the agreement being classified as a finance lease at the inception of agreement and concluded that the agreement does not meet the finance lease criteria according to International accounting standard 17 "Leases". The management of the Company in the current reporting period concluded that there were no changes in the contractual arrangements, which would lead to changes of classification of this lease as at 31 December 2016. However, the implementation of the new international lease accounting standard IFRS 16 "Leases" in the future will have a material effect on the financial statements of the Company, requiring significant management judgment and the management made significant disclosure of the expected preliminary impact in the financial statements (Note 30), therefore this area is material and significant to our audit.

Our audit procedures included, amongst others, a review if there were any changes in the provisions of agreements and circumstances, which would have resulted in a different classification of the lease as at 31 December 2016. Furthermore, we have considered the adequacy of the Company's disclosure in Note 30 of the financial statements of the likely effect of the new international lease accounting standard IFRS 16 "Leases" on the financial statements, including covenants compliance.

Other Information Included in the Company's Annual Report

Other information consists of the information included in the Company's 2016 Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

Building a better
working world

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Jonas Akelis.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

8 March 2017

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Notes	31-12-2016	31-12-2015
ASSETS			
Non-current assets			
Intangible assets	3	399	508
Property, plant and equipment	4	182,925	176,821
Long-term receivables and accrued income	8	3,160	2,401
Investment into subsidiaries	6	200	200
Investment into associates	7	211	144
Total non-current assets		**186,895**	**180,074**
Current assets			
Inventories	9	1,394	1,727
Prepayments		723	415
Trade receivables	10	10,603	27,716
Prepaid income tax		156	-
Other receivables and accrued incomes	11	604	1,027
Assets held for sale	12	-	4,040
Cash and cash equivalents	14	42,056	23,788
Total current assets		**55,536**	**58,713**
Total assets		**242,431**	**238,787**

(Cont'd on the next page)

Explanatory note, set out on pages 12 - 52, is an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION (CONT'D)

	Notes	31-12-2016	31-12-2015
EQUITY AND LIABILITIES			
Equity			
Share capital	1. 15	110,376	110,376
Share premium		3,913	3,913
Legal reserve	15	9,209	8,107
Reserve for own shares	15	15,929	15,929
Other reserves	15	39,748	36,443
Retained earnings		13,794	22,036
Total equity		**192,969**	**196,804**
Non-current amounts payable and liabilities			
Deferred income tax liability	26	1,320	1,327
Non-current employee benefits	16	277	202
Loan	17	29,693	29,693
Grants related to assets	2.20	2,781	209
Total non-current amounts payable and liabilities		**34,071**	**31,431**
Current amounts payable and liabilities			
Loan interests	17	31	44
Trade payables	18	10,141	6,965
Payroll related liabilities	19	2,378	2,116
Income tax payable		-	106
Prepayments received	30	2,358	823
Other payables and current liabilities	21	483	498
Total current amounts payable and liabilities		**15,391**	**10,552**
Total equity and liabilities		**242,431**	**238,787**

Explanatory note, set out on pages 12- 52, an integral part of these financial statements.

Acting General Manager	Marius Pulkauninkas		8 March 2017
Head of Accounting Unit	Asta Sedlauskienė		8 March 2017

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016	2015
Sales	22	103,839	109,702
Cost of sales	23	(83,042)	(80,579)
Gross profit		**20,797**	**29,123**
Operating expenses	24	(5,905)	(4,823)
Other income and (expenses)		(8)	286
Profit from operating activities		**14,884**	**24,586**
Income from financial activities	25	449	31
Expenses from financial activities	25	(305)	(553)
Share of the associate's comprehensive income	7	67	40
Profit before income tax		**15,095**	**24,104**
Income tax (expenses)	26	(1,301)	(2,068)
Net profit		**13,794**	**22,036**
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		**13,794**	**22,036**
Basic and diluted earnings (losses) per share, in EUR	27	0.04	0.06

Explanatory note, set out on pages 12 - 52, is an integral part of these financial statements.

Acting General Manager	Marius Pulkauninkas		8 March 2017
Head of Accounting Unit	Asta Sedlauskienė		8 March 2017

(all amounts are in EUR thousand unless otherwise stated)

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 2014		110,231	3,913	7,644	15,929	27,741	9,257	174,715
Net profit for the year		-	-	-	-	-	22,036	22,036
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	22,036	22,036
Dividends declared	28	-	-	-	-	-	(92)	(92)
Transfers between reserves		-	-	463	-	8,702	(9,165)	-
Currency conversion difference	15	145	-	-	-	-	-	145
Balance as at 31 December 2015		110,376	3,913	8,107	15,929	36,443	22,036	196,804
Net profit for the year		-	-	-	-	-	13,794	13,794
Other comprehensive income		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	13,794	13,794
Dividends declared	28	-	-	-	-	-	(17,629)	(17,629)
Transfers between reserves		-	-	1,102	-	3,305	(4,407)	-
Balance as at 31 December 2016		110,376	3,913	9,209	15,929	39,748	13,794	192,969

Explanatory note, set out on pages 12 - 52, is an integral part of these financial statements.

Acting General Manager	Marius Pulkauninkas		8 March 2017
Head of Accounting Unit	Asta Sedlauskienė		8 March 2017

(all amounts are in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Cash flows from operating activities			
Net profit	27	13,794	22,036
Adjustments for noncash items:			
Depreciation and amortization	3. 4	13,197	12,773
Change in vacation reserve	19	137	31
Impairment and write-off (reversal) of non-current tangible assets	3. 4	9	139
Change in non-current liabilities for employees	16	75	(99)
Change in allowance in inventory	9	28	(577)
Other non-cash adjustments		(310)	145
Accrued income	8. 11	(272)	5,430
Income tax expenses	26	1,301	2,068
Share of profit of equity-accounted investees	7	(67)	(40)
Change in allowance for doubtful receivables	10	(1)	(17)
Dividends (received)	7	(9)	-
Interest income	25	(11)	(22)
		27,871	**41,867**
Changes in working capital			
(Increase) decrease in inventories	9	259	472
Decrease (increase) in prepayments made		(308)	548
Decrease (increase) in trade and other accounts receivable	10	17,113	(25,813)
Decrease (increase) in other accounts receivable	11	(63)	1,467
Increase (decrease) in trade and other payables	18. 21	307	(1,523)
(Decrease) increase in prepayments received		1,536	823
Increase (decrease) in other current liabilities and payroll related liabilities	19	124	688
		46,839	**18,529**
Income tax (paid)		(1,570)	(1,350)
Interest received	25	11	22
Net cash flows from operating activities		**45,280**	**17,201**
Cash flows from investing activities			
(Acquisition) of property, plant, equipment and intangible assets	3. 4	(16,314)	(12,331)
Sales of investments held-to-maturity		-	8,284
(Acquisition) of other Investments		-	(247)
Sales of investments	12	4,350	-
Grants, subsidies received	2.20	2,572	209
Dividends received	7, 25	9	-
Net cash flows from investing activities		**(9,383)**	**(4,085)**

(Cont’d on the next page)

Explanatory note, set out on pages 12 - 52, is an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT (CONT'D)

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Cash flows from financing activities			
Dividends (paid)	28	(17,629)	(92)
Loans received (paid)		-	(138)
Net cash flows from financing activities		**(17,629)**	**(230)**
Net increase (decrease) in cash flows		**18,268**	**12,886**
Cash and cash equivalents on 1 January	14	**23,788**	**10,902**
Cash and cash equivalents on 31 December	14	**42,056**	**23,788**

Explanatory note, set out on pages 12 - 52, is an integral part of these financial statements.

Acting General Manager	Marius Pulkauninkas		8 March 2017
Head of Accounting Unit	Asta Sedlauskienė		8 March 2017

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The main activities of the Company are holding oil terminal supplies, oil products transhipment services and other related services, as well as the liquefied natural gas terminal (hereinafter referred to as "LNGT") to receive and store liquefied natural gas, regasify it and supply it to Gas Grid.

National Commission for Energy Control and Prices (hereinafter referred to as "NCC") issued Natural Gas Regasification License to the Company on 27 November 2014.

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

As of 31 December 2016 all the shares were owned by 1,993 (as of 31 December 2015 all the shares were owned by 1,847 shareholders) shareholders, the Company's share capital – EUR 110,375,793.36 (one hundred ten million three hundred seventy-five thousand seven hundred ninety-three and 36 cents) 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 twenty nine (0,29) euro cents, 72,32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the years 2016 and 2015. The Company's shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange (ISIN code LT0000111650, abbreviation KNF1L).

As of 31 December 2016 and 31 December 2015 the shareholders of the Company were:

	31 December 2016		31 December 2015	
	Number of shares held (thousand)	Part of ownership (%)	Number of shares held (thousand)	Part of ownership (%)
State of Lithuania represented by the Ministry of Energy (Gediminas av, 38/2, Vilnius, 302308327)	275,241	72.32	275,241	72.32
Concern JSC Achemos grupė (Jonalaukis village, Jonava district, 156673480)	38,975	10.24	38,975	10.24
Other (less than 5 per cent each)	66,390	17.44	66,390	17.44
Total	380,606	100.00	380,606	100.00

The average number of employees in 2016 was 370 (367– in 2015).

Financial statements approval

The Company's management approved these financial statements on 8 March 2017. The Company's shareholders have a legal right to confirm these financial statements or not to confirm them and to require the management to prepare new financial statements.

2 ACCOUNTING PRINCIPLES

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

These financial statements have been prepared on a historical cost basis unless otherwise stated in the accounting policies below.

The financial year of the Company coincides with the calendar year.

The numbers in tables may not coincide due to rounding of particular amounts to EUR thousand. Such rounding errors are not material in these financial statements.

2 ACCOUNTING PRINCIPLES (CONT'D)

The Management of the Company concluded that the subsidiary JSC "SGD logistika" shall be considered as immaterial to the Group, following provisions of the paragraph 2 of the article 6 of the section 3 of the Lithuanian Law No IX-576 dated 16 November 2011 on the Consolidated financial statements of the Groups of Companies, because its assets at the end of the financial year has not exceeded 5 percent of the Company's assets, and net sales for the reporting period did not exceed 5 percent of the Company's net sales for the corresponding period. Based on the above, as well as overall materiality assessment made the Company's management decided not to prepare consolidated financial statements and the consolidated annual report.

2.1. Basis for preparation of the financial statements

Statement of compliance

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

Adoption of new and/or changed IFRS and International Financial Reporting Interpretation Committee (IFRIC) interpretations

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2016:

- Amendments to IAS 1 Presentation of financial statements: Disclosure Initiative. The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The amendments are effective for annual periods beginning on or after 1 January 2016. This amendment has not material effect, since the company already complied with the newly specified requirements.
- Amendments to IAS 16 Property, Plant & Equipment and IAS 38 Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization. The amendment is effective for annual periods beginning on or after 1 January 2016 and provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The management has not made use of this amendment, as the Company does not use revenue-based depreciation and amortization methods.
- Amendments to IAS 19 Employee Benefits. The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment addresses accounting for the employee contributions to a defined benefit plan. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The Company does not have any plans that fall within the scope of this amendment.
- Amendments to IAS 27 Equity method in separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. Management had not made use of this amendment.
- Amendment to IFRS 11 Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations. The amendment is effective for annual periods beginning on or after 1 January 2016. IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Company assumes that amendment does not have a significant impact on the financial statements.
- The IASB has issued the Annual Improvements to IFRSs 2010 – 2012 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 February 2015. None of these had an effect on the Company's financial statements: IFRS 2 Share-based Payment; IFRS 3 Business Combinations; IFRS 8 Operating Segments; IFRS 13 Fair value Measurement; IAS 16 Property, Plant and Equipment; IAS 24 Related Party Disclosures; IAS 38 Intangible Assets.
- The IASB has issued the Annual Improvements to IFRSs 2012 – 2014 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2016. None of these had an effect on the Company's financial statements: IFRS 5 Non-current Assets Held for Sale and Discontinued Operation; IFRS 7 Financial Instruments: Disclosures; IAS 19 Employee Benefits; IAS 34 Interim Financial Reporting.

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

2 ACCOUNTING PRINCIPLES (CONT'D)

2.1. Basis for preparation of the financial statements (cont'd)

Standards issued but not yet effective (cont'd)

- IFRS 9 Financial Instruments (effective for financial years beginning on or after 01.01.2018). IFRS 9 replaces IAS 39 and introduces new requirements for classification and measurement, impairment and hedge accounting. The Company will adopt IFRS 9 for the financial year beginning as of 1 January 2018 and is currently assessing the impacts of its adoption on the financial statements. Based on preliminary assessment made by the Management, implementation of the standard is expect to have limited or no impact because the Company has only the type of financial instruments for which classification and measurement is not expected to change, mainly trade receivables and payables and bank loans taken. Since majority of the sales are made to market price, and considering that historically there have been very rare cases of impairments of receivables transferring from incurred credit loss model to expected credit loss model is considered to have limited or no impact to the Company's financial statements. More detailed assessment will be made in 2017.
- IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company plans to adopt the standard for the financial year beginning as of 1 January 2018 retrospectively, i.e. the comparable period will be presented in accordance with IFRS 15. Currently, it is expected that changes in the total amount of revenue to be recognized for a customer contract, as well as timing of revenue recognition, will be minimal. Based on the preliminary analyses performed, the Company does not expect significant impacts on its Financial Statements as the Company does not have long-term contracts with multi-element arrangements, no material take-or-pay agreements, no sales incentives are provided, no contract costs are generally incurred or upfront payments made, contract modifications are rare etc. Detailed analysis on implementation of the standard will be made in 2017.
- IFRS 15: Revenue from Contracts with Customers (Clarifications) (effective for annual periods beginning on or after 1 January 2018, once endorsed by the EU).The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either applies IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Detailed analysis on implementation of IFRS 15 and its clarifications will be made in 2017.
- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU). IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Company will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and has preliminary assessed the impacts of its adoption on the financial statements (Note 30).
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU). The amendments improve information provided to users of financial statements about an entity's financing activities. Entities are required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, for example, by providing reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The implementation of these amendments will not have any impact on the financial position or performance of the Company but may result in changes in disclosures.
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU). The amendments clarify how to account for deferred tax assets for unrealized losses on debt instruments measured at fair value. The Company has not yet evaluated the impact of the implementation of this standard.
- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments) (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company does not think that amendments to these standards will have any impact on the financial statements.
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (approval was postponed indefinitely). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the

2 ACCOUNTING PRINCIPLES (CONT'D)

2.1. Basis for preparation of the financial statements (cont'd)

Standards issued but not yet effective (cont'd)

amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Company does not think that amendments to these standards will have significant impact on the financial statements.

- Amendments to IAS 40: Transfers to Investment Property (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company has not yet evaluated the impact of the implementation of this standard.
- IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Company has not yet evaluated the impact of the implementation of this standard.
- The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2017 for IFRS 12 Disclosure of Interests in Other Entities and on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures. These annual improvements have not yet been endorsed by the EU.
  - IFRS 1 First-time Adoption of International Financial Reporting Standards: This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters. This one has no impact as the Company is not a first time adopter.
  - IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The Company has not yet evaluated the impact of the implementation of this standard.
  - IFRS 12 Disclosure of Interests in Other Entities: The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5. The Company has not yet evaluated the impact of the implementation of this standard.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

2.2. Foreign currency

Functional currency

The amounts shown in these financial statements are measured and presented in local currency, euro (EUR), which is the functional currency of the Company.

Transactions and balances

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.2. Foreign currency (cont'd)

Transactions and balances (cont'd)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are converted using the exchange rate available at the date of the transaction.

2.3. Operating segments

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

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

The Management of the Company has identified the following business segments (Note 5):

- KNF – oil terminal in Klaipeda, providing oil products' transhipment and other related services.
- SGD – LNG terminal in Klaipeda, which receives and stores liquefied natural gas, regasifies it and supplies it to Gas Grid.
- SKB – Subačius oil terminal in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.
- GDP – planned Liquefied natural gas (LNG) onshore reloading station and the foreseen start of the Company's LNG reloading station activities and supply of services is the beginning of 2017. Currently, the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions.

2.4. Investment into subsidiaries

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

2.5. Investment into associates

The Company accounts for investments into associates using the equity method. An associate is an entity in which the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting rights of another company.

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

The share of profit of an associate is shown on the face of the statement of comprehensive income (loss).

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the caption "Share of the associate's comprehensive income" in the statement of comprehensive income (Note 7).

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

(all amounts are in EUR thousand unless otherwise stated)

2 ACCOUNTING PRINCIPLES (CONT'D)

2.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Company did not have assets with indefinite useful lives (as of 31 December 2016 and 31 December 2015). Intangible assets with finite lives are amortized over the useful economic lives of 3 to 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end (Note 3).

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

2.7. Property, plant and equipment

Tangible assets are attributed to property, plant and equipment if their useful life exceeds one year (Note 4).

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

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

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

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

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

Subsequent repair costs are included in the asset's carrying amount, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Spare parts of high value that are expected to use longer than one year are classified as property, plant and equipment. Spare parts are carried at acquisition cost, less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis over the estimated useful life of the related item of property, plant and equipment.

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

Non-current intangible assets		3 – 4
	Software	3
	Other non-current intangible assets	4
Property, plant and equipment		
Land		-
Buildings		38 – 60
	Administrative, industrial and other buildings	60
	Special purpose buildings	38
Constructions		15 – 30
	Pump station	30
	Operators and temporary buildings and other constructions	18
	Pathway, yard, fences, gates, communication network	15

(all amounts are in EUR thousand unless otherwise stated)

2 ACCOUNTING PRINCIPLES (CONT'D)

2.7. Property, plant and equipment (cont'd)

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

Technological machinery, equipment and systems		5 – 55
	Connecting gas piping	55
	Rail gantry, containers, storage tanks	30
	Oil product filters	20
	Grid system	18
	Piping systems and fire protection systems	15
	Other gas system of technological equipment, machinery and valves	13
	Compressors, electric motors	13
	Fans, heat exchangers, machine and oil pipeline valves	8
	Loading/unloading arms and loading equipment	8
	Other technological devices, equipment and systems	5
Furniture		4 - 6
	Office equipment	4
	Furniture	6
Measuring, controlling devices, tools		4 - 10
	Gas sampling system and gas accounting system	9
	Other measuring devices	4
	Controlling devices	10
Computers and communication equipment		4
Vehicles and other tangible assets		6

2.8. Financial assets – initial recognition and measurement

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

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

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

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

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

Financial assets and financial liabilities at fair value through profit or loss are measured in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly through profit or loss. Interest income and expense and dividends on such investments are recognised as interest income and dividend income or interest expenses, respectively.

The Company did not have any financial assets and financial liabilities at fair value through profit or loss as of 31 December 2016 and as of 31 December 2015.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8. Financial assets – initial recognition and measurement (cont'd)

Held-to-maturity investments

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

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

Loans and receivables

Loans and receivables (which are non-derivative financial instruments) are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit (loss) when the loans and receivables are derecognised or impaired, as well as through the amortisation process (Notes 10, 11 and 17).

Available-for-sale financial assets

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

2.9. Non-current assets held for sale

The Company classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that the sale with be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position (Note 12).

2.10. Derecognition of financial assets and liabilities

Financial assets

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.10. Derecognition of financial assets and liabilities (cont'd)

Financial liabilities

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

2.11. Employee benefits

Social security contributions

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

Termination benefits

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

The present value of defined benefit obligation is determined by discounting estimated future cash flows based on the interest rate of the long-term Lithuanian Government's bonds, expressed in the same currency as the benefits with a repurchase period similar to that of the planned payment period. Actuarial gains or losses are recognised in other comprehensive income directly (Note 16).

2.12. Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is estimated taking the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. The cost of inventories consists of purchase price, transport, and other costs directly attributable to the cost of inventories. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is written-off (Note 9).

2.13. Cash and cash equivalents

Cash includes cash in bank accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value (Note 14).

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

2.14. Borrowings

Borrowing costs in relation to loans for acquisition of property, plant and equipment are recognised as part of transaction costs and added to the acquisition cost of the asset accordingly. Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive income over the period of borrowings except for the capitalized part (Notes 4, 17 and 25).

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.14. Borrowings (cont'd)

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

2.15. Financial and operating lease

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

Financial lease

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

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

The Company did not have any finance lease contracts as of 31 December 2016 and as of 31 December 2015.

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

<u>The Company as a lessee</u>

Operating lease payments are recognized as expenses in the profit (loss) on a straight line basis over the lease term recognised in the statement of comprehensive income as cost of sales or operating expenses (Note 30).

<u>The Company as a lessor</u>

Assets leased under operating lease in the statement of financial position of the Company are accounted for depending on the type of assets. Income from operating lease is recognised as other income in the profit (loss) within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income.

2.16. Income tax

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

An income tax expense comprises current and deferred income tax. Charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The effective income tax rate applicable for companies of the Republic of Lithuania in 2016 was 15 % (15 % – in 2015) (Note 26).

Starting from 1 January 2014 deductible tax losses carried forward can be used to reduce the taxable income earned during the reporting year by maximum 70%. Tax losses can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the Company stops its activities due to which these losses were incurred except when the Company does not continue its activities due to reasons which do not depend on the Company itself.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.16. Income tax (cont'd)

The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred income tax is recognized in respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at reporting date.

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

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

2.17. Dividends

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

2.18. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economic resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing profit (loss) per share, there is no difference between the basic and diluted earnings per share (Note 27).

2.19. Provisions

General

Provisions are recognised when the Company has a present legal or constructive obligation in respect of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects the provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Expenses related to provisions are recorded in the statement of comprehensive income, net of compensation receivable.

Greenhouse gas (GHG) emissions

The Company applies a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal (null) amount, as it is allowed by IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held. Costs of allowances are recorded under cost of sales caption in the profit (loss) (Note 20).

2.20. Grants

Asset-related grants

Asset-related government and the European Union grants and third party compensations comprise grants received in the form of non-current assets or intended for the acquisition of non-current assets. Grants are initially recognised at fair value of the asset received and subsequently accounted for in the statement of comprehensive income by reducing the depreciation charge of related asset over the expected useful life of the asset.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.20. Grants (cont'd)

Income-related grants

Government and the European Union grants received as a compensation for the expenses or unearned income of the current or previous reporting period, also, all other grants, which are not asset-related grants, are treated as income-related grants. The income-related grants are recognised as used in parts to the extent of the expenses incurred during the reporting period or unearned income to be compensated by that grant. These grants are recognised in the statement of comprehensive income, net of related expenditure.

The Company has received grants amounting up to EUR 2,572 during the year 2016 (EUR 209 thousand - during the year 2015) to finance the acquisition of assets. The balance of grants to finance the acquisition of assets is EUR 2,781 as at 31 December 2016 (EUR 209 thousand as at 31 December 2016).

The Company has no unfulfilled conditions or contingencies attached to these grants as at 31 December 2016 and as at 31 December 2015.

2.21. Revenue recognition

Revenues are recognized if it is expected that the Company will get economic benefit associated with a transaction and when the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts (Note 22).

Income from oil products handling

The Company recognises revenues from oil transhipment taking into account the level of fulfilment of a service. The level of service provided is measured as percentage of transhipment cost expenses from the total cost of services. In the case reliable evaluation of the service agreement is impossible, the revenues are recognised only as a part of expenses incurred that can be recoverable.

Income from reservoirs rent

The rent income is recognized on a straight line basis over the lease term, i.e. the income is calculated on average tariff for all the leasing term.

Income from liquefied natural gas terminal services regulated by National Commission for Energy Control and Prices

Income from LNGT services regulated by NCC, which contains income from LNG regasification service, LNG reloading service and Additional Security supplement, is recognised after the service is rendered.

Based on LNG terminal law clause 5.2, all users of the natural gas transmission system, including final consumers, are obliged to pay the Additional Security supplement together with their other payments for the natural gas transmission service. The payments are collected by the transmission service operator (hereinafter referred to as "TSO") either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO. The Additional Security Supplement is established by the NCC on an annual basis in proportion to the planned quantities of natural gas delivered for the purposes of the user for the year 2015 (i.e. for consumption or further resale) and for the year 2016 is based on the predicted gas consumption capacity. The funds are transferred to the Company upon the decree set by the NCC.

Prices set for Terminal services in the years 2015 and 2016 are:

- LNG regasification service price is approved by the Company based on LNG regasification service price cap set by NCC:
  - For the year 2015 set by the resolution No. O3-895 on 20 November, 2014
  - For the year 2016 set by the resolution No. O3-683 on 23 December 2015 and on 25 March 2016 it was adjusted for the period from 1 April 2016 until 31 December 2016 by the resolution No. O3-83.
  - For the year 2017 set by the resolution No. O3-369 on 17 November 2016.
- LNG reloading service price is set by NCC on 20 November, 2014 by the resolution No. O3-896.
- LNG regasification price cap is being adjusted on yearly basis, LNG reloading price is set for 5 years.

Sales of goods

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.21. Revenue recognition (cont'd)

Interest income

Interest income is recognised in profit (loss) on accrual basis (using the effective interest rate method).

2.22. Expenses recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In the cases when a long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

2.23. Impairment of assets

Financial assets

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

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the profit (loss). The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the profit (loss). However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

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

Financial assets not measured at fair value through profit or loss are assessed for impairment at least at each reporting date .

Non-financial assets

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

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.23. Impairment of assets (cont'd)

Financial assets (cont'd)

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

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

2.24. Use of estimates and judgements

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

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

Information on critical estimates and judgements are detailed below:

Assets held for sale

On 30 April 2015 the Board of the Company adopted a decision on initiation of sale of the shares of JSC LITGAS, owned by the Company which constitute a tranche of 1/3 of the share capital of JSC LITGAS. Based on the Company's management assessment 30 April 2015 is the date of reclassification to assets held for sale, because all conditions foreseen in the IFRS 5 were met. Also, based on the Company's management assessment carrying value of shares of JSC LITGAS approximated fair value less cost to sell of this asset held for sale.

On October 2016 the Company sold the shares of JSC LITGAS (Note 12).

Useful lives of intangible assets and property, plant and equipment

Useful lives of assets are revised every year and if necessary are adjusted to reflect the present estimation of the remaining useful life taking into account technological changes, economic use of the asset in the future and its physical condition (Notes 2.7, 3 and 4).

Impairment losses of property, plant and equipment

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

The recoverable amount is calculated as one of the greater of two values: the value in use and net sales value. The value in use is calculated by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The recoverable amount of the asset, that is not cash-generating, is assessed according to the recoverable amount of the cash-generating unit the asset belongs to (Note 4).

Impairment losses of receivables

The Company at least once per quarter evaluates impairment of receivables. The Company assesses whether there is any indication of decrease of future cash flows related to the receivables portfolio until impairment of the specific receivable in this portfolio will be estimated.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.24. Use of estimates and judgements (cont'd)

Impairment losses of receivables (cont'd)

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

The Management estimates possible cash flows from debtors following its historic experience of losses, associated with risks of receivables or similar credit. Methods and assumptions applied for estimation of the amount and time of future cash flows are revised regularly for minimising differences between the calculated and actual amount of loss (Note 10).

Determination of classification between operating vs finance lease

At inception of an arrangement the Company determines whether such an arrangement is or contains a financial lease.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Situations that individually or in combination would normally lead to a lease being classified as a finance lease are (IAS 17-10):
- the lease transfers ownership of the asset to the lessee by the end of these lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

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

On 2 March 2012 the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of Klaipeda at 27 October 2014 and was taken over by the Company on 27 November 2014. Based on the contract, 2013 financial statements of the Company included the statement that the Contract preliminary meets the criteria of financial lease and on 31 December 2013, the total amount of future minimal lease payments totaled to EUR 263.978 thousand. The amount was not included into the Company's 31 December 2013 statement of financial position. However, Hoegh LNG Ltd. has provided certain new information including also on FSRU fair value valuation, whereas, on the Company's view, under IFRS FSRU lease shall be classified as operating lease from Hoegh LNG Ltd. to AB Klaipėdos Nafta under the Time Charter Party (TCP) entered into between the parties (Note 30).

Based on IFRS criteria, the following facts and circumstances were taken into consideration by the Management of the Company when concluding on the substance of the lease:
- A number of risks and rewards incidental to ownership are not transferred. Hoegh LNG Ltd carries a number of substantial risks attached to the FSRU in relation to the TCP;
- No financial investment decision has been accepted yet to exercise the purchase option;
- TCP contract was signed between unrelated third parties; consequently, TCP conditions reflect FSRU market price;
- There are no similar contracts in the market for comparison purposes;
- Management has assessed the estimated economic life to be 40 years, while FSRU lease period is of 10 years;
- Based on Hoegh LNG Ltd. and the Company's calculations, at the inception of the lease the present value of the minimum FSRU lease payments does not amount to at least substantially all of the fair value of the leased asset;
- The FSRU can trade as an LNG carrier, or be a part of other regas projects without major modifications, that is not specific to the Company's business needs;
- The Company does not have a cancellation right, but a standard termination regime is applied under the TCP;
- Hoegh LNG Ltd. carries all residual value risk;
- No secondary charter period stated in the TCP.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.24. Use of estimates and judgements (cont'd)

Determining whether an arrangement contains a lease (cont'd)

On 9 March 2015 the Company concluded the Liquefied Natural Gas Terminal jetty usage agreement (hereinafter – Jetty rent) with the Klaipeda State Seaport Authority (hereinafter – KVJUD). The Agreement is concluded inter alia in accordance with the Decree of the Republic of Lithuania Government No. 864 dated 11 June 2012 "Regarding the Decree of the Republic of Lithuania dated 15 February 2012 No. 199 "Regarding the Construction of the LNGT" Amendment", which 6 clause determined that the execution company of the LNGT project and (or) LNGT operator shall use the jetty for mooring of the liquefied natural gas floating storage unit and shall pay the annual jetty fee calculated in accordance with the requirements of the present decree and other legal acts under basis of agreement with the Port Authority (Note 30).

Based on IFRS criteria, the following facts and circumstances were taken into consideration by the Management of the Company when concluding the jetty usage agreement on the substance of the lease:

- A number of risks and rewards incidental to ownership are not transferred. KVJUD carries a number of substantial risks attached to the jetty in relation to the jetty usage agreement;
- Jetty usage agreement was signed between unrelated third parties; consequently, jetty usage agreement conditions reflect rent market price;
- KVJUD allows the Company or any legal successors of the company to use the LNGT jetty for a fee;
- The lessee has no jetty asset purchase option;
- The usage term of the LNGT jetty - 50 (fifty) years as for the LNGT jetty usage under common usage conditions by the Port Authority;
- The Management of the Company estimated the useful lives of the other Seaport jetties and considered that current jetty rent period (50 years) does not include a significant economic lifetime period of the jetty (useful lifetime period may be up to 70 years or more);
- The Parties shall have a right to terminate the Agreement only in case of enactment of the new laws of the Republic of Lithuania and / or other legal acts related to the regulation of legal terms regarding the usage of the LNGT jetty;
- KVJUD carries all residual value risk;
- The leased assets are a specialized nature, however, other market participants can use them without major modifications;
- The lessee has the ability to continue the lease for a secondary period at a rent that is substantially market rent;
- Based on the Company's calculations, at the inception of the lease the present value of the minimum jetty rent lease payments does not amount to at least substantially all of the fair value of the leased asset.

Provision and contingent liability

The Company distinguishes between:

- provisions — which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- contingent liabilities — which are not recognised as liabilities because they are either:
  - possible obligations, as it has yet to be confirmed whether the Company has a present obligation that could lead to an outflow of resources embodying economic benefits; or
  - present obligations that do not meet provision recognition criteria (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

The Management of the Company decides to recognise provisions or to disclose contingent liabilities related to legal disputes based on each legal dispute adverse impact probability, expected amount of the obligation, reliability of amount estimation. Analysis is performed together with the internal and (or) external lawyers.

Current and deferred income tax

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. The assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expenses in the period that such determination is made (Note 26).

2 ACCOUNTING PRINCIPLES (CONT'D)

2.25. Contingencies

A contingent asset is not recognised in the financial statements, but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote (Note 30).

2.26. Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

2.27. Subsequent events

Subsequent events that provide additional information about the Company's position at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes if material (Note 32).

2.28. Offsetting

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

2.29. Fair value

Fair value stated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Note 29).

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

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

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

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

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

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

(all amounts are in EUR thousand unless otherwise stated)

2 ACCOUNTING PRINCIPLES (CONT'D)

2.29. Fair value (cont'd)

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3 INTANGIBLE ASSETS

	Software
Acquisition:	
Balance as of 31 December 2014	1,318
Acquisitions	94
Sold and written-off property	(6)
Balance as of 31 December 2015	1,406
Acquisitions	116
Sold and written-off property	(18)
Balance as of 31 December 2016	1,504
Accumulated amortization and impairment:	
Balance as of 31 December 2014	695
Amortization for the year	209
Sold and written-off property	(6)
Balance as of 31 December 2015	898
Amortization for the year	225
Sold and written-off property	(18)
Balance as of 31 December 2016	1,105
Net book value as of 31 December 2014	623
Net book value as of 31 December 2015	508
Net book value as of 31 December 2016	399

The non-current intangible asset amortization amounts to EUR 225 thousand for the year 2016 (EUR 209 thousand – in 2015). EUR 140 thousand of amortization has been included into cost of sales (EUR 121 thousand - in 2015) and the remaining amount has been included into operating expenses in the Statement of comprehensive income.

Part of the intangible asset with the acquisition cost of EUR 531 thousand as of 31 December 2015 was completely depreciated (EUR 358 thousand on 31 December 2015), however, it was still in operation.

(all amounts are in EUR thousand unless otherwise stated)

4 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost						
Balance as of 31 December 2014	38	138,947	147,613	10,975	15,570	313,143
Acquisitions	-	4	183	229	6,669	7,085
Advance payments	-	-	-	-	(479)	(479)
Retirements and disposals	-	(1,829)	(1,144)	(39)	-	(3,012)
Transfers from inventories	-	-	-	1	62	63
Transfers to construction in progress	-	-	-	-	48	48
Transfers from construction in progress	-	19,182	1,087	108	(20,377)	-
Balance as of 31 December 2015	38	156,304	147,739	11,274	1,493	316,848
Acquisitions	-	(56)	236	613	15,965	16,758
Advance payments	-	-	21	-	2,260	2,281
Retirements and disposals	-	(54)	(624)	(63)	-	(741)
Transfers from inventories	-	-	-	-	73	73
Transfers from construction in progress	-	256	696	112	(1,064)	-
Balance as of 31 December 2016	38	156,450	148,068	11,936	18,727	335,219
Accumulated depreciation and impairment:						
Balance as of 31 December 2014	-	59,072	68,631	2,409	201	130,313
Depreciation for the year	-	4,308	6,288	1,991	-	12,587
Retirements and disposals	-	(765)	(779)	(38)	-	(1,582)
Impairment for the year (reversal)	-	(1,017)	(274)	-	-	(1,291)
Balance as of 31 December 2015	-	61,598	73,866	4,362	201	140,027
Depreciation for the year	-	4,616	6,301	2,082	-	12,999
Retirements and disposals	-	(23)	(615)	(61)	-	(699)
Impairment for the year (reversal)	-	(2)	(30)	(1)	-	(33)
Balance as of 31 December 2016	-	66,189	79,522	6,382	201	152,294
Net book value as of 31 December 2014	38	79,875	78,982	8,566	15,369	182,830
Net book value as of 31 December 2015	38	94,706	73,873	6,912	1,292	176,821
Net book value as of 31 December 2016	38	90,261	68,546	5,554	18,526	182,925

In 2016 the Company reviewed property, plant and equipment and reversed impairment of EUR 33 thousand for the assets (in 2015 the Company reviewed property, plant and equipment and reversed impairment of EUR 1,291 thousand), which was not in use due to the changed technological conditions and which was previously impaired and in current reporting period were written off, and were included into operating expenses in the Statement of comprehensive income during the year 2016 and 2015.

In 2016 and in 2015, the Company did not identify and account for the impairment of non-current assets.

The depreciation of the non-current tangible assets amounts to EUR 12,999 thousand for the year 2016 (EUR 12,587 thousand – in 2015). EUR 27 thousand of depreciation charge was transferred to inventory value (EUR 22 thousand – in 2015), EUR 21 thousand was reimbursement of the costs according the grant agreement (in 2015 the were no such costs), EUR 12,785 thousand of depreciation charge has been included into cost of sales (EUR 12,431 thousand - in 2015) and the remaining amount EUR 166 (EUR 134 – in 2015) has been included into operating expenses in the Statement of comprehensive income.

Part of the Company's property, plant and equipment with the acquisition cost of EUR 30,299 thousand as of 31 December 2015 was completely depreciated (EUR 29,522 thousand on 31 December 2015), however, it was still in operation.

Liquefied natural gas terminal project on the 1 December 2015 was fully finished and the last part of assets amounting to EUR 19,205 thousand was entered into operation. As the borrowing costs were not significant, the Company did not capitalize borrowing cost during 2016 and 2015 into Liquefied natural gas terminal asset value.

The Company's Liquefied natural gas terminal property, plant and equipment amounting to EUR 66,379 thousand was pledged to the Ministry of Finance of Republic of Lithuania for the state guarantee, given to European Investment Bank (hereinafter – EIB) and Nordic Investment Bank (hereinafter – NIB) as of 31 December 2016 (the Company had pledged asset amounting to EUR 66,738 thousand as of 31 December 2015).

(all amounts are in EUR thousand unless otherwise stated)

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

During 2016 the Company continued works in the following projects:

- *Liquefied natural gas (LNG) onshore reloading station -* the foreseen start of the Company's LNG reloading station activities and supply of services is the beginning of 2017. Currently the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions. As of 31 December 2016 the value of constructions in progress amounted to EUR 11,614 thousand (During the year 2016 investment amounted to EUR 11,184 thousand).
- *LNG sampling system -* in order to ensure the LNG quality parameters there were invested into LNG sampling system. As of 31 December 2016 the value of constructions in progress of LNG sampling system amounted up to EUR 474 thousand (There was no investment in 2016).
- *Road tanker loading station development* - as of 31 December 2016 the value of constructions in progress amounted to EUR 2,322 thousand (During the year 2016 investment amounted to 2,322 thousand).
- *Fuel oil tanks (2 x 4400 m3 construction* - as of 31 December 2016 the value of constructions in progress amounted to EUR 943 thousand (During the year 2016 investment amounted to 943 thousand).
- *LFO (light oil products) storage tanks park development -* investment for additional 7 (seven) storage tanks to build. As of 31 December 2016 the value of constructions in progress amounted to EUR 812 thousand (During the year 2016 investment amounted to 812 thousand).
- *Installation works of technological piping for small oil loading parts* - the goal of the investment is to ensure the faster transhipment of the oil product to tank trucks and to expand the Company's technological capacity by increasing the Company's overall volume of tanks. As of 31 December 2016 the value of constructions in progress amounted to EUR 987 thousand (During the year 2016 investment amounted to EUR 987 thousand).
- *Other investment* - as of 31 December 2016 the value of constructions in progress amounted to EUR 1,374 thousand (During the year 2016 investment amounted to EUR 986 thousand).

5 INFORMATION ABOUT SEGMENTS

For management purposes, the Company is organised into the following business segments:

- KNF – oil terminal in Klaipėda supplying oil products, providing transhipment and other related services.
- SGD – LNG terminal in Klaipėda, which receives and stores liquefied natural gas, regasifies it and supplies it to gas grid.
- SKB – Subačius oil terminal in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.
- GDP – planned liquefied natural gas (LNG) onshore reloading station and the foreseen start of the company's LNG reloading station activities and supply of services is the beginning of 2017. Currently, the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions.

As of 31 December 2016 there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 95,453 thousand:

Customer A – EUR 65,467 thousand (SGD – EUR 65,467 thousand);
Customer B – EUR 17,628 thousand (KNF – EUR 17,495 thousand and SKB – EUR 133 thousand);
Customer C – EUR 12,358 thousand (KNF – EUR 12,358 thousand).

As of 31 December 2015 there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 96,581 thousand:

Customer A – EUR 69,882 thousand (SGD – EUR 69,882 thousand);
Customer B – EUR 15,204 thousand (KNF – EUR 14,899 thousand and SKB – EUR 305 thousand);
Customer C – EUR 11,495 thousand (KNF – EUR 11,495 thousand).

Main indicators of the business segments of the Company included in the statement of comprehensive income and Statement of financial position for the financial year 2016 and 2015 are described below:

For the year ended 31 December 2016	SGD	SKB	GDP	KNF	Total
Revenues from external customers	66,966	2,798	-	34,075	103,839
Profit before income tax	3,850	927	(531)	10,849	15,095
Segment net profit (loss)	3,518	847	(485)	9,914	13,794
Interest revenue	9	-	-	2	11
Interest expense	(177)	-	-	-	(177)
Depreciation and amortisation	(5,738)	(884)	-	(6,575)	(13,197)
Impairment and write-off of non-current tangible assets (reversal)	(3)	(7)	-	(740)	(750)
Net profit (loss) part in the associates	-	-	-	67	67
Acquisitions of tangible and intangible assets	(19)	301	9,308	7,284	16,874
Segment total assets	71,707	10,414	11,645	148,665	242,431
Loan and related liabilities	29,724	-	-	-	29,724
Segment total liabilities	38,831	626	4,656	5,349	49,462

(all amounts are in EUR thousand unless otherwise stated)

5 INFORMATION ABOUT SEGMENTS (CONT'D)

For the year ended 31 December 2015	SGD	SKB	GDP	KNF	Total
Revenues from external customers	69,882	2,561	-	37,259	109,702
Profit before income tax	7,637	991	(402)	15,878	24,104
Segment net profit (loss)	6,982	906	(367)	14,515	22,036
Interest revenue	4	-	-	18	22
Interest expense	(259)	-	-	-	(259)
Depreciation and amortisation	(5,240)	(847)	-	(6,686)	(12,773)
Impairment and write-off of non-current tangible assets (reversal)	-	-	-	(1,291)	(1,291)
Net profit (loss) part in the associates	-	-	-	40	40
Acquisitions of tangible and intangible assets	5,429	142	429	809	6,809
Segment total assets	94,271	13,622	636	130,258	238,787
Loan and related liabilities	29,737	-	-	-	29,737
Segment total liabilities	37,209	206	267	4,301	41,983

6 INVESTMENT INTO SUBSIDIARIES

On 20 November 2015 there were established and registered the subsidiary of AB Klaipėdos Nafta - joint stock company - JSC "SGD logistika (Gedimino av. 33-2, LT-01109, 304139242), which is supposed to perform activities of operating and managing a liquefied natural gas bunkering carrier. The authorized capital of JSC „SGD logistika", is EUR 200 thousand (200 thousand ordinary registered shares), which has been formed by monetary contribution of the Company on 20 November 2015.

On 24 November 2015, JSC "SGD logistika", which is a wholly-owned subsidiary of SC Klaipėdos Nafta, signed a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG bunkering carrier. Following the signed agreement, JSC "SGD logistika" together with Bomin Linde LNG GmbH & Co. KG will establish a joint venture in Germany, in which JSC "SGD logistika" will hold 20% of the authorised capital and Bomin Linde LNG GmbH & Co. KG 80% of the authorised capital. This entity will order construction of an LNG bunkering carrier. The LNG bunkering carrier will provide LNG fuel to clients of Bomin Linde LNG GmbH & Co. KG both at sea and in the Klaipėda port, will offer safe and flexible transportation of LNG from the Klaipėda LNG terminal to the LNG distribution station in the Klaipėda port, will transport LNG to terminals in the North Sea and the Baltic Sea. On 29 September 2016 UAB "SGD logistika", which is a wholly-owned subsidiary of AB Klaipėdos Nafta, signed the amendments of a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG vessel. Following the amended agreement, in a joint venture, established in Germany, UAB "SGD logistika" will hold 10% of the authorised capital and Bomin Linde LNG GmbH & Co. KG will hold 90% of the authorised capital.

JSC „SGD logistika" did not have any activities during the year 2016 and 2015. It is planned that JSC „SGD logistika" will start perform activities of operating and managing a liquefied natural gas bunkering carrier after the construction of an LNG bunkering carrier will be finished.

7 INVESTMENT INTO ASSOCIATES

Sarmatia Sp. z o.o.

As at 31 December 2016 and 2015 the Company owns 1% of the authorised capital of the international pipeline company Sarmatia Sp. z o.o. During the year 2016 the Company did not have any purchased of the shares and in 2015, during the increasing of authorised capital of Sarmatia Sp. z o.o, the Company additionally purchased 73 shares with the par value of PLN 500 each (EUR 9 thousand).

The Company is entitled to appoint one of five board members to the management of Sarmatia Sp. z o.o, thus it can have significant influence. Therefore this investment was classified as an associate and measured using the equity method. Sarmatia Sp. z o.o is a private company not listed on the stock exchange.

JSC "Baltpool"

As at 31 December 2016 and 2015 the Company owns 33 percent of JSC BALTPOOL shares and their voting rights at the General Meeting of the Shareholders of JSC BALTPOOL. During the year 2016 the Company did not have any purchased of the shares. The Company purchased

(all amounts are in EUR thousand unless otherwise stated)

7 INVESTMENT INTO ASSOCIATES (CONT'D)

26,400 units of the newly issued ordinary registered shares at 0,29 euro cents par value each during the year 2015, issue price of 1,45 euro for each newly issued share.

Financial information regarding the Company's investments into Sarmatia Sp. z o. o, JSC Baltpool is presented in the table below as of 31 December 2016 and 31 December 2015:

The associate's financial position:

	Sarmatia Sp. z o. o		JSC Baltpool		Total	
	2016	2015	2016	2015	2016	2015
Non-current assets	-	-	27	33	27	33
Current assets	1,704	1,704	48,401	43,842	50,105	45,546
Non-current liabilities	(576)	(576)	-	(2)	(576)	(578)
Current liabilities	-	-	(47,822)	(43,469)	(47,822)	(43,469)
Equity	1,128	1,128	606	404	1,734	1,532

The associate's comprehensive income:

	Sarmatia Sp. z o. o		JSC Baltpool		Total	
	2016	2015	2016	2015	2016	2015
Income	-	82	726	533	726	615
(Losses)	-	(519)	(496)	(419)	(496)	(938)
Profit (loss)	-	(437)	230	114	230	(323)

Structure of the Company's investments in the associates as at 31 December 2016 and 31 December 2015 was as follows:

	Ownership interest (%)		Investment value		Comprehensive income (loss)	
	2016	2015	2016	2015	2016	2015
Sarmatia Sp. z o.o.	1.00	1.00	-	11	-	2
JSC Baltpool	33.00	33.00	200	133	76	38
Total	-	-	200	144	76	40

Investments into associates, net value:

	Sarmatia Sp. z o. o		JSC Baltpool		JSC LITGAS		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Book value at start of period	11	-	133	57	-	4,040	144	4,097
Acquisitions during the year	-	9	-	38	-	-	-	47
Change in value	-	2	76	38	-	-	76	40
Dividends	-	-	(9)	-	-	-	(9)	-
Reclassification to assets held for sale	-	-	-	-	-	(4,040)	-	(4,040)
Book value at end of period	11	11	200	133	-	-	211	144

8 LONG-TERM RECEIVABLES AND ACCRUED INCOME

	31-12-2016	31-12-2015
Long-term accrued income	3,160	2,401

Subačius fuel storage reservoirs rent agreement signed with the Lithuanian petroleum products Agency in 2012 for the duration of 10 years is treated as operating leasing contract. The rent tariffs are different for the first 5 years and for the remaining period. Therefore the rent income is recognized on a straight line basis over the lease term, i.e. the incomes are calculated on average tariff of the all leasing term (10 years).

(all amounts are in EUR thousand unless otherwise stated)

9 INVENTORIES

	31-12-2016	31-12-2015
Diesel fuel for the Terminal purpose	918	1,071
Oil products for sale	197	331
Liquefied natural gas in the connecting pipeline	50	50
Fuel for transport and other equipment	39	35
Spare parts, construction materials and other inventories	1,315	1,337
Total inventories	2,519	2,824
Write-down of spare parts, construction materials and other inventories	(1,125)	(1,097)
	1,394	1,727

As of 31 December 2016 the Company had accounted write-off of inventories in the amount of EUR 1,125 thousand (EUR 1,097 thousand on 31 December 2015), that have been written off down to the net realisable value. The Company writes down the inventories to the net realisable value if they are not used for more than 6 months and in other occasions, if there's clear evidence that net realisable value is lower.

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 EUR 28 thousand as of 31 December 2016 (31 December 2015 - EUR 577 thousand) are included under operating expenses in the profit (loss).

As of 31 December 2016 the Company stores 1.4 thousand MWh (as of 31 December 2015 – 1.5 thousand MWh) natural gas in the connecting pipeline of the Liquefied natural gas terminal to ensure activities.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. As at 31 December 2016 the Company stored 2.8 thousand tons of oil products collected in its Waste Water Treatment Facilities (31 December 2015 – 4.4 thousand tons).

As of 31 December 2016 the Company stored 182 thousand tons of oil products delivered for transhipment in its storage tanks (159.4 thousand tons as on 31 December 2015) (the quantities are unaudited). 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 for oil products.

As of 31 December 2016 the Company stored 1,094 thousand MWh (As of 31 December 2015 - 955 thousand MWh) (the quantities are unaudited) of natural gas products delivered for transhipment in the Liquefied natural gas terminal. Such natural gas 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 for these products.

10 TRADE RECEIVABLES

	31-12-2016	31-12-2015
Receivables from natural gas regasification service	8,735	24,792
Receivables for trans-shipment of oil products and other related services	1,884	2,940
Less: impairment allowance	(16)	(16)
	10,603	27,716

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

On 31 December 2016 and on 31 December 2015 the Company did not have any trade debts denominated in other currency.

The Company has recognized impairment allowance in the amount of EUR 16 thousand on 31 December 2016 as well as on 31 December 2015. Allowance for trade and other accounts receivable is accounted when the Company's management is uncertain that the amount will be collected.

Change in allowance for receivables for the years 2016 and 2015 has been included into operating expenses in the Statement of the comprehensive income.

(all amounts are in EUR thousand unless otherwise stated)

10 TRADE RECEIVABLES (CONT'D)

The age analysis of trade receivables as of 31 December 2016 and 2015 is as follows:

	Trade and other receivables neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 59 days	60 – 89 days	90 – 359 days	More than 360 days	
2016	6,654	3,420	-	-	529	-	10,603
2015	9,699	31	12,052	4,886	1,048	-	27,716

Credit quality of financial assets neither past due nor impaired: with respect to trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Company trades only with recognised, creditworthy third parties.

All receivable amounts from the liquefied natural gas terminal services are pledged to JSC Hoegh LNG Klaipeda for 10 years period (Note 30).

11 OTHER RECEIVABLES AND ACCRUED INCOME

	31-12-2016	31-12-2015
Short-term accrued income for storage of oil products	530	289
VAT receivable	32	9
Receivable grant	21	-
Accrued income from JSC Hoegh LNG Klaipėda (cost reduction)	-	720
Other receivables	21	9
	604	1,027

12 ASSETS HELD FOR SALE

	31-12-2016	31-12-2015
Shares of JSC LITGAS	-	4,040

Until reclassification to assets held for sale JSC LITGAS was accounted for as investment into associate and equity method was applied. As at 30 April 2015 JSC LITGAS shares were accounted for at fair value less cost to sell. Fair value was determined by the independent appraisers JSC Resolution valuation on 24 July 2015. Based on the Company's management assessment cost to sell does not constitute material part of the assets fair value.

The Company taking into account the resolutions adopted by the National Commission for Energy Control and Prices (inter alia, Resolution No. 2015-04-10. O3-242, Resolution No. 2016-04-22. O3-107), on 3 October, 2016 the Company and Lietuvos energija, UAB have entered into UAB LITGAS 33.33 per cent shares sale - purchase agreement which were owned by the Company. The shares of UAB LITGAS owned by the Company amounted to 15,000 thousand ordinary registered shares of nominal value of EUR 0.29 each. UAB LITGAS shares are sold considering the value of 33, 33 per cent shares as to 31 of March, 2016 set by independent property valuator. Transaction amount – 4,350 thousand EUR, including the dividends paid by UAB LITGAS. The Company's statement of comprehensive income for 2016 will account for 310 thousand EUR profit before tax, related to the investment in UAB LITGAS.

The Company transferred all shares owned in UAB LITGAS, therefore Lietuvos Energija, UAB owns 100 per cent of UAB LITGAS share capital.

13 OTHER FINANCIAL ASSETS

	31-12-2016	31-12-2015
Cession of rights in Vnesekonom bank	29	29
Loan to JSC "Žavesys"	99	100
Less: allowance for receivables	(128)	(129)
Total loans and receivables	-	-

(all amounts are in EUR thousand unless otherwise stated)

13 OTHER FINANCIAL ASSETS (CONT'D)

On 24 January 2003 SC "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 EUR 80,295 thousand) in the liquidated Vnesekonom bank and the right to the loan provided to JSC "Zavesys". Acquisition cost of the right in the liquidated Vnesekonom bank amounts to EUR 29 thousand. The Company's Management considers the receivables subject to the acquired rights of demand to be doubtful, therefore they have been accounted for at cost less 100% allowance.

14 CASH AND CASH EQUIVALENTS

	31-12-2016	31-12-2015
Cash at bank	42,056	23,788

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2016 the Company had no one night term deposits (as of 31 December 2015 – EUR 45 thousand).

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

Currency	31-12-2016	31-12-2015
EUR	37,034	18,995
USD	5,022	4,793
	42,056	23,788

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

	31-12-2016	31-12-2015
A +	483	452
AA -	36,478	12,347
A	5,095	10,989
	42,056	23,788

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.

15 ISSUED CAPITAL

During the year 2016 and 2015 the authorized capital of the Company did not change (Note 1).

1 January 2015 - Introduction of the euro in the Republic of Lithuania and accordingly changed the Company's functional currency. The recalculation of the litas to the euro has been applied in the euro exchange rate of conversion and smooth at 3.45280 for 1 euro, which irrevocably set by the EU Council, and rounded to one decimal place. The resulting changes due to nominal value calculation Company recognized as expenses during the year 2015.

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit, calculated in accordance with International Financial Reporting Standards, are compulsory until the reserve reaches 10 per cent of the share capital.

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

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

(all amounts are in EUR thousand unless otherwise stated)

16 NON-CURRENT EMPLOYEE BENEFITS

Provisions for pension benefits represent payable amounts calculated in accordance with the Lithuanian laws. Each employee at retirement age is entitled to receive a payment of 2 monthly salaries upon retirement.

The Company does not think that short term provisions for pension benefits has significant impact on the financial statements, therefore do not recognise short term provisions for pension benefits during the year 2016 and 2015.

On 31 December 2016 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were EUR 277 thousand (EUR 202 thousand – in 2015) as follows:

	2016	2015
Start of period	202	301
Calculated per year	241	46
Paid per year	(166)	(145)
End of period	277	202

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

	31-12-2016	31-12-2015
Discount rate	0.31 %	1.49 %
Staff turnover rate	7.65%	8.43%
Future salary increases	2.8 %	3.1 %

17 LOAN

	31-12-2016	31-12-2015
European Investment Bank's loan	29,693	29,693
Payable loan interest	31	44
	29,724	29,737

- A credit contract dated as at 9 July 2013 was concluded by the Company with EIB to grant a credit up to EUR 87,000 thousand to implement LNGT project. According to the contract, EIB finances up to 50% of necessary funds for project implementation. According to the contract, credit term is up to 20 years, interest rate is variable or fixed which is close to borrowing market interest rate, and whose norm will be submitted by the EIB in payment offers. The contract also provides that minimum payable credit part is EUR 15,000 thousand, and the whole credit sum must be paid to the Company over no more than 6 payments. The performance of 100% of up to EUR 81,094 thousand of the Company's contractual financial liabilities is ensured by the State Guarantee (Note 30).

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

  On 28 November 2014, the Company received the second payment in the amount of EUR 15,000 thousand. Repayment period until 28 November 2034 is provided for the second payment in the amount of EUR 15,000 thousand; the loan must be repaid over 61 payments. The fixed variable interest rate provided by the EIB in payment offer: 3 months EURIBOR + margin. The interest is paid quarterly. The effective interest rate has not significantly affected the Company's results, so it is not disclosed.

  Considering the condition of the long term loan agreement with EIB that it could be financed under 50% of the project's investments, the company had undrawn amount of 24.700 thousand euro at 31 December 2016 and 31 December 2015.

  On 31 December 2016 and on 31 December 2015 European Investment Bank's loan balance includes EUR 168 thousand bank loan administrative fee.

  The Company shall ensure that the ratio of EBITDA to Interest in respect of the period of twelve months ending on the last day of each of the Company's financial years shall not fall below 4,0:1,0. The Company complied with financial covenant as of 31 December 2016 and as of 31 December 2015.

(all amounts are in EUR thousand unless otherwise stated)

17 LOAN (CONT'D)

Loan repayments:

	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Loan repayments 31 December 2016	-	-	-	5,410	24,590	30,000
Loan repayments 31 December 2015	-	-	-	3,443	26,557	30,000

- On 27 November 2014 the Company has concluded the Credit Agreement with the Nordic Investment Bank (NIB) regarding granting a credit of up to EUR 34,754 thousand for the implementation of the project of the liquefied natural gas terminal. On 10 November 2015 there was approved NIB loan amount reduction to EUR 22,000 thousand.

  According to the Loan contract, the term of the credit is up to 20 years, interest: floating, which particular rate will be provided in the NIB disbursement offer. The Loan contract also provides that the minimal payable amount of credit is EUR 7,000 thousand, and all the credit amount must be paid to the Company in no more than 5 payments. 100% of the Company's financial obligations under the Loan contract are secured by a State guarantee (Note 30).

  On 31 December 2016 and on 31 December 2015 loan balance includes additional EUR 139 thousand NIB's bank loan administrative fee.

  The Company did not use the loan from NIB during the year 2016 and 2015.

  The Company does not have any other financial liabilities upon other financial contracts.

18 TRADE PAYABLES

	31-12-2016	31-12-2015
Payables for FSRU operating leasing	4,527	5,237
Payable to contractors	3,512	671
Other payments related FSRU	501	169
Payable for rent of land	227	-
Payable for gas services	179	301
Payable for railway services	120	170
Other trade payables	1,057	417
	10,141	6,965

On 31 December 2016 trade payables of EUR 4,746 thousand were denominated in USD (EUR 4,972 thousand – on 31 December 2015).

Trade payables are non-interest bearing and are normally settled on 30-day payment terms.

19 PAYROLL RELATED LIABILITIES

	31-12-2016	31-12-2015
Accrual of annual bonuses	1,151	1,026
Accrued vacation reserve	888	752
Salaries payable	5	6
Social insurance payable	325	327
Income tax payable	5	2
Payable guarantee fund	2	2
Other deductions	2	1
	2,378	2,116

(all amounts are in EUR thousand unless otherwise stated)

20 PROVISIONS

Greenhouse gas emission allowances in advance is distributed for the periods covering the next few years. The first period started from 2005 and ended in 2007, the next period started from 2008 and ended in 2012, the current period started from 2013 and ends in 2020. Companies that participate in the project from 2005 are obliged to report about real extent of pollution of each calendar year. When available allowances are not sufficient to cover actual pollution, then a penalty should be paid for each ton of excess carbon dioxide.

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

Prospective emission allowances allocation and consumption (units), in the year 2015, 2016 and the following periods:

	2013	2014	2015	2016	2017	2018	2019	2020	Total
Allocated *	21,368	19,123	16,939	14,820	12,766	10,780	8,858	7,007	111,661
Emission allowance consumed and used	(18,239)	(16,582)	(15,787)	(17,526**)	-	-	-	-	(68,134)
Planned to be used	-	-	-	-	(18,000)	(18,000)	(18,000)	(18,000)	(72,000)
Received	-	21,368	33,521	30,607	-	-	-	-	85,496

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

As of 31 December 2016 and as of 31 December 2015 the Company did not account for liabilities for emission allowance.

21 OTHER PAYABLES AND CURRENT LIABILITIES

	31-12-2016	31-12-2015
Accrued tax expenses and liabilities	140	428
Accrued expenses and liabilities	176	66
Other liabilities	167	4
	483	498

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

22 SALES

	2016	2015
Income from LNGT services regulated by NCC	66,966	69,882
Sales of oil transhipment services	34,449	37,896
Other sales related to transhipment	1,734	1,263
Sales of inventories	690	661
	103,839	109,702

During the year 2014 the Company under the procedures provided for in the agreement with its client, Litasco S.A., has received a notification that Litasco S.A, a company of Lukoil companies group to extend the services contract with the Company regarding transshipment of heavy oil products concluded on 30 August 2012 for another year. The extended services contract regarding transshipment of dark oil products was effective till the second half of 2015. Under the above-mentioned contract Litasco S.A. should provide the Company for transshipment up to 2.7 million tons of heavy oil products per year. In the year 2015 the contract Litasco S.A. was terminated.

The Company and BNK (UK) Limited which is an affiliate of the leading exporter of Belarusian oil products – ZAT "Belaruskaja neftenaja kampanija", in 2015 has signed a long term contract on provision of oil products reloading services in AB Klaipedos nafta terminal (hereinafter – the Contract) . The term of the Contract was until 31 October 2016 (with option to extend it for one more year). Not less than 1 million tons of heavy fuel oil shall be reloaded through the Company's terminal during the period up to 31 October 2016. The Contract was not extended.

The Company and BNK (UK) Limited which is an affiliate of the leading exporter of Belarusian oil products – ZAT "Belaruskaja neftenaja kampanija", on 19 October 2016 have signed a long term contract on provision of oil products transshipment services through AB Klaipedos nafta terminal (hereinafter – the Contract). The terms of the Contract are valid until 31 October 2019 with an option to extend them based on mutual agreement. During this period BNK (UK) undertakes to transship heavy fuel oil produced in Belarusian oil refineries OAO "Mozyrskij NPZ" and OAO "Naftan" through the Company's terminal.

(all amounts are in EUR thousand unless otherwise stated)

22 SALES (CONT'D)

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

Income from LNGT services regulated by NCC contains income from LNG regasification service, LNG reloading service and Additional Security supplement (largest component). LNG regasification price cap is being adjusted on yearly basis, LNG reloading price is set for 5 years.

Terminal service	Price set
LNG regasification service price (set for year 2015)	0,00 Eur/MWh, excl. VAT
LNG regasification service price (set for year 2016-2017)	0,10 Eur/MWh, excl. VAT
LNG reloading service price (set for years 2015-2019)	1,14 Eur/MWh, excl. VAT
Security supplement to gas transmission tariff for the year 2015	2,73 Eur/MWh, excl. VAT
Security supplement to gas transmission tariff for the year 2015 with discount*	2,15 Eur/MWh, excl. VAT
LNG terminal supplement tariff to gas transmission tariff for the year 2016 with discount*	259,84 Eur/ (MWh/Day/Year), excl. VAT
LNG terminal supplement tariff to gas transmission tariff for the year 2017	361,84 Eur/ (MWh/Day/Year), excl. VAT

* During the period of year 2013-2014 Security supplement has been collected to compensate LNG terminal project implementation costs (or part of it). The Government of the Republic of Lithuania by the resolution No. 1251 set on November 12, 2014, has decided to compensate already collected but not used funds by reducing Security supplement to Lithuania gas system users. Discount shall be applied in years 2015-2016.

The tariffs for the year 2015 and 2016 is different, because the regulation was changed by the NCC: on an annual basis in proportion to the planned quantities of natural gas delivered for the purposes of the user for the year 2015 (i.e. for consumption or further resale) and for the year 2016 is based on the predicted gas consumption capacity.

For the year 2016 LNG terminal additional security supplement tariff is applied to Terminal users, who regasify gas via LNG terminal and use gas transmission system. LNG terminal additional security supplement tariff is set by NCC by the resolutions annualy and is dedicated to cover operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes regasified and submitted to gas transmission system. LNG terminal supplement tariff is calculated according to the formula and methodology set out in NCC Resolution No. O3-367 issued on 13 September, 2013 and its subsequent amendments. NCC also set return of investments of 6.86% for 2015-2019 periods.

During the year 2016 the Company concluded LNG terminal user's contracts with JSC Lietuvos dujų tiekimas and JSC Achema, besides continued LNG terminal user's contracts with JSC LITGAS. JSC LITGAS was the only Terminal User of the LNG terminal during the year 2015. On 1 August 2014 the Company concluded LNG terminal user's contract with JSC LITGAS.

23 COST OF SALES

	2016	2015
FSRU rent and other expenses	50,786	50,415
Depreciation and amortization	12,925	12,552
Wages, salaries and social security	7,123	6,700
Railway services	3,043	1,818
Natural gas	2,323	2,224
Rent of land and quays	2,341	2,132
Electricity	1,257	1,293
Insurance of assets	479	1,237
Tax on environmental pollution	206	138
Tax on real estate	456	421
Repair and maintenance of non-current assets	617	528
Cost of sold inventories	256	215
Transport	241	231
Services for tankers	178	170
Work safety costs	105	128
Rent of facilities	63	45
Other	643	332
	83,042	80,579

(all amounts are in EUR thousand unless otherwise stated)

24 OPERATING EXPENSES

	2016	2015
Salary, social security	3,244	2,840
Consulting and legal costs	434	516
Depreciation and amortisation (3, 4 Notes)	251	221
Expenses for Business trips	251	155
Charity	130	140
Communication costs	152	133
Advertising and external communication costs	403	126
Representation, advertising	99	74
Expenses for refresher courses	103	42
Long term asset impairment change, (reversal)	(33)	40
Expenses related to the management of securities	39	32
Impairment of doubtful receivables	32	16
Repair and maintenance of non-current assets	14	14
Other	786	474
	5,905	4,823

Operating expenses were mostly increased by LNG terminal administration costs during the year 2016 and 2015.

25 INCOME (EXPENSES) FROM FINANCIAL AND INVESTMENT ACTIVITIES – NET

	2016	2015
Interest income	11	22
Fines income	119	9
Sales of investment result (Note 12)	310	
Dividends received	9	
Financial income, total	449	31
Penalty expenses	(23)	(1)
(Losses) from currency exchange	(56)	(147)
Interest (expenses)	(177)	(259)
Other financial activity (expenses)	(49)	(146)
Financial activity expenses, total	(305)	(553)

26 INCOME TAX

	2016	2015
Current income tax expense	1,308	1,865
Deferred tax expense	(7)	203
Income tax expense (income) recorded in the profit (loss)	1,301	2,068

Reconciliation between income tax expense of the Company and the result of taxable income of the Company multiplied by income tax rate for the years 2016 and 2015 is as follows:

	2016	2015
Accounting profit before tax	15,095	24,104
Applying 15 % profit tax rate of the Company	2,264	3,616
Deductible expenses of income tax (charity)	(39)	(42)
Investment projects' relief	(1,156)	(1,865)
Non-deductible expenses of income tax	404	393
Non-taxable income	(317)	(237)
Income tax from dividends	152	-
Applying 15% standard income tax	1,308	1,865
Effective rate	8.67%	7.74%

26 INCOME TAX (CONT'D)

Deferred income tax consists of:

	Statement of Financial position		Statement of Comprehensive income	
	2016	2015	2016	2015
Investment projects' relief	887	923	36	(84)
Accelerated depreciation for tax purposes	250	262	12	15
Write-offs of inventories to realizable value	169	165	(4)	86
Accrued annual bonuses	173	153	(20)	(61)
Impairment of non-current assets	113	118	5	209
Long-term employee benefit liability	42	30	(12)	15
Vacation reserve	32	27	(5)	(1)
Other temporary differences	11	-	(11)	-
Associates' equity method	5	15	10	51
Accrued income	(474)	(360)	114	108
Investment incentive of non-current assets	(2,528)	(2,660)	(132)	(135)
Deferred income tax expenses/ (income) recognised in profit (loss)	-	-		203
Deferred income tax assets/ (liabilities), net as at the year-end	(1,320)	(1,327)	(7)	-

As of 31 December 2016 the Company did not recognise EUR 19 thousand (EUR 19 thousand – in 2015) of the deferred income tax asset related to the decrease in receivables (Loan to JSC "Zavesys" and cession of rights in Vnesekonom bank) as the Management does not expect the income tax asset to be recognised as deductible expenses in the future.

As of 31 December 2016 Management's of the Company judgement was not to recognize as deferred tax asset amounted up to EUR 2,269 thousand from the investment incentive in the amount of up to EUR 15.128 thousand, which expiry date is till 2020, up to EUR 114 thousand from the investment incentive in the amount of up to EUR 761 thousand, which expiry date is till 2019 and up to EUR 2,188 thousand from the investment incentive in the amount of up to EUR 14,588 thousand, which expiry date is till 2018 (amounted up to EUR 78 thousand from the investment incentive in the amount of up to EUR 523 thousand as of 31 December 2015, which expiry date is till 2019 and up to EUR 2,838 thousand from the investment incentive in the amount of up to EUR 18,922 thousand as of 31 December 2015, which expiry date is till 2018) as the Management does not expect the income tax asset to be recognised as investment incentive in the future.

In the Statement of Financial position deferred income tax asset and deferred income tax liability are set-off as they both are related to the same tax authority.

While assessing deferred income tax asset and liability components as of 31 December 2016 and 2015 the Company has used the income tax rate of 15 %.

27 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

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:

	2016	2015
Net profit attributable to shareholders	13,794	22,036
Weighted average number of ordinary shares (thousand)	380,606	380,606
Earnings and reduced earnings (in EUR)	0.04	0.06

28 DIVIDENDS

	2016	2015
Dividends declared	(17,629)	(92)
Weighted average number of shares (thousand)	380,606	380,606
Dividends declared per share (expressed in EUR per share)	0.0463	0.0002

28 DIVIDENDS (CONT'D)

The General Meeting of the Shareholders held on 26 April 2016 approved profit appropriation for the year 2015 and allotted to the Shareholders dividends in the amount of EUR 17,629 thousand for 2015. The General Meeting of the Shareholders held on 30 April 2015 approved profit appropriation for the year 2014 and allotted to the Shareholders dividends in the amount of EUR 92 thousand for 2014.

The outstanding amount of declared dividends to the shareholders, who were not reached from the stated addresses, is accounted as current amounts payable and liabilities in the Statement of financial position as of 31 December 2016. As of 31 December 2016 the outstanding amount of dividends not paid during the previous financial year amounted to EUR 62 thousand (EUR 34 thousand as of 2015).

29 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company –SC Amber Grid" – on 31 December 2016 accounted for approximately 82% (about 89% as of 31 December 2015), SC "Orlen Lietuva" – on 31 December 2016 accounted for approximately 9% (about 5% as of 31 December 2015), Verum Plus AG – on 31 December 2016 accounted for approximately 5% (about 1% as of 31 December 2015) of the total Company's receivables from all its customers. The average payment term for SC Amber Grid" is 15 calendar days, SC "Orlen Lietuva" - 10 calendar days, for Verum Plus AG – 7 calendar days, State Enterprise "Lietuvos naftos produktų agentūra" – 20 calendar days, JSC "LUKOIL BALTIJA", JSC "Neste Lietuva" – up to the 15th of the following month, whereas the usual payment terms for all other customers is 5 days. A possible credit risk for the Company's customers is managed by a continuous monitoring of outstanding balances.

The Company's procedures are in force to ensure on a permanent basis that services are provided to reliable customers and do not exceed an acceptable credit exposure limit. The Company trades only with reputable third parties, so there is no requirement for collateral.

On 14 December 2015 extraordinary general meeting of shareholders of the Company decided that: 1) the Company shall guarantee to Bomin Linde LNG GmbH & Co. KG for the fulfilment of the obligations by the Company's wholly-owned subsidiary JSC "SGD logistika" under the joint venture agreement and other arrangements in connection with this agreement for the entire effective term of the joint venture agreement, up to USD 14,000 thousand. The said guarantee is deemed to be issued by signing the joint venture agreement as a clause therein; 2) the Company shall guarantee under a first demand guarantee for the obligations of the joint venture to be established by JSC "SGD logistika", holding 20% of the authorised capital, and Bomin Linde LNG GmbH & Co. KG, holding 80% of the authorised capital, which would charter and operate a liquefied natural gas bunkering carrier, to pay the charter rate for the carrier to the extent that JSC "SGD logistika" undertakes to pay such charter rate, up to USD 13,000 thousand.

On 29 September 2016 UAB "SGD logistika", which is a wholly-owned subsidiary of the Company, signed the amendments of hereinabove mentioned joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG vessel. Following the amended agreement, in Blue LNG GmbH & Co. KG - a joint venture, established in Germany, UAB "SGD logistika" holds 10% of the authorised capital and Bomin Linde LNG GmbH & Co. KG holds 90% of the authorised capital. According to the amended joint venture agreement the Company hereby unconditionally and irrevocably guarantee to Bomin Linde the due and punctual performance of all obligations of JSC SGD logistika. According to the amended joint venture agreement the Company 1) unconditionally and irrevocably guarantees to Bomin Linde the due and punctual performance of all obligations of JSC "SGD logistika". The estimated maximum amount obligations guaranteed by the Company decreased to up to EUR 4.000 thousand due to change in part in the joint venture as well as clarification of the charter rate; 2) shall guarantee under a first demand guarantee for the obligations of Blue LNG GmbH & Co. KG which would charter and operate a liquefied natural gas bunkering carrier, to pay the charter rate for the carrier to the extent that UAB "SGD logistika" undertakes to pay such charter rate.

In light of the above on 8 December 2016 the Company issued a guarantee, which shall not exceed the maximum amount of USD 4,000 thousand, up to on first demand to cover the obligations of Blue LNG GmbH & Co. KG to pay the charter fee under Time Charter Agreement.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the Statement of Financial position. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts and cash and other short-term deposits recognised at the date of Statement of Financial position. In the Management's opinion there were no circumstances, which would guarantee additional obligations to the Company.

Interest rate risk

The Company's income and operating cash flows are influenced by changes in market interest rates, which are linked to EURIBOR.

(all amounts are in EUR thousand unless otherwise stated)

29 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT (CONT'D)

Interest rate risk (cont'd)

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

The Company's assets held to maturity bear fixed interest rates. The Company holds money and time deposits on the accounts of major Lithuanian banks, which are granted with Fitch Ratings A or higher external rating according to the foreign rating agents. Risk related to the funds in the bank is limited, because the Company carried out transactions with the banks that have high ratings provided by the foreign rating agents.

As of 31 December 2016 and as of 31 December 2015 increase in EURIBOR interest rate by 10 basic points would increase yearly interest amount by EUR 30 thousand.

Exchange rate risk

The Company is exposed to foreign currency fluctuations primarily related to the U.S. dollar. Foreign exchange risk arises from future commercial transactions as well as recognized assets and liabilities. Since 27 November 2014 FSRU was delivered into the Seaport of Klaipeda, Klaipėdos Nafta pays FSRU lease on monthly basis, whereas lease is calculated on a daily rate basis. Charter hire element, Opex element and Management fee are denominated in USD and total 146,050 USD/day.

As of 31 December 2016 and as of 31 December 2015 changes in USD exchange rates do not have any material impact on the Company's profit before tax.

So far, the Company has not used any financial instruments to manage its foreign currency exposure risk due to unclear foreign currency fluctuations regulation by NCC.

Liquidity risk

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

The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2016 were 3.61 and 3.52, respectively (5.56 and 5.40 as at 31 December 2015).

The Company's objective is to maintain a balance between continuity of funding and flexibility. The Company's activities generate sufficient amount of cash, therefore the Managements' main responsibility is to monitor that the liquidity ratio of the Company is close to or higher than 1. During the years 2016 and 2015 the Company's liquidity is high because the Company has no financial commitments in the year 2016 and 2015 and accumulates cash funds for the performance of its strategic objectives.

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2016 and 2015 assessed on contractual undiscounted payments:

	Carrying amount	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	10,141	-	8,740	1,401	-	-	10,141
Other current liabilities	342	-	250	92	-	-	342
Loan and interest	29,724	-	26	79	5,804	25,131	31,040
Balance as of 31 December 2016	40,207	-	9,016	1,572	5,804	25,131	41,523

	Carrying amount	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	6,965	-	6,424	541	-	-	6,965
Other current liabilities	94	-	94	-	-	-	94
Loan and interest	29,737	-	21	141	4,076	27,537	31,775
Balance as of 31 December 2015	36,796	-	6,539	682	4,076	27,537	38,834

29 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT (CONT'D)

Liquidity risk (cont'd)

EUR 1,401 of the EUR 10,141 thousand as at 31 December 2016 (EUR 541 of the EUR 6,965 thousand amount as at 31 December 2015 is the retention amounts under contracts, which are paid for when all work under a contract has been completed. There is no possibility to forecast these payment terms.

EUR 29,724 thousand of EUR 40,207 thousand as at 31 December 2016 (EUR 29,737 thousand of EUR 36,769 thousand as at 31 December 2015) is repayable EIB and NIB loan.

The biggest trade and other payable amounts are to PPS Pipeline System GmBH, JSC "Kauno dujotiekio statyba", JSC "ABB, SE Klaipeda State Seaport Authority, JSC Lietuvos dujų tiekimas, JSC "Hoegh LNG Klaipėda" as at 31 December 2016. The biggest trade and other payable amounts are to PPS Pipeline System GmBH, SC "Lietuvos dujos", SC "Inter RAO Lietuva, JSC "Hoegh LNG Klaipėda" as at 31 December 2015.

Fair value of financial assets and liabilities

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

Fair value is stated as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

	Carrying amount		Fair value	
	2016	2015	2016	2015
Financial assets				
Trade receivables	10,603	27,716	10,603	27,716
Cash	42,056	23,788	42,056	23,788
Short-term accrued income	550	1,019	550	1,019
Financial liabilities				
Loan and interest	29,724	29,737	27,935	27,778
Trade payables	10,141	6,965	10,141	6,965
Accrued expenses	176	66	176	66

The following methods and assumptions are used to estimation the fair value of each class of financial assets and liabilities:
- The carrying amount of cash, current trade accounts receivable, current trade accounts payable approximates fair value (Level 3).
- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. Loans received by the Company are secured by State guarantee (Level 3).
- For the purpose of the fair value estimation of this loan the Company applied difference in interest rate on a difference between market and contractual interest rate (Level 3).

Capital management

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

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

There were no changes in the authorised capital during the year 2016 and 2015.

The Company has to keep its equity at least up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania as of 31 December 2016 and as of 31 December 2015.

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

(all amounts are in EUR thousand unless otherwise stated)

30 COMMITMENTS AND CONTINGENCIES

Operating lease commitments

On 4 November 2009 the Company has concluded a land rent contract with Klaipeda State Port Authorities until 2055. The terms and condition of the contract with all later additions do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent.

In 2016 the Company's land rent expenses amounted to EUR 792 thousand (EUR 624 thousand – in 2015).

Total amount of future minimum payments of land rent:

	31-12-2016	31-12-2015
Within one year	792	624
From one to five years	3,168	2,496
After five years	26,136	21,216
	30,096	24,336

On 9 March 2015 the Company concluded the Liquefied Natural Gas Terminal jetty usage agreement with the Klaipeda State Seaport Authority (hereinafter – KVJUD) for 50 (fifty) years. The Parties shall have a right to terminate the Agreement only in case of enactment of the new laws of the Republic of Lithuania and / or other legal acts related to the regulation of legal terms regarding the usage of the LNGT jetty. The Agreement is concluded inter alia in accordance with the Decree of the Republic of Lithuania Government No. 864 dated 11 June 2012 "Regarding the Decree of the Republic of Lithuania dated 15 February 2012 No. 199 "Regarding the Construction of the LNGT" Amendment", which 6 clause determined that the execution company of the LNGT project and (or) LNGT operator shall use the jetty for mooring of the liquefied natural gas floating storage unit and shall pay the annual jetty fee calculated in accordance with the requirements of the present decree and other legal acts under basis of agreement with the Port Authority.

In 2016 the Company's jetty rent expenses amounted to EUR 165 thousand. In 2015 the Company's jetty rent expenses amounted to EUR 158 thousand.

Total amount of future minimum payments of jetty rent:

	31-12-2016	31-12-2015
Within one year	165	165
From one to five years	660	660
After five years	7,092	7,256
	7,917	8,081

On 2 March 2012 the Company signed Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of Klaipeda at 27 October 2014 and was taken over by the Company on 27 November 2014. There were no changes in the BOT lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) in the year 2016 and 2015, which would lead to changes in classification of this lease as at 31 December 2016 and 2015.

FSRU operating lease payments include such elements:
- Charter Hire Element
- OPEX Element (Services, spares, consumables, insurance in FSRU mode, ship radio and communication)
- Management Fee
- Crew Costs or Maritime personnel expenses

FSRU operating lease costs accounted during the years 2016 and 2015:

	2016	2015
Charter Hire Element	45,758	45,583
OPEX Element	1,514	1,235
Management Fee	650	636
Crew Costs	2,750	2,744
	50,672	50,198

(all amounts are in EUR thousand unless otherwise stated)

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Operating lease commitments (cont'd)

On 31 December 2016, the total amount of future minimum payments of FSRU operating lease amounted to EUR 380,379 thousand (on 31 December 2015 – EUR 411,508 thousand):

	31-12-2016	31-12-2015
Within one year	48,082	46,292
From one to five years	192,461	184,789
After five years	139,836	180,427
	380,379	411,508

The Company will adopt IFRS 16 for the financial year beginning as of 1 January 2019, once adopted by the EU, and is currently assessing the impacts of its adoption on the financial statements. It is expected that modified retrospective approach will be applied.

On 31 December 2016 the Company has preliminary assessed the impact of the implementation of this standard as of 1 January 2019. The Company has used future minimum lease payments as of 31 December 2016 for the assessment. Future minimum lease payments were not discounted to present value as the Management could not reliably determine the discount rate, which will be effective on 1 January 2019. Implicit interest rates or incremental borrowing rates will be assessed at the time of transition.

Based on preliminary assessment made by the Management of the Company, implementation of the standard is expected to significantly increase lease assets and financial liabilities. Estimated effect (currently undiscounted) on the Company's financial statements as at 1 January 2019 is stated below:

	Land rent	Jetty rent	FSRU lease	Total
Property, plant and equipment as at 1 January 2019	28,512	7,586	284,214	320,312
Long term financial liabilities as at 1 January 2019	27,720	7,421	236,132	271,273
Short term financial liabilities as at 1 January 2019	792	165	48,082	49,.039

It is expected that the Company's EBITDA will increase because expenses for off balance sheet leases are excluded from it. Instead of rent costs the Company will record depreciation and interest costs from 1 January 2019. In light of the above, according to preliminary evaluation, the Company will have EUR 49,039 thousand depreciation costs for the year 2019 and no interest costs due to no discounting currently being performed for the purpose of this assessment as described above.

Management's opinion is that the adoption of IFRS 16 will not have significant effect to the Company's covenants and the Company will comply with financial covenant.

Long-term construction agreements

- On 12 February 2016 consortium of PPS Pipeline Systems GmbH and Chart Ferox, a. s. (hereinafter – "Consortium") and AB Klaipėdos nafta concluded "Engineering, procurement and construction works (EPC) for Klaipeda liquefied natural gas reloading station" contract whereby the Consortium undertook to complete all the works according to the contract on a lump sum amount of EUR 27,7 thousand excluding VAT and the board of SC Klaipėdos nafta approved conclusion of the EPC contract. The start of the operations of the natural gas reloading station is 15 months as of the Contract comes in force.

Legal disputes

- On 17 June 2014 the Company received a ruling of the Court of Appeal of Lithuania in the case according to statement of claim of the claimant JSC Naftos Grupė against the Company for the indemnification for losses of EUR 5,000 thousand allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to JSC 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.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Legal disputes (cont'd)

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:

- ✓ the provision of the Contract, giving the claimant JSC Naftos Grupė exclusive rights to transhipping vacuum gas oil, was admitted to be invalid while contradicting the imperative norms of Competition Law;
- ✓ damages in the amount of EUR 865 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 JSC Naftos Grupė by the decision of the court of first instance and the whole sum, claimed by JSC Naftos Grupė as compensation for loss of business, was fully rejected by the Court of Appeal, also
- ✓ litigations costs were reallocated proportionally between the parties to the proceedings.

On 25 July, 2014 the Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by SC Klaipėdos nafta against part of the ruling of the Court of Appeal of Lithuania from 17 June, 2014, in the court case according to statement of claim of the claimant Naftos Grupė, JSC, against the Company for 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. On 8 May 2015 Supreme Court of Lithuania by order of the first and appellate court decisions quashed and referred the case to the first instance court for re-examination. On 11 September 2015 Regional Court of Vilnius reopened the proceedings in the case included the Competition Council of Lithuanian, which is currently preparing a report. A sitting of the Supreme Court of Lithuania is not arranged.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016 and as on 31 December 2015.

- The Company received a notification on 29 January 2013 from the Vilnius Regional Administrative Court (hereinafter, the Court) regarding filing of a response to the complaint of SC Achema (hereinafter, Achema) concerning the resolutions of the NCC. The Company is involved in the case as a third person concerned.

  In its complaint Achema asked to annul the following:

  - ✓ Paragraphs 3.1 and 4 of Resolution No. O3-317 of the NCC "Regarding the establishment of the funds for 2013 intended for compensation, in full or in part, for expenses of the construction and operation of the liquefied natural gas terminal, its infrastructure and the connection", dated 19 October 2012. By the said paragraphs the NCC determined the funds for 2013, intended for compensation of the expenses (in full or in part) of the construction of the liquefied natural gas terminal, its infrastructure and the connection (EUR 32,958 thousand) and for covering of the LNGT funds administration expenses (EUR 87 thousand) and established that the NCC has the right to adjust such amounts of expenses in case of changes in essential circumstances, which have a significant effect on the funding and implementation of the SGDT project.
  - ✓ Paragraph 2 of Resolution No. O3-330 of the NCC "Regarding the adjustment of the upper limits of the natural gas transmission and distribution prices of SC Lietuvos Dujos and establishment of an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium) for 2013." dated 26 October 2012. By the said paragraph, the NCC established an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium), which is intended for compensation of the expenses of construction of the LNGT, its infrastructure and the connection in 2013 (EUR 11 thousand for 1,000 m3, value added tax exclusive).

  Vilnius Regional Administrative Court on 13 October 2014 has stopped the administrative case, until the Constitutional Court of the Republic of Lithuania examine request to investigate whether regulation set in the Law on the LNG terminal of the Republic of Lithuania does not contradict to the Constitution of the Republic of Lithuania. On 11 June 2015 SC ,,Achema" appeal against Vilnius Regional Court decision made on 28 May 2015 in the administrative case No. I-25 1 -629 1201 5. A sitting of the Court of Lithuania is not arranged. On 12 September 2016 SC "Achema" presented the request to stop the administrative case, until the Supreme Court of the European Union examine request for a preliminary ruling. The administrative case is stopped until the Supreme Court of the European Union examine request for a preliminary ruling.

  SC Amber Grid has calculated to SC Achema interest and penalties amounting up to EUR 2,339 thousand as at 31 December 2016 (EUR 820 thousand as at 31 December 2015) for the late payments of security supplement to gas transmission tariff. According to the contract and the law SC Amber Grid at first should cover penalties and interest, when money is received. The Company such transferred penalties and interests does not recognize as incomes until final without possibility to appeal the Court judgment will be made.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Legal disputes (cont'd)

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016 and as on 31 December 2015, because the Company is involved in the case as a third person concerned.

- On 23 May 2014 the Company received a notification from Vilnius Regional Court of a claim from JSC Rudesta submitted against the Company for compensation of extra jobs under the construction contract in the amount of EUR 315 thousand and penalty in amount of EUR 17 thousand. On 20 June 2014 the Company appeal against JSC Rudesta to Vilnius Regional Court of a claim for penalty for late work done under the construction contract in the amount of EUR 169 thousand. In the year 2015 the case was still suspended and referred for examination.

  On 12 December 2016 the Court of Appeal of Lithuania made judgment and partially satisfied both parties claims: the Company was ordered to pay a fine to JSC Rudesta amounting EUR 13 thousand, EUR 7 thousand costs incurred and EUR 3 interest for each day counting from 25 June 2014 until the implement of judgment day; JSC Rudesta was ordered to pay a fine to the Company amounting EUR 34 thousand, EUR 13 thousand costs incurred and EUR 8,08 interest for each day counting from 25 June 2014 until the implement of judgment day, the Company according the Court of Appeal of Lithuania judgment and seeking the procedures covered the payable and receivable amounts and as on 31 December 2016 the Company accounted receivable amount up to EUR 32 thousand. UAB Rudesta requested to annul 12 December 2016 decision of the Appeal Court of the Republic of Lithuania.

  Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016.

- As at 31 December 2016 the Company has six different claims amounting up to EUR 1,878 thousand to compensate costs, appeared due the setting of easement. The cases are suspended and referred for examination as at 31 December 2016.

  Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016.

- On 19 September 2016 Company received a notice from The Arbitration Institute of the Stockholm Chamber of Commerce regarding A/S BMGS initiated arbitration process. A/S BMGS asks to compensate EUR 1,661 thousand EUR (VAT excluded) incurred costs due to supplementary work. Supplementary work was resulted from alleged unforeseen geological conditions while constructing the embankment for the LNG terminal. Parties paid advance costs of arbitration equal to EUR 105 thousand each. The arbitration panel has been formed. The decision of arbitration is set to be rendered till 15 December 2017.

  Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016.

- On 30 November, 2016 the Company received documents from the Vilnius Regional Court (hereinafter, the "Court") regarding a claim filed by UAB "KROVINIŲ TERMINALAS" (hereinafter, the "Claimant") to the Company and AB "ORLEN Lietuva" for damages from the breach of the competition law.

  The Claimant in its claim inter alia asks the Court: (i) to award damages of the amount of EUR 5,995 thousand; (ii) to acknowledge, that contract regarding the terminal, signed between the Company and AB "ORLEN Lietuva" (hereinafter, the "Contract") on 17 November 2011 is void starting from the day of Contract; (iii) to apply an interim measures – the suspension of some of the conditions of the Contract.

  An application for an interim measures was judged on 9 December 2016. In the view of the management of the Company the claim is unfounded. The Company filed its response to the court in due course. On 9 December, 2016 the Company received the ruling from the Vilnius Regional Court (hereinafter, the "Court") regarding the application of the interim measures by which the Court has rejected the request of UAB "KROVINIU TERMINALAS" to apply the interim measures in the case regarding damages from the breach of the competition law by the ruling thereof. The Company informed about the received claim by UAB "KROVINIU TERMINALAS" by notification of material event on 1 of December, 2016. The ruling of the Court may be appealed to the Court of Appeal of Lithuania within 7 (seven) days after its copy delivery.

  Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2016 and as on 31 December 2015.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Guarantees

- The Company has Guarantee Agreement with SC SEB bank for the amount of EUR 1,448 thousand as of 31 December 2016 (1,448 thousand as of 31 December 2015) in order to secure due fulfilment of custom tax obligations in the customs warehouse.

- The Company has Guarantee Agreement with SC SEB bank for the amount of EUR 579 thousand as of 31 December 2016 (608 thousand as of 31 December 2015) in order to secure due fulfilment of excise tax obligations in the excise warehouse.

- The Company has Guarantee Agreement with SC SEB bank for the amount of EUR 498 thousand as of 31 December 2016 (498 thousand as of 31 December 2015) only for ensuring of implementation of measures provided in the Company's waste management activity termination plan.

- The Company has Guarantee Agreement with Ministry of Finance of the Republic of Lithuania for the amount of EUR 66,379 thousand as of 31 December 2016 (EUR 66,738 thousand as of 31 December 2015) to secure the Company's contractual obligations to EIB under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013. Thus, up to 50% of the investments related to LNGT project implementation will be financed by EIB under the contract.

- The Company has Guarantee Agreement with Ministry of Finance of the Republic of Lithuania for the amount of EUR 66,379 thousand as of 31 December 2016 (EUR 66,738 thousand as of 31 December 2015) to secure the Company's contractual obligations to Nordic Investment Bank, under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013. The amount of maximum mortgage is equal to EUR 34,754 thousand.

- The Company has an agreement on assignment of claim rights and a maximum pledge agreement with Hoegh LNG Klaipėda, JSC which maximum amount of USD 50,000 thousand per one year as at 31 December 2016 and as at 31 December 2015. The said agreements are intended to secure obligations of the Company to Hoegh LNG Klaipeda under the Time Charter Party (Lease of a Floating Storage and Regasification Unit in conjunction with maintenance and operation services) agreement concluded on 2 March 2012.

- The Company has Guarantee Agreement with SC SEB bank for the amount of EUR 875 thousand as of 31 December 2016 (875 thousand as of 31 December 2015) for ensuring payment guarantee to LNG Hrvatska d.o.o.

- As of 31 December 2016 the Company has financial guarantee, which shall not exceed the maximum amount of USD 4,000 thousand (USD 14,000 thousand as of 31 December 2015) up to on first demand to cover the obligations of Blue LNG GmbH & Co. KG to pay the charter fee under Time Charter Agreement.

- In accordance with applicable laws, the State Tax Inspectorate may at any time inspect registers of the Company's accounting and records for 5 years before the accounting period and may calculate additional fees and sanctions. The Management of the Company is not aware of any circumstances, because of which significant additional tax liabilities should be calculated for the Company.

- In the Management's opinion there were no circumstances, which would guarantee additional obligations to the Company.

Regulated profit (loss) by NCC

Annual actual collection of the additional security supplement depends on the gas consumption capacities, which can differ from the planned gas consumption capacities used in determining the additional security supplement by NCC. Similarly, actual operating costs of the LNG terminal can materially differ from the costs used in determining the additional security supplement by the NCC. Also, the NCC periodically carries out the review of historical costs from the regulatory perspective. All of these factors may result in the adjustment of future period(s) regulated price and this could lead to material fluctuations of the Company's results in the future.

Net profit of the LNG terminal operating segment of the Company amounts to EUR 3,518 thousand for the year 2016. According to the NCC methodic the regulated unaudited net profit amounts to approximately EUR 3,329 thousand for the year 2016 (net financial profit of the LNG terminal operating segment of the Company amounts to EUR 6,981 thousand for the year 2015. According to the NCC methodic the regulated unaudited net profit amounts to approximately EUR 3,525 thousand). Based on unaudited data the net profit of the LNG terminal segment for the year 2016 is higher by EUR 189 thousand comparing to the regulated unaudited profit for the year 2016. Net profit of the LNG terminal segment for the year 2015 is higher by EUR 3,456 thousand comparing to regulated profit for the year 2015.

According to the regulation additionally received amount shall be dedicated for the LNG terminal required expenses for the coming financial periods.

(all amounts are in EUR thousand unless otherwise stated)

31 RELATED PARTY TRANSACTIONS

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Company and transactions with them in 2016, 2015 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions

		Purchases	Sales	Receivables	Payables
State Enterprise Klaipeda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2016	2,323	-	-	73
	2015	782	22	-	-
SC Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation	2016	3,627	-	-	120
	2015	1,905	-	-	170
SC "Lesto", owned by the State of Lithuania represented by the Ministry of Energy	2016	-	-	-	-
	2015	546	-	-	70
SC Lietuvos dujos	2016	-	-	-	-
	2015	429	-	-	66
JSC Lietuvos dujų tiekimas	2016	2,386	331	13	179
	2015	1,441	-	-	164
SC Amber Grid	2016	-	65,467	8,735	-
	2015	430	73,750	24,792	71
PE Lietuvos naftos produktų agentūra	2016	-	1,364	-	-
	2015	-	1,260	132	-
JSC LITGAS	2016	-	402	90	-
	2015	-	-	-	-
SC Energijos skirstymo operatorius	2016	611	-	-	70
	2015	-	-	-	-
JSC Energijos tiekimas	2016	645	-	-	75
	2015	-	-	-	-
Other related parties	2016	5	5	-	-
	2015	97	5	-	1
Transactions with related parties, in total:	2016	9,597	67,569	8,838	372
	2015	5,630	75,037	24,924	542

Management salaries and other payments

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

	2016	2015
Labour related disbursements	2,400	2,157
Number of managers	37	36

During 2016 and 2015 the Management of the Company did not receive any loans, guarantees, and no other paid or accrued amounts or property was transferred.

32 SUBSEQUENT EVENTS

- On 20 January, 2017 Supervisory Council of AB Klaipėdos Nafta, legal entity code 110648893, registered at Burių st. 19, Klaipėda (hereinafter, the "Company"), adopted the decision to elect Bjarke Palsson to the duties of independent Board Members of the Company to the current vacancy from 24 January, 2017 until the term of office of the acting Board of the Company (29 April, 2018). The newly elected Board Member of the Company Bjarke Pålsson also acts as Managing Director of Financial Strategy & Origination at Danish company Nykredit.

32 SUBSEQUENT EVENTS (CONT'D)

- On 16 December 2016 the General Manager of AB Klaipėdos Nafta Mantas Bartuska presented the Board of the Company with resignation notice. Until the adoption of the Company Board's decision regarding the appointment of the new General Manager of the Company, the Director of Finance and Administration Department Marius Pulkauninkas shall act in capacity of the General Manager.

- On 23 January, 2017 the Board of AB Klaipėdos Nafta (hereinafter – the Company), legal entity code 110648893, registered office address Burių g. 19, Klaipėda, announced selection of candidates for the position of General Manager of the Company. After the selection procedures are performed, the Board of the Company will adopt a decision regarding election of General Manager.

- On 2 March 2017 the Company upon conclusion of respective agreements the Terminal capacities were allocated to AB "Achema" under below indicated conditions:
  - LNG regasification capacities: LNG regasification capacities 5.839.900.000 kWh (with reference conditions: natural gas upper heating value - 11.90 kWh/nm3, LNG expansion coefficient- 1:580 (m3 LNG/ nm3 natural gas), combustion/measurement temperature - 25/0 °C, pressure – 1,01325 bar).
  - Terminal capacity usage period: from the 1st of April, 2017 until the 30th of September, 2017.

- On 8 March 2017 the profit (loss) allocation project is not prepared yet.

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

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Marius Pulkauninkas, Acting General Manager of SC Klaipėdos Nafta and Asta Sedlauskienė, Head of Accounting Unit, hereby confirm that to the best of our knowledge the above-presented Financial Statements of SC Klaipėdos Nafta for the year 2016, 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.

Acting General Manager	Marius Pulkauninkas
Head of Accounting Unit	Asta Sedlauskienė

KNOWLEDGE
DRIVEN
KN

AB KLAIPĖDOS NAFTA ANNUAL REPORT FOR THE YEAR 2016

8 March 2017

CONTENT

Abbreviations:

KN – AB Klaipėdos nafta

KNF – Klaipėda oil terminal;

LNGT – Liquefied Natural Gas Terminal;

LNG – Liquefied Natural Gas;

OP - Oil Products;

HFO – Heavy Oil Products;

LFO - Light Oil Products;

SKB – Subačius oil terminal;

GDP – LNG reloading station project and its activity;

OPP – Oil-Processing Plant (refinery);

NCC - National Control Commission for Energy control and prices;

NIB - Nordic Investment Bank;

EIB – European Investment Bank.

A FOREWORD OF THE CEO

The daily objective of AB Klaipėdos nafta (KN) is to ensure safe and reliable operation of import and export terminals of oil products and liquefied natural gas (LNG) as well as transhipment and supply of the aforementioned resources. We are delighted that in 2016 the Company retained its firm positions in the Baltic oil and gas market and logistics chain and recorded growth in transshipment volumes.

It is a considerable achievement in terms of the entire Baltic Sea region: while other ports recorded declining trends in loading volumes, Klaipėda and Subačius oil terminals performance reached a record high in the last five years and handled over 7.3 million tons of oil products. The LNG terminal ensured energy security and at certain periods managed to serve 100 per cent of the Lithuanian natural gas market needs. The significant growth of the oil products transhipment proves once again that Klaipėda oil terminal performs its services very professionally and effectively and the natural gas users of Lithuania were supplied successfully through the LNG terminal service. Working with the three LNG terminal users LNG regasification volume in 2016 comprised 14.6 million MWh or 3.2 times more comparing to the same period of 2015.

Commercial activity based on properly and effectively adjusted processes and clear cost control enabled the Company to implement the set investment plan.

Worth mentioning that we have implemented several investment project outlined in the Strategy of the Company for the year 2016 - 2020. These projects will ensure the optimal operations of our managed infrastructure, effectiveness of activities and development.

KN financial results for the year 2016 prove intensive performance of KN. Despite the increased activities volumes and implementation of the projects the Company professionally managed its costs. For the analyzed period the return on equity was 7.1%; EBITDA margin – 27.4%.

Sales revenues for the year 2016 comprise Eur 103.8 million; or less by 5.3% compared to the same period of 2015. The net profit for the year 2016 amounts Eur 13.8 million. EBITDA for 2016 comprise Eur 28.4 million, less by 23.4 %, comparing to 2015 when EBITDA comprised Eur 37.1 million.

The decrease in revenues and profitability related with the results of Klaipėda oil terminal. In order to remain competitive in the market and adapt to the clients expectations we had to change pricing of services that reflected our profitability results.

The end of last year was remarkable as we renewed the trademark and logo of the Company, which was developed 14 years ago, crystallised our strengths and became KN – a Knowledge Driven company.

One of our main goals last year was improvement of relations with business and target audiences so as to inform everyone about changes, results and plans of the Company in a transparent manner. All devoted effort was appreciated and recognised in the Baltic Market Awards 2016. We were awarded in 4 categories in this annual event organised by Nasdaq Baltic. It is a considerable evaluation which stimulates us to put maximum effort while working towards all pre-planned strategic directions and increasing the value of the Company as well as return to stakeholders.

We plan actively to continue executing strategic goals and implementing the foreseen projects. We will seek to maintain a stable transhipemnt level of oil products and to create favorable condtions for gas regasification as well as LNG reloading that first operation was already made in the beginning of January of 2017 in the LNG terminal. We will continue already initiated and will start the new ones oil terminal development projects.

In the end of 2017 we plan to start activities of the onshore LNG reloading station in Klaipėda port. The main target of the implemented project is to create small scale LNG activity infrastructure and develop LNG market in Baltic sea region. LNG reloading station – its a complex of 5,000 m3 LNG tankers in which gas from the vesel INDEPENDENCE shall be delivered by LNG carrier and from which gas will distributed by auto carriers or by ships. Be expect that after LNG reloading station will start its operation Klaipėda port will become onshore LNG distribution hub for the Baltic countires and North Poland.

The KN will eagerly and ambitiously seek to become one of the most efficient Companies in Europe, will also initiate changes, activity diversification, introduce new services and projects to form the basis for sustainable growth in the Company's value. Sustainable development is closely linked to social responsibility which is also one of the focal points of our activity.

We strongly believe that goals we set will be achieved by virtue of the values the Company fosters and based on the professional skills, unique knowledge and competencies of our employees.

Marius Pulkauninkas

Acting General Manager

INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES

Reporting period

The Annual Report for the year 2016 is prepared for the period from 1 January 2016 until 31 December 2016.

Details about the Company (Issuer)

Name of the Company:	AB Klaipėdos nafta
Legal status:	Stock Company
Authorized share capital:	110,375,793 Eur
Date and place of registration:	27 September 1994 m., State Enterprise Centre of Registers
Company code:	110648893
Address:	Burių Street 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@kn.lt
Internet site:	www.kn.lt

Brief history and activities of the Company

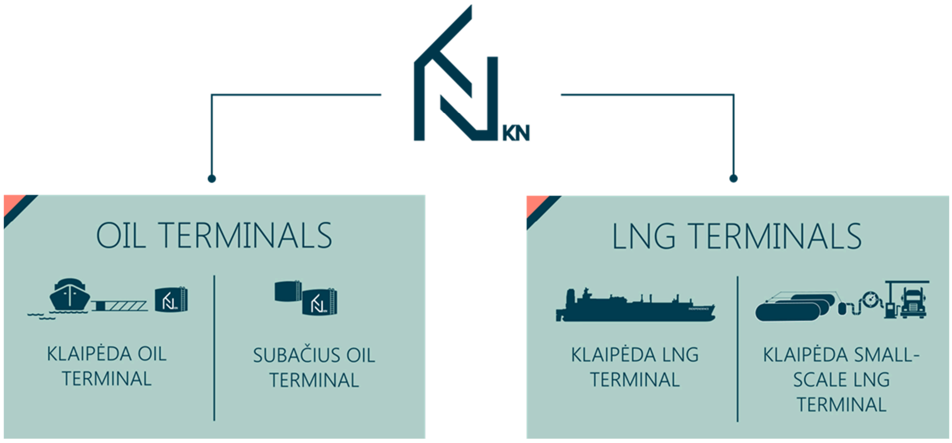
AB Klaipėdos nafta – strategically important company in terms of energy security for the Lithuania and neighbor regions, ensuring liquefied natural gas import opportunity into Lithuania and surrounding countries as well as storage of the compulsory oil products reserve of the Republic of Lithuania, also reliably and effectively reloading oil products in Klaipėda port. Nest to the mentioned activities the Company develops small scale LNG acvtivities.

The beginning of Company's activities can be traced back to the old oil terminal in Klaipėda. Oil export and transhipment base has operated in the current Company's territory for over 50 years. Oil products (mostly fuel oil) were transported to Klaipėda from nearby oil refineries in Russia and other countries. After Lithuania regained its independence, a decision was made to continue the activities of the oil terminal which at that time required a substantial reconstruction. AB Klaipėdos nafta was founded in 1994. The Company was assigned to be the designated contractor to carry out the reconstruction and later became the operator of the new terminal. Nowadays AB Klaipėdos nafta oil terminal is one of the most modern oil terminals in Europe.

On 12 June 2012 the Lithuanian Parliament approved the law on LNG terminal that regulates main principles and requirements for installation, activity and operation of the LNG terminal. AB Klaipėdos nafta was assigned to implement the project. After a two and a half year development process, the LNG terminal was launched on 27 November 2014 and the Company became the operator of the terminal.

In 2012, as a result of decree approved by Government of The Republic of Lithuania, the infrastructure of the Subačius oil terminal (hereinafter – SKB) was transferred from Lithuanian oil products agency to AB Klaipėdos nafta ownership. This order was made with a purpose to improve the management of state owned property. Long term oil product storage services are provided in SKB tank farm which most of capacity being allocated to the storage of national mandatory reserve of oil products.

The Comapany's operations can be divided into 2 activity directions and four separate activities: oil product transhipment (Klaipėda oil terminal), long term oil product storage (SKB), LNG terminal operation and LNG related activities development. The management assesses financial results of each activity and sets individual strategic objectives.



Information about investment into other companies:

The Company has invested into the following companies as of 31 December 2016:

Name of the Company	Address	Ownership part, per cent	Activities
UAB SGD logistika	33-2 Gedimino str., LT-01109 Vilnius	100	Planned LNG transportation activities.
UAB BALTPOOL	9 A. Juozapavičiaus str., LT-09311, Vilnius	33	Development of activity of energy resources (bio-fuel, gas) exchange, administration of Public Interest Services (PIS) funds.
Sarmatia Sp. z o.o.	ul. Nowogrodzka 68, Prima court, 02-014 Warsaw, Poland	1	Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea.

On 3th October 2016 the Company sold owned UAB LITGAS shares (33.33 per cent shares). The Company and Lietuvos energija, UAB have entered into UAB LITGAS 33.33 per cent shares sale - purchase agreement. The transacition value EUR 4.35 million.

Participation in Associations

The Company has been acting as a member of the following associations as at the end of the year 2016:

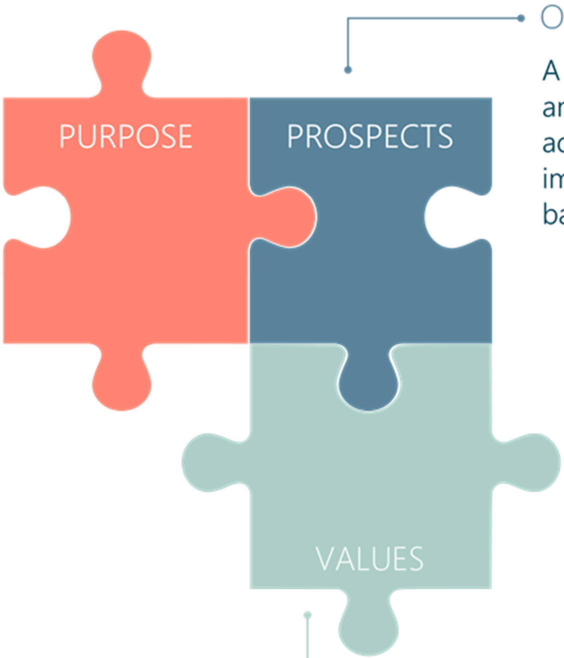
- Klaipėda Chamber of Commerce, Industry and Crafts, http://www.kcci.lt/;
- Association of Lithuanian Stevedoring Companies, www.ljkka.lt;
- Lithuanian Confederation of Industrialists, www.lpk.lt;
- Gas Infrastructure Europe (GIE) association Gas LNG Europe (GLE) group, www.gie.eu.com;
- Lithuanian LNG cluster, http://www.lngcluster.eu

THE COMPANY'S STRATEGY

At the beginning of 2016 the Board of AB Klaipėdos nafta approved the corporate strategy for period 2016 - 2020 (hereinafter - the Strategy), in which the Company's environment factors were analyzed, the Company's mission and vision were updated, common strategic goals were established for the entire Company and for each individual activity, the historical financial information of the Company was evaluated and the strategic period's indicators to be reached were established.

OUR MISSION

Ensure reliable and effective supply of LNG and transhipment of oil products.



OUR VISION

A reliable operator of oil and LNG terminals that adds value through implemented projects and balanced expansion.

OUR VALUES

Initiative, transparency, professionalism and reliability, social responsibility.

The Strategy foresees that the Company will seek to become one of the most efficient companies in Europe, will strive for change, activity diversification, new projects and services, which will form the basis for the Company's sustainable growth. The Company's achievements are expected to be visible and evaluated at the level of the State of Lithuania.

The successful implementation of the LNG terminal project and the acquired experience provided the Company a unique opportunity to use the experience internationally and expand the geographical range of the Company's activities. A small scale LNG project implementation will be important for the whole Baltic Region. By implementing its strategy the Company aims to become attractive to investors, ensuring competitive return on investment by dividends and by the growth of its value when improving the financial results of its commercial activities.

The Strategy foresees that significant attention of the Company's management will be dedicated to social responsibility, employees' development, environmental protection and cooperation with Lithuania's educational institutions.

The general and individual activities' strategic goals for the period 2016 - 2020 are provided below.

General strategic objectives				
Increasing value of the company	Secure, reliable and efficient operation of oil and LNG terminals	Growth and diversification of activities	Improvement of internal processes	Development of competence

Strategic objectives for major activities			
Oil terminal	**LNG terminal**	**LNG small scale**	**Long term fuel storage facilities**
• Increase awareness and attractiveness to the owners of oil products	• Provide an alternative source for the supply of natural gas to Lithuania	• Create small scale LNG infrastructure	• Proper storage of national reserve of oil products
• Improve flexibility and capacity of oil transshipment			
• Enlarge the scope of activities and services provided	• Assure minimal exploitation expense for the consumers of natural gas	• Develop regional LNG market	• Increase long term storage capacity and volume of the activity
• Ensure safe operations of the oil terminal	• Develop services related to the activities of LNG terminal		

The Company aims to achieve the following targets within its main activities:

Oil terminal: transship oil products in a safe, reliable and competitive way; increase the terminal's attractiveness, flexibility in order to attract new clients as well as transhipment volumes.

Liquefied natural gas (LNG) terminal: ensure sustainable gas import opportunity into Lithuania and to increase the benefits provided by the LNG terminal for the Lithuania Republic and gas consumers. Targets are to be met by ensuring safe, uninterrupted and effective LNG terminal operation. At the same time the Strategy foreseen the reduction of LNG terminal costs was paid by the gas consumers.

LNG small scale activities: install an onshore LNG distribution station and commence the small scale LNG activities, actively search for the other LNG distribution station investment projects to the Baltic sea region.

Long term fuel storage activity (Subačius oil terminal): secure effective storage of national mandatory oil product reserve as well as search the activity development opportunities.

Company both in its daily activity, both in implementation its strategic goals, is being led by these **values:**

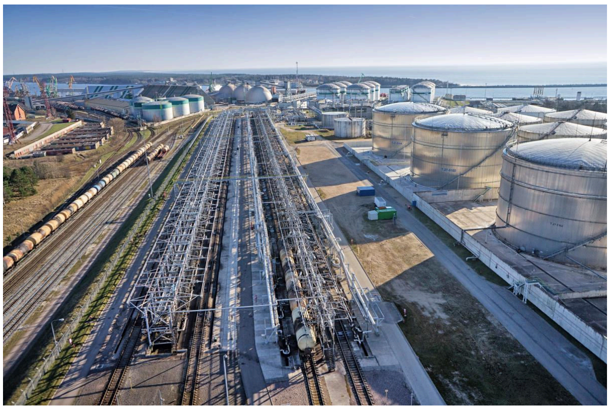
- **Proactivity.** The Company seeks to identify market needs and business enlargement opportunities by creating new or modifying provided services.
- **Professionalism and reliability.** AB Klaipėdos nafta operates oil and LNG terminals according to the highest professional standards, fast and efficiently. Internal processes and procedures for oil transhipment and LNG regasification are constantly revised; the quality of cargo is accurately monitored.
- **Transparency.** The Company seeks to comply with regulations for listed enterprises issued by NASDAQ Vilnius, it is managed by the best corporate governance principles and provides important Company information to the society and investors comprehensively and timely.
- **Social responsibility.** The Company is governed by sustainable business growth principles that include corporate social responsibility and environmental protection initiatives. Therefore the Company invests in additional activities employing technologies that are increasing economic benefits to investors and are environment-friendly. The Company participates in various social projects.

THE COMPANY'S BUSINESS UNITS AND INFRASTRUCTURE

The Comapany's operations can be divided into two activity directions (oil terminals and LND terminals) and four separate activities: oil product transhipment (Klaipėda oil terminal), long term oil product storage (SKB), LNG terminal operation and LNG related activities development.

Klaipėda oil terminal

The Company is one of the largest oil reloading terminals on the Baltic States. The terminal's main activity is to transship oil products delivered by rail tank-cars into tankers.



The Company's Oil Terminal reloads these oil products:

- Light Oil Products (hereinafter – LFO):
  - different types of diesel fuel;
  - different types of gasoline;
  - jet fuel.
- Heavy Oil Products (hereinafter – HFO):
  - different types of fuel oil;
  - technological fuel;
  - vacuum gas oil (VGO);
  - crude oil.

The optimum capacity of the Company's oil terminal is approximately 7 million tons of oil products transhipment per year. The oil products transhipment service processes at the Company's oil terminal mainly include the following operations: i) reloading of oil products from rail tank-cars, ii) temporary storage of oil products in the terminal's tankers and iii) loading oil products into tank vessels. The oil products are spilled from the rail tank-cars and pumped into the terminal's tankers for temporary storage in order to accumulate a sufficient amount of product to be able to fulfill in the tank vessel. The tank vessels' shipment batches accumulation period depends on the type of product, intensity of transhipment and size of the tank vessel's bunker. The said period may take from several days to several weeks. The tank vessels are moored to the jetties on the territory of the Company for transhipment of oil products in accordance with the time schedule agreed with the customers in advance. The transhipment is performed by pumping oil products from tankers via the Company's pipelines, connected to the tank vessels.

Shipment batches are stored in onshore storage, the overall volume of which amounts to 450 thousand cbm. Loading into tankers is performed at two jetties, each 270 m in length; the maximum draught is 13.5 m.

The Klaipėda oil terminal is traditionally known as one of the best transhipment terminal of heavy oil products (fuel oil and VGO), effectively operated at low temperatures because of developed technology and extensive experience. The Company operates it's own boiler station with three boilers comprising total capacity MW100. The Company's oil terminal was reconstructed in 1996-2002 however the technological equipment is continuously upgraded and properly maintained, investments are performed and the oil products transhipment processes are further improved and developed.

Also the Company is capable to provide Lithuania with the imported oil products which are delivered at Klaipėda sea port by tankers. There is a road tanker loading station in the terminal.

Klaipėda oil terminal provides the following services:

- Transhipment of crude oil and oil products from rail tank-cars into tankers;
- Transhipment of crude oil and oil products from tankers into rail tank-cars;
- Reloading of crude oil and oild products into 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;
- Provides technology for adding chemical products into oil products;
- Blending of heavy and light oil products;
- Supply of fuel and water to sea vessels.

Subačius oil terminal

After the approval of the share emission agreement with the Republic of Lithuania on 11 June 2012 the Company started to manage the Subačius oil terminal (SKB) located in Kunčiai village, Kupiškis district. The infrastructure of the Subačius oil terminal consists of the following:

- the park of 338,000 m3 of storage tanks (total 66 units) adapted to store light oil products;
- the rail trestle which can simultaneously handle 14 rail tanks;
- modern loading station of auto tank-cars;
- renovated laboratory able to detect the main quality parameters of oil products;
- vehicles and other buildings and equipment.

After the takeover of the Subačius oil terminal infrastructure the Company's activity and services have been diversified and expanded by the oil products long term storage services. The Subačius oil terminal has been successfully integrated into AB Klaipėdos nafta organizational and management structure and became one of its business segments.

The Subačius oil terminal provides the following services:

- Storage of oil product (fuel) stocks of the Lithuanian State to ensure the national energy security under the relevant legal acts;
- Long-term storage of oil products (fuel);
- Short-term storage and handling of oil products (petrol and diesel fuel) to both private and business customers;
- Adding bio-additives and marking substances to oil products.

After taking over the infrastructure of Subačius oil terminal, the Company has expanded and diversified its activities and services, adding the service of long-term storage of oil products. The results of activities of Subačius oil terminal for 2016 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2016.

The infrastructure of the Subačius oil terminal is continuously upgraded in order to ensure proper provision of high quality services to customers, as well as safe and reliable operation of the facility. The handling scheme (tank truck – storage tank – tank truck) is being developed with the aim of attracting additional cargo flows. Installation of an additional oil product pipeline is being planned. It will connect a storage tank with a tank truck area designed for the trading in various types of oil products. Investments are earmarked for the development of long-term oil product storage capacities for commercial activities. Upgrading of mobile fire extinguishing equipment of the Oil Terminal is underway.

Liquefied Natural Gas Terminal

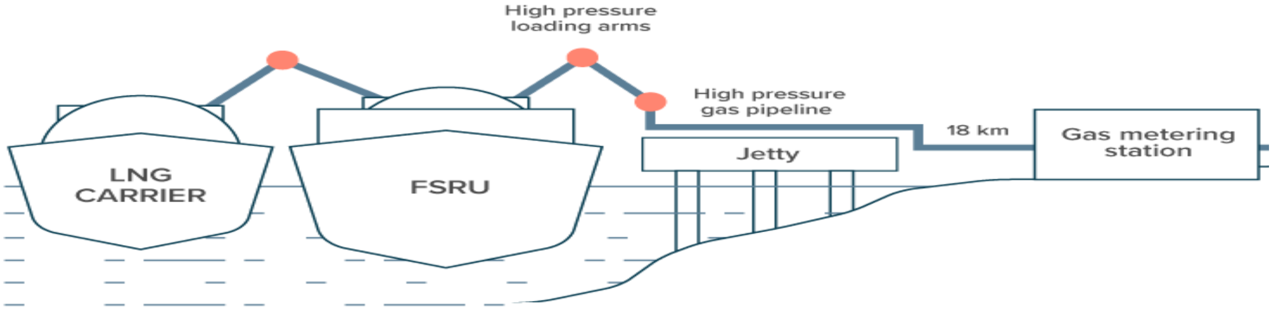
The Law on Liquefied Natural Gas Terminal (hereinafter - LNGT) approved by the 12 June 2012 Resolution of the Parliament of the Republic of Lithuania (No XI-2053) on the highest juridical level establishes the requirements for LNGT construction in the territory of the Republic of Lithuania, general principles and requirements for its activities and operation, and forms legal, financial and organizational conditions for the implementation of LNGT Project. AB Klaipėdos nafta was assigned to implement the project. After a two and a half year development process, the LNG terminal was launched on 27 November 2014 and the Company became the operator of the terminal. Operation of the LNGT was commenced on 27 November 2014 upon the obtainment of natural gas liquefaction license issued by the National Commission for Energy Control and Prices.

The LNG terminal supplements and expands the existing natural gas supply infrastructure, provides additional opportunities for supply diversification, eliminates the dependence on the single external supplier of natural gas, ensures safe natural gas supply, and complies with the requirements of the directive N-1 infrastructure standard, i.e., forms particular assumptions for independent gas supply in Lithuania, required in order to meet the unconventional demand.

Infrastructure of the Liquefied Natural Gas Terminal

The LNG terminal is based on Floating Storage and Regasification Unit technology. The LNG vessel-storage (FSRU) is leased by the Höegh LNG. Jetty of 450 m length to which the FSRU is permanently moored, has been built in the Curonian Lagoon in the southern part of port of Klaipėda. The LNG terminal is connected to the transmission system operator's – AB Amber Grid – gas grid via 18 km long linking pipeline. The main function of the LNG terminal is to accept and store liquefied natural gas, regasify them and supply to the main gas system.

The main parts of the LNG Terminal are provided below:



LNG vessel-storage with regasification unit

The LNG terminal is a LNG tank vessel (Independence), which, on the territory of Klaipėda seaport, accepts liquefied natural gas from LNG carriers, moored by the LNG terminal. The LNG is accumulated and pumped through special equipment in order to have it regasified.

In 2012 the Company signed the 10 years FSRU lease agreement with a purchase option with the Norwegian company Höegh LNG. The FSRU is built by the South Korean shipyard Hyundai Heavy Industries Co., Ltd

Characteristics of the Floating Storage and Regasification Unit (Independence)*	
TECHNOLOGY	Floating Storage and Regasification Unit (FSRU)
PLACE	southern part of Klaipėda state seaport, near Kiaules Nugara island
FSRU SUPPLIER	Norwegian company Höegh LNG
TANK	170,000 m^3
LOADING CAPACITIES	9,000 m^3/h of LNG. Loading from vessel to vessel using flexible hoses
FSRU CAPACITIES	3.76 billion m^3 of NG per year (10.24 million m^3 per day)
Maximum LNG filling level	98 %, at 70kPag
Minimum operational LNG Heel level	3,500 m3 of LNG
GAS FLOW TO THE GAS PIPELINE	10.24 million m^3 per day
FSRU PRODUCTION DATE	2014 year
FSRU LENGTH	294 m
FSRU WIDTH	46 m
FSRU DRAUGHT	12.6 m

* Technical Characteristics of Terminal are specified at reference conditions: temperature (combustion/measurement) – 25/0 °C, pressure – 1.01325 bar.

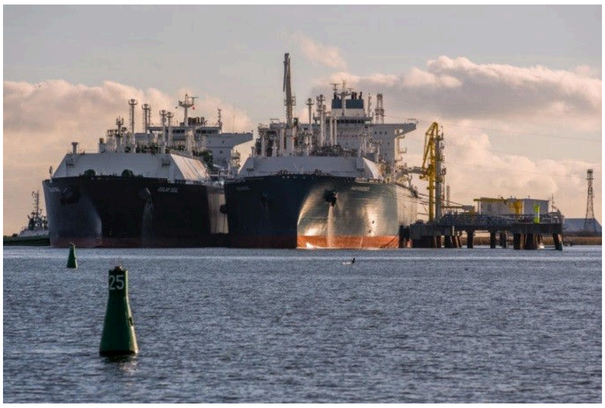
Jetty and its Facilities:

The FSRU is permanently moored to the jetty in order to receive LNG from the gas carriers. Safe entry of vessels to the Klaipėda State Sea Port up to the Pigs Back Island has been ensured by dredging the port channel controlled by the State Enterprise Klaipėda State Seaport Authority. The following special facilities of the jetty has been installed as well: a high pressure platform, a service platform, berthing and mooring platforms, catwalks, firefighting towers, a control room, fire warning equipment, technical maintenance cranes, high pressure loading arms and other necessary equipment and systems.

Connecting Gas Pipeline of the LNG Terminal

The terminal is connected to the natural gas transmission system operator's AB Amber Grid gas transmission network via 18 km length 700 mm diameter connecting pipeline. Connection to the transmission network is equipped with the Gas Metering Station.

The LNG Terminal services



The Terminal shall provide LNG regasification and LNG reloading services. The LNG regasification service consists of the following related and mutually dependent services:

- LNG reloading in the terms as determined in the Terminal usage schedule (see below);
- LNG regasification at the regasification rate set in the Terminal user's schedule.

The LNG reloading service consists of the following related and mutually dependent services:

- LNG loading – opportunity to deliver LNG cargo by LNG carriers of 65,000 – 160,000 m3 capacity (if not agreed otherwise), to berth them to the jetty and unload LNG into the Terminal over a period of maximum 48 hours;
- LNG storage at the Terminal until its reloading, but in any case not more than for 60 calendar days.
- LNG reloading – loading of the LNG quantity set by the Terminal user's schedule into LNG carriers which cannot be smaller than 5,000 m^3 and not larger than 65,000 m3 over a period of maximum 48 hours.

Prices set for Terminal services are:

- LNG regasification service price (hereinafter referred to as the LNG regasification service) is approved every year by the Company based on LNG regasification service price set by the National Control Commission for Prices and Energy (hereinafter - NCC);

Pricing:

- LNG reloading service price set by the NCC on 20 November 2014 by the resolution No O3-896.
- LNG regasification service price cap and regasification price is being adjusted on yearly basis, LNG reloading price is fixed and set up for 5 years.

Terminal service	Price set
LNG regasification service* price (set for year 2016-2017)	0.10 Eur/MWh excluding VAT
LNG reloading service price (set for year 2015-2019)	1.14 Eur/MWh excluding VAT

* Additional Security to the natural gas transmission price (security supplement) as approved by NCC is applied to LNG Terminal users transporting gas via gas transmission system.

The LNG terminal operation costs are included into the gas transmission tariff as an security supplement, which, starting from 2016 covers not only the LNG terminal's costs, but also the costs of the services, provided by the designated provider of natural gas and the forecasted losses, incurred by the designated provider as the result of the difference of LNG purchase and sales prices. Starting from 2016 the costs are distributed among the natural gas consumers based on their natural gas consumption capacities. The LNG terminal's security supplement tariff to Lithuanian users, approved by the NCC, calculated per one unit of volume of consumption, for 2017 will be EUR 473.60 / (MWh/day/year). The share of the said tariff natural gas liquefication service price cap comprise to EUR 361.84 (MWh/day/year). This part is dedicated to compensate the Companys' LNG terminal costs and regulated return.

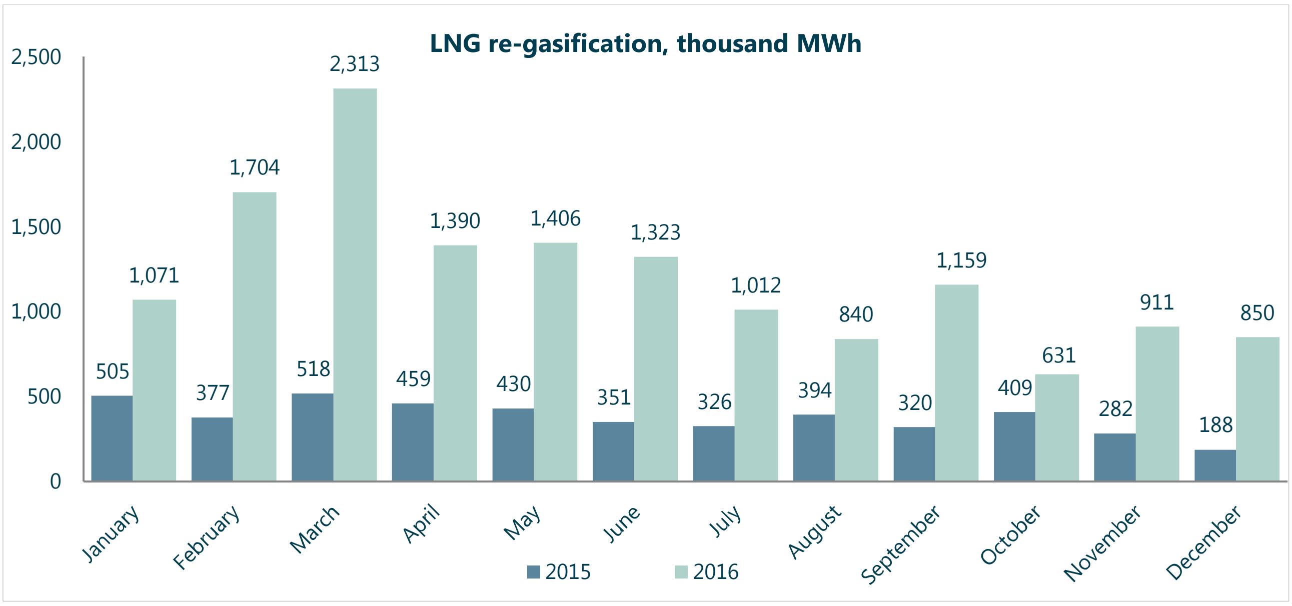
The LNG terminal fully ensures the third party access requirements in accordance with EU laws. The terminal's activities are organized in observance with the Rules for Use of the Liquefied Natural Gas Terminal (hereinafter - Terminal rules), adopted after public consultations with market parties and agred with the NCC. The terminal's capacities are provided to the potential users on the same conditions in the way of public and transparent annual capacity allocation procedure or during the ongoing period if there are any free capacities.

Capacities of the LNG terminal in primary market, allocated as at 29th September 2016:

Allocated capacities	Amount of allocated capacities	Period
Regasification capacities	5.997.643.705 kWh*	From 1 October 2016 till 1 October 2017

NOTE: temperature (combustion/measurement) - 25/0 °C, pressure - 1.01325 bar. Natural gas upper heating value- 11.90 kWh/nm3, LNG expansion coefficient- 1:578 (m3 LNG/ nm3 natural gas).

LNG regasification in 2016 comparison stated below in the chart:



The results of activities of LNG Terminal for year 2016 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2016.

Klaipėda small-scale LNG Terminal

Reloading Station

The liquefied natural gas (LNG) reloading station is LNG tanks with a total capacity of 5,000 cubic meters to which the gas from the LNG terminal is delivered by LNG carrier and distributed by road transport means (LNG trucks) or smaller vessels. A possibility of expanding the capacity of the station up to 10,000 cubic meters in the future has been foreseen. The station will be equipped with two LNG truck loading sites, as well as the conditions for LNG reloading to small-scale LNG vessels will be created.

The purpose of the LNG reloading station is to create a small-scale LNG infrastructure and to develop the LNG market in the Baltic Sea region.

Once the LNG station has started its operation, the port of Klaipėda will become a land-based LNG distribution hub for the Baltic countries and North-Eastern Poland. The station will operate on the Klaipėdos nafta AB site situated along the second quay. The start of operation shall be the second half of 2017.

The LNG from the Independence terminal is intended to be transported by special small-scale LNG carriers.

Planned activities:

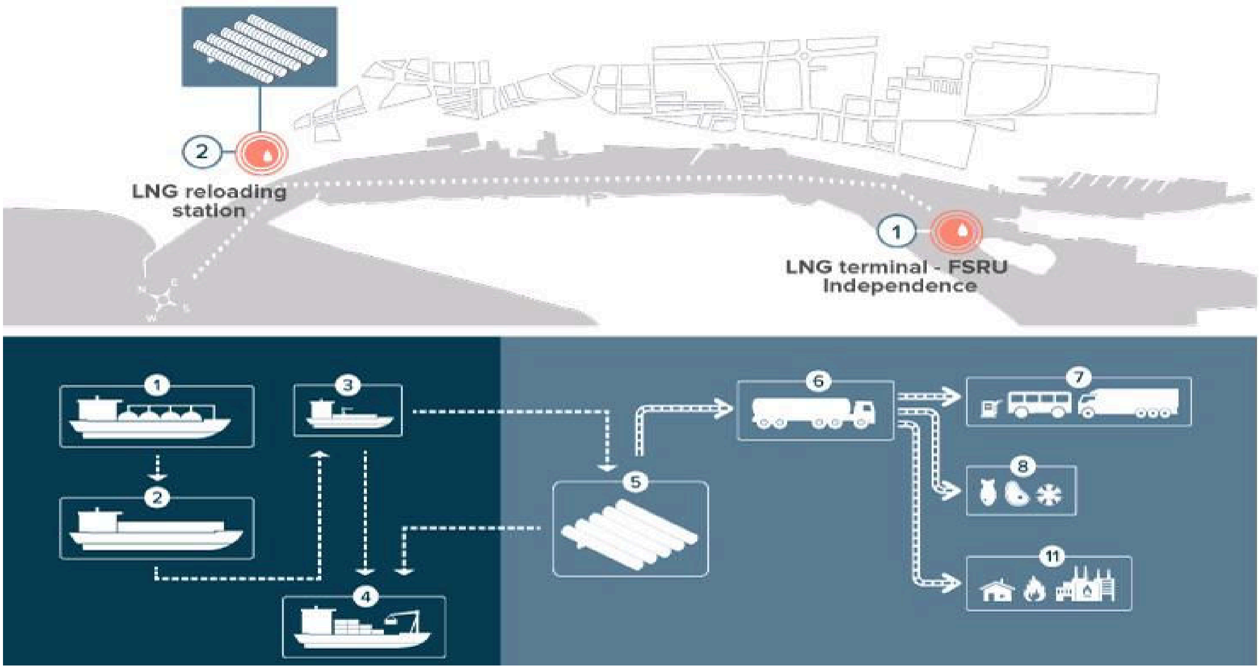
- Acceptance of LNG from LNG carriers and temporary storage;
- Transhipment to LNG trucks;
- LNG bunkering directly to vessels.

Use of LNG:

Liquefied natural gas is the cleanest fossil fuel.

The LNG transhipped to LNG trucks at the Klaipėda LNG reloading station shall be identical to the gas used at home or for industry purposes, however, it will be in a liquid state: cooled to -161 degrees and taking up to 600 times less space than in the gaseous state. LNG is an odourless, colourless, non-explosive, non-toxic and non-corrosive substance.

LNG distribution chain in Klaipėda.



LEGENDA

1. LNG carrier
2. FSRU Independence
3. Small - scale LNG bunkering carrier
4. LNG - powered marine transport
5. Small - scale LNG reloading station
6. LNG truck
7. LNG - powered road transport
8. Cryogenic (cold) energy users
9. Remote household and industrial consumers

Energy

LNG comes into use in the areas that are not located within reach of pipelines. In terms of LNG supply, Klaipėda LNG reloading station is in a geographically attractive location not only for Lithuanian consumers, but also for those in the North-Eastern Poland, as well as for customers in the Baltic countries. Upon installation of regasification stations, LNG would be used for heat and electricity generation. Apart from that, the LNG with a temperature of -161 degrees is suitable for industrial installations.

Navigation

Globally, navigation tends to operate using a cleaner and more efficient fuel, and the LNG is a fuel that creates an alternative for the pollution causing petroleum products. With the growing demand for clean fuels, the fleet of LNG-powered ships is expanding rapidly around the world. Other transport sectors, navigation alike, are in search for alternatives. A number of countries, such as the Netherlands, have already developed LNG filling-station networks. Both public and freight transport is LNG-fuelled.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

5 January 2016. The Company and the Swiss-registered company Verum Plus AG has signed a long term transshipment contract on provision of dark oil products services. The term of the Contract is until 31 December 2016, with an option to extend it for one more year.

25 January 2016. The Company has approved the corporate strategy of the Company for 2016 -2020 and defined dividend policy. According to the it the 50% the Company's annual net profit should be allocated for the dividends.

4 February and 5 February 2016. The Company has signed terminal usage agreements with UAB Lietuvos dujų tiekimas and AB Achema respectively. Terminal capacity usage period for both agreements is until 30th of September, 2016. Allocated LNG regasification capacities for UAB Lietuvos dujų tiekimas comprise 2,383 thousand MWh, for AB Achema – 7,238 thousand MWh of natural gas.

12 February 2016. The Company announced that the winner of the international tender of AB Klaipėdos nafta construction works contract (EPC) for Klaipėda liquefied natural gas reloading station conducted by the way of negotiations was selected consortium of PPS Pipeline Systems GmbH and Chart Ferox, a. s. accordingly. All the works according to the contract on a lump sum amount of EUR 27.7 million excluding VAT. An extraordinary general meeting of shareholders of the Company held on 8 March 2016 approved the decision to conclude the mentioned contract.

12 February 2016. Board of the Company, following National Commission for Energy Control and Prices's 30 December 2015 Resolution No O3-700 „Regarding establishment of the price of the natural gas liquefaction service for the year 2016 (hereinafter – the Resolution), approved a new price of the natural gas liquefaction (regasification) service of the liquefied natural gas terminal– 0.10 EUR/MWh (VAT excluded). This price is applied inclusively as of 1 January 2016.

26 April 2016. An ordinary general meeting of shareholders of the Company was convened and these actions where made:

- Approved year 2015 audited financial statements of the Company.
- Distributed the Company's profit in the total sum of EUR 22,036.1 thousand by dedicating EUR 17,628.9 thousand for dividends or 0.0463179303 EUR dividends per share.

30 May 2016. An extraordinary general meeting of shareholders of the Company was convened. AB Klaipėdos nafta decided to implement oil terminal expansion (the expansion of the auto tankers loading capacities, construction of fuel oil with water tanks and expansion of light oil product tanks farm) investment project for the total price not exceeding EUR 13.1 million (without VAT).

3 June 2016. The NCC has approved the new edition of the Rules for Use of the LNGT the main provisions.

The objective of the amendments made to the Rules is to increase the competitiveness of liquefied natural gas terminal in Klaipėda by creating more flexible conditions in the provision of small scale LNG services as well as to enhance the effective use of the LNG terminal capacities aiming to attract new clients in regional Baltic sea LNG and natural gas markets.

New version of the Rules was approved following public consultation announced by NCC and held for a period from 18 March, 2016 until 18 April, 2016, subject to the Company's evaluation of comments and suggestions submitted by the interested parties during the said consultation.

8 June 2016. An extraordinary general meeting of shareholders of the Company was convened:

- Approved to conclude the contract on the performance of engineering, procurement and construction works (EPC) of light oil product tanks with the winner who proposed the lowest price – UAB Arimetras. The total fixed price for

all the works under the Contract shall be EUR 7,247.5 thousand without VAT.
- Approved as a new version of the Articles of Association of the Company.

13 June 2016. The Company informed that after the closure of annual terminal capacities allocation procedure and conclusion of respective agreements with Terminal Users, the following Terminal capacities were allocated:

UAB Lietuvos dujų tiekimas:
- LNG regasification capacities: LNG regasification capacities 825 MWh.
- Terminal capacity usage period: from the 1st of October, 2016 until the 31st of December, 2016.

UAB LITGAS:
- LNG regasification capacities: LNG regasification capacities 3,602 MWh.
- Terminal capacity usage period: from the 1st of October, 2016 until the 30th of September, 2017.

8 July 2016. The Connecting Europe Facility (CEF, part of the EU financing program) Coordination Committee approved the financial support of EUR 15 million for the joint project "Blue Baltics", which expands liquefied natural gas (LNG) bunkering network across the Baltic Sea. The EU support is dedicated for five companies including the Company. The Company should receive EUR 4 million of EU funds for the construction of LNG distribution station.

21 July 2016. An extraordinary general meeting of shareholders of the Company to approve for the Company to implement the oil terminal rail trestle road 3A modernization investment project for the total price not exceeding EUR 5.5 million (without VAT) and 10% reserve which can be used only in exceptional cases.

22 August 2016. An extraordinary general meeting of shareholders of the Company to approve for the Company to implement II stage of oil terminal expansion (supplementary railway track and trestle, expansion of light oil product tanks) investment project of AB Klaipėdos nafta, for the price not exceeding EUR 49,4 million (without VAT), and the reserve of 10 per cent which can be used only on extraordinary circumstances.

29 September 2016. UAB "SGD logistika", which is a wholly-owned subsidiary of AB Klaipėdos nafta, signed the amendments of a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG vessel.Following the amended agreement, in a joint venture, established in Germany, UAB "SGD logistika" will hold 10% of the authorised capital and Bomin Linde LNG GmbH & Co. KG will hold 90% of the authorised capital.

3 October 2016. The Company and Lietuvos energija, UAB have entered into UAB LITGAS 33.33 per cent shares sale - purchase agreement which were owned by the Company.

20 October 2016. AB Klaipėdos nafta and BNK (UK) Limited which is an affiliate of the leading exporter of Belarusian oil products – ZAT Belaruskaja neftenaja kampanija, has signed a long term contract regarding oil product transshipment. The terms of the Contract are valid until 31 October 2019 with an option to extend them based on mutual agreement.

7 November 2016. The Company received a notification from the Innovation and Networks Executive Agency regarding Grant Agreement for the Action „Blue Baltics – LNG infrastructure facility deployment in the Baltic Sea region" (hereinafter – Action), which was signed on 26 October 2016. According to this agreement the Company together with the Action partners acquires the right to use the financial support of the Connecting Europe Facility (CEF, part of the EU financing program). Under this Action the Company is entitled to receive EUR 4 million for the LNG reloading station, small scale LNG equipment for LNG Terminal and LNG jetty equipment.

10 November 2016. The NCC has completed the planned audit of AB Klaipėdos nafta Liquefied Natural Gas Terminal Project expenditures. The NCC has completed the planned audit of the Company in order to assess whether during the determination of the natural gas liquefaction price, a substantiated value of the investment of LNG Terminal was used and it has approved audit results.

17 November 2016. The Company informed that the National Commission for Energy Control and Prices (NCC) in its meeting of 17 November 2016 adopted decisions on setting LNG terminal supplement tariff for 2017. The Commission established a LNG terminal supplement tariff for 2017 – 361.84 Eur / (MWh/day/year).

30 November 2016. The Company received documents from the Vilnius Regional Court regarding a claim filed by UAB "KROVINIŲ TERMINALAS to the Company and AB "ORLEN Lietuva" for damages from the breach of the competition law. Claim of the amount of 5,994,765.72 EUR.

On 16 December 2016 the General Manager of the Company Mantas Bartuška presented the Board of the Company with resignation notice. Acting General Director became Director of Finance and Administration Department Marius Pulkauninkas.

22 December 2016. The Company launched a renewed Companies logo – KN. The new logo features an abstract symbol and an inscription in capital letters KN which are an inseparable part of the logo. The legal status of AB Klaipėdos nafta has not changed.

30 December 2016. The Supervisory Board of the Company adopted the decision to elect Giedrius Dusevičius to the duties of independent Board Members of the Company until the term of office of the acting Board of the Company (29 April, 2018).

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

24 January 2017. The Supervisory Council adopted the decision to elect Bjarke Palsson to the duties of independent Board Members of the Company to the current vacancy from 24 January, 2017 until the term of office of the acting Board of the Company (29 April, 2018).

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.kn.lt and in AB NASDAQ Vilnius (www.nasdaqomxbaltic.com) Stock Exchange.

RISK FACTORS AND RISK MANAGEMENT

The fundamentals and principles of the risk management system, existing in the Company, are defined by the risk management policy, which main principles are agreed with the Company's Board. The risk management system is developed in accordance with the ISO 31000 guidelines. The list of principal risks and the risk management plan are provided to and approved by the Company's Board each quarter. The Board actively participates in the principal risk management process by continuously monitoring the risk level changes and the risk management measures' action plans. The Company's high level management is responsible for shaping the personnel's attitude towards risk management, setting the risk management goals in the managed area, implementation of the control measures, implementation and monitoring the efficiency of the risk management measures. The medium level managers are responsible for implementation of the risk management process and provision of the results, as well as for reliability, correctness and impartiality of information.

The principal risk factors, relating with the Company's activities:

- Competition from other players on the oil products transhipment market;
- Economic viability of the Company's key customers;
- Political and economic environment in Belarus;
- Changes in legal regulation of the LNG relating activities;
- Legal compliance;
- Ability to adapt to the changing market situation;
- Safety and reliability of internal processes and executed activities.

The short description of the Company's risk factors is provided below:

- **Competition from other players on the oil products transshipment market**

The main competitors of the Company are the following terminals of Klaipėda and other Baltic Sea and Black sea ports which are transhipping heavy and light oil products exported from Russia, Belarus and Lithuania: Kroviniu 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 Ust-Luga terminal (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 freights because of the good reputation of the Company, technological advantages (in particul relation to HFO transshipment in winter conditions), current market share, long-term agreements with cargo owners, and benefits of ice-free port.

- **Economic viability of the Company's key customers**

The main client of the Company is AB ORLEN Lietuva. Its transshipment volume during the year 2016 comprised 2/3 of the Company's terminal transshipment amount. The Company has signed a long-term transshipment agreement with ORLEN Lietuva 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 constantly escalated topic on possible closing or suspension of ORLEN Lietuva refinery. Also the Company reviews existing expenses and constantly searches for costs optimization possibilities.

- **Political and economic environment in Belarus**

Annual transshipment volume of oil products from Belarusian and Russian oil refineries amounts approximately 1/3 in 2016 of the total transshipment volume of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighboring 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). On the other hand, Belarusian companies are highly dependent on oil import from Russia and any disruption in supply chain may lead to decreased quantities of refined oil products, thus decreasing transshipment volume of the Company. 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.

- **Changes in legal regulation of the LNG relating activities**

The Law of the Liquefied Natural Gas terminal approved on 12 June 2012 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. The inadequate change of the mentioned law and other already adopted laws regulating activity and exploitation of the LNGT could result in significant losses concerning the financial and/or legal liabilities that already have been made.

- **Legal compliance**

Legal Compliance Risk shall be deemed as the risk related to the increase of losses and (or) loss of prestige, and (or) changes in confidence which could be preconditioned by the external factors (for example, infringements of external legal acts, noncompliance with the requirements of supervising institutions, etc.) or internal factors (for example, infringements of internal legal acts and ethical standards, misconducts of employees, etc.). In order to minimize the legal compliance risk, the Company lawyers actively take part in decision making processes of the Company; participate when drafting internal legal acts and Agreements.

- **Ability to adapt to the changing market situation**

Capacity utilization as well as earnings and profitability of the Company highly 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. 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. Therefore the Company aims to conclude long term contracts with minimum transshipment volumes guarantying the minimum revenues.

- **Safety and reliability of internal processes and executed activities**

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 7 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.

Operational risk is considered as the risk directly related to the increase of losses and (or) loss of prestige, and (or) changes in confidence which could be preconditioned by the external factors (for example, natural disasters, disruptions in major suppliers' activities, acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient utilization of funds, internal control deficiencies, ineffective procedures, malfunctions of information systems, unduly allocation of functions or responsibilities, etc.). Considering that activities of the Liquefied Natural Gas Terminal are relatively new (commenced on 3 December 2014) the aforesaid risk is of a high importance to the Company. When managing this risk the Company implemented required organizational measures and procedures as well as information systems to be used for support of business processes that collectively ensure proper functioning of internal control system and duly cooperation with the third parties concerned. The Company applies the following means of internal control: separation of decision making and controlling functions, control of transactions and accountancy, limitation of decision making powers and control of their execution, collegial decision making in crucial issues, etc.

Infrastructure of the Liquefied Natural Gas Terminal, as well as management and safety processes, cooperation with the third parties concerned and control system have been positively assessed by the representatives of potential Terminal's clients.

BUSINESS ENVIRONMENT AND MARKET

Oil terminal business environment and market

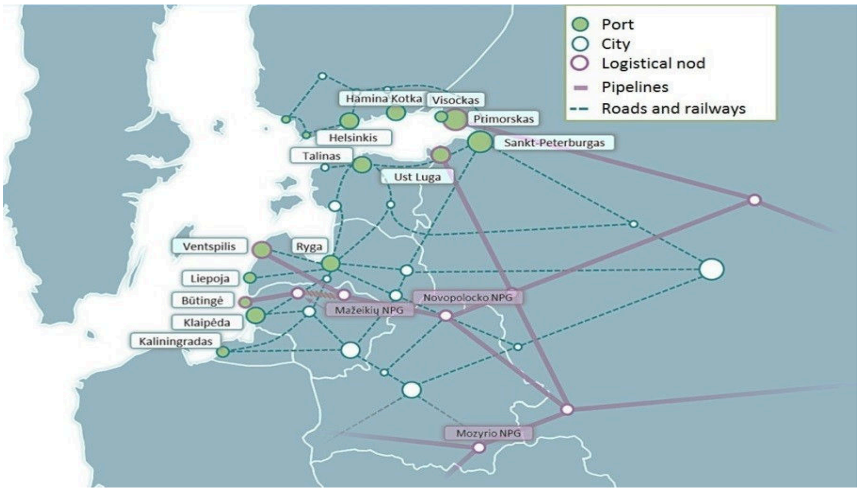
Company's oil products' transshipment activities and oil terminal load is mostly affected by:

a) Oil products' reloading and storage infrastructure and level of the Company's readiness to use available infrastructure

b) Economic attractiveness in the view of logistics (both transshipment tariffs and costs of the entire logistic chain)

c) Macroeconomic and geopolitical environment in regional and global oil processing and trade markets.

Main oil processing plants (oil refineries), which potentially provide oil products for transshipment via Company's oil terminals are located in the East and Southeast directions, those are: the Mazeikiai plant in Lithuania (managed by AB ORLEN Lietuva), Mozyr OJSC Mozyr and Novopolotsk OJSC Naftan oil refineries in Belarus as well as nearest located refineries in Russia.



Major Company's competitors are oil terminals operating in the eastern coast of the Baltic Sea and Odesa port in Ukraine.

Should be noted that competitive environment each year in the region's oil products transshipment market is getting more intensive especially for the Belarusian origin oil products. Principal direct Company's competitors in Belarusian oil products transshipment segment are firstly oil terminals operating in the Baltic States – Ventspils, Riga, as well as Klaipėda and Odessa port in Ukraine.

Oil products, refined in Russia oil refineries are attempted to be exported firstly via Russia's own seaports located on Finland Coast since the logistic chain costs for this direction are the lowest due to shorter distances and applicable railroad transportation discounts.

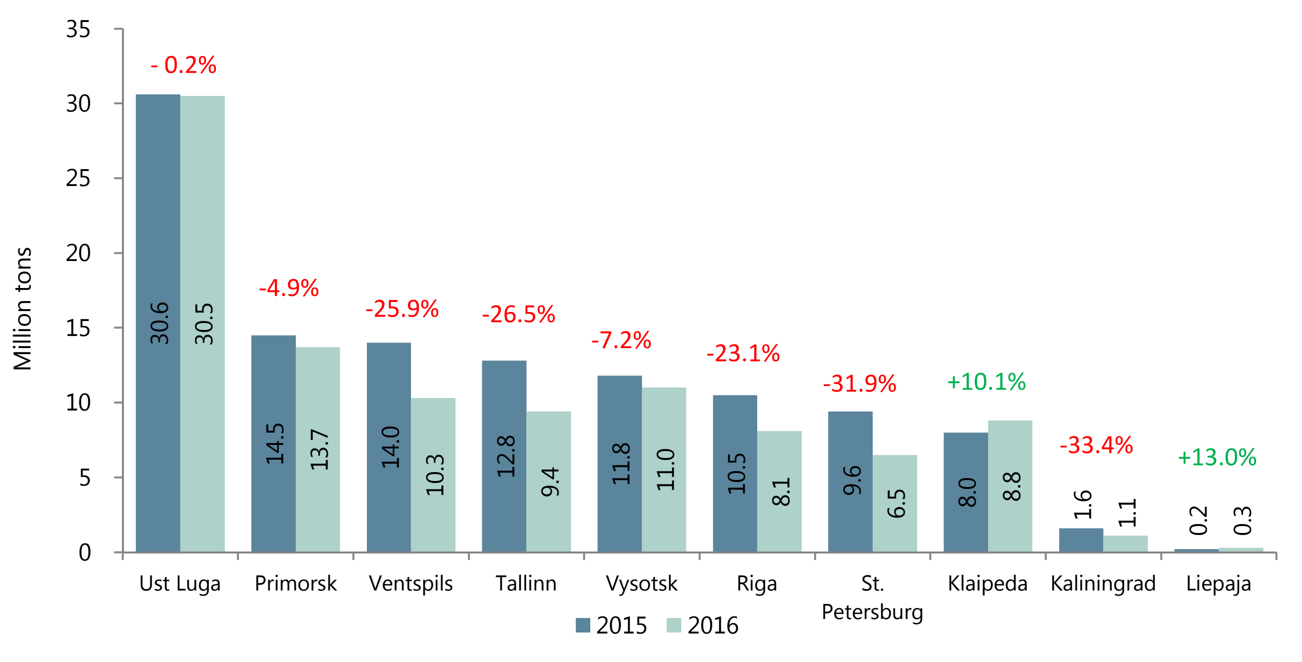
As noted, Russian origin oil product export volumes have decreased in all sea ports of the Baltic States. This primarily could be related to Russia's aim to transship Russian origin oil products mainly through its own sea ports on Finland Coast (St. Petersburg, Primorsk, Ust-Luga). Due to this fact Estonian ports are noticeably losing Russian oil products thus potentially making them a significant competitor to Company's oil Terminal.

Worth mentioning, that recently oil product transshipment market is noticing Russian's willingness to reroute not only Russian, but also Belarussian origin oil products towards Russian ports.

KN's 2016 oil product transshipment results have also been negatively impacted by intense geopolitical environment, especially Russia's decision to reduce crude oil supply to Belarusian oil refineries by almost 50 pct. in Q3 and Q4 of 2017.

According to statistical data, oil terminals in the eastern coast of the Baltic Sea region handled total 99,727 million tons of oil products in 2016 that is by 13 million tons or by 12.2 per cent less comparing with 2015. Nevertheless, in 2016 the seaport of Klaipėda registered one of the highest growths of oil products' transshipment among all eastern Baltic seaports. Compared with 2015, Klaipėda's port handled by 0,8 million t or by 10.1 per cent oil products more, increase is mainly resulted by the good performance of Company's transhipment volumes.

Comparison of the oil products' transshipment at the eastern Baltic Sea coast ports in 2015 – 2016, million tons:



Prepared on the basis of Klaipėda Port Authority statistical data, 20-01-2017

Transshipment of oil products

In 2016 Company's oil terminals handled largest volume of oil products' transshipment since 2011 reaching 7,338 thousand tons. In 2016 Klaipėda oil terminal handled 7,244 mn tons of oil products that is almost by 15,2 per cent more comparing with 2015, when terminal transshipment amounted to 6,289 thousand tones. Following growth in Klaipėda oil terminal handling volumes has been mainly determined by both larger oil product flows from ORLEN Lietuva AB and increased transit flows from Belarus in the first half of 2016.

In 2016 ORLEN Lietuva AB transported largest amount of oil products since 2005. Compared previous 2016 to 2015 ORLEN Lietuva AB oil product transshipment via Company's Klaipėda oil terminal grew by almost 18 per cent.

The most likely reason for such increase is the favorable macroeconomic environment (favorable oil processing margins) due to which following refinery significantly increased oil product processed volumes, as well as export flows via terminal. KN has a long-term contract with ORLEN Lietuva AB on provision oil product handling services, valid till the end of 2024.

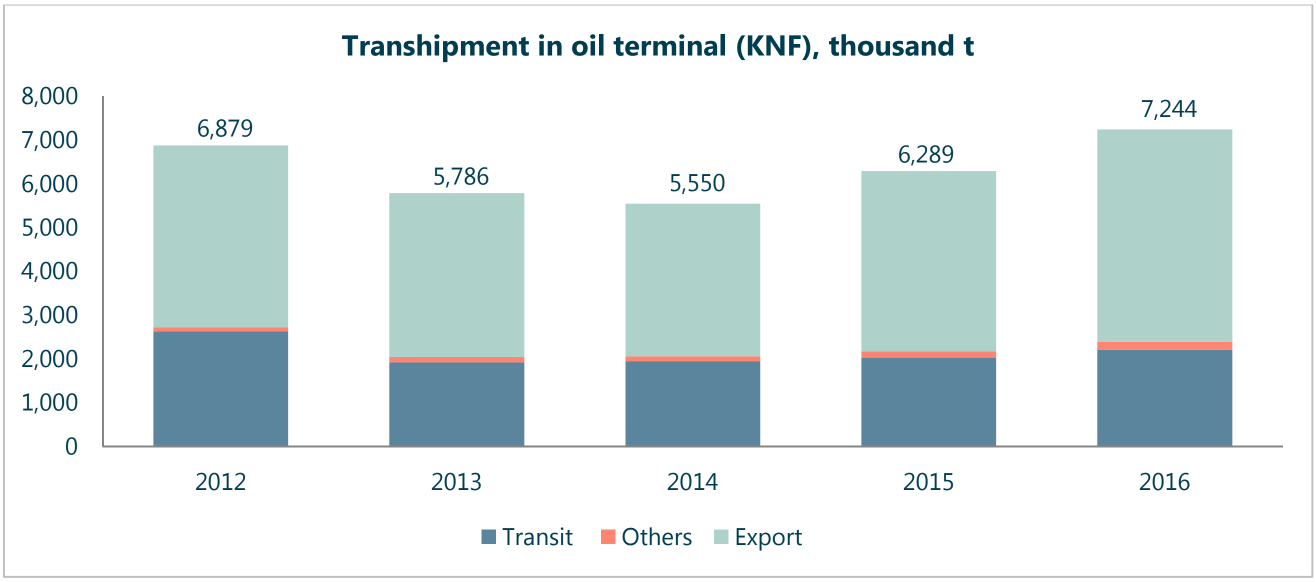
Despite intense geopolitical situation in second half of 2016, Company managed to attract higher oil product flows from Belarussian oil refineries. Compared to 2015, in 2016 transshipment of transit oil products via Company's oil terminal increased by 8.8 per cent.

Major Company's customers of transit transshipment in 2016 were BNK (UK) Limited, owned by one of the largest Belarusian oil product exporters – ZAT Belaruskaja Neftenaja Kampanija (BNK) and Verum Plus AG, an oil company registered in Switzerland.

In order to ensure constant and interrupted oil products transit flows via terminal, in 2016 Company concluded a long-term contract with BNK (UK) Limited on the provision of oil product transshipment services. The terms of the Contract are valid until 31 October 2019 with the possibility of extension. During the contract validity period BNK (UK) undertakes to transship heavy fuel oil produced in Belarusian oil refineries OAO „Mozyrskij NPZ" and OAO „Naftan" through Klaipėda oil terminal.

In 2016 Company successfully maintained cooperation with widely known wholesalers in Lithuania importing oil products (gasoline and diesel), which leaded to almost 26 pct higher import volumes via Companies road tanker loading area.

Note: *starting from 2015 the volumes of transshipment, stated in the annual report, reflect the amounts of oil products reloaded into the Company's tankers.*



In 2016 there were 93.9 thousand tons of oil products handled in Company's Subačius oil terminal. During mentioned period an average amount of stored oil products in following terminal increased by 12.3 per cent – from 195 to 219 thousand tones. This increase was mainly influenced by greater oil products consupmtion in the internal market last year which reflected to higher amount of oil product (fuel) stocks of the Lithuanian State reserve.

KN in order to expand oil terminals scope of activities and diversify transshipment portfolio are continuously cooperating and developing business relationships with international and regional oil products trading companies on provision oil products handling services via Company's oil Terminals.

LNG terminal activity environment review

LNG terminal operations are regulated therefore the regulatory environment defines the activity's scope of operations, profitability and guidelines. On 6 June 2016 a new version of LNG terminal rules was approved which details the following areas: the LNG terminal's overall operating procedures; LNG terminal's technological loss distribution method which enables LNG inventory to be kept in the LNG terminal up to one year (in the previous edition - up to 60 days); LNG terminals operator's and users' liability provisions; other changes, reflecting the practical aspects of LNG terminal operation.

Important changes in legislation which had significant impact for the regulation of the LNG terminal's operations were made in 2016. A resolution of the Government of the Republic of Lithuania was adopted on 5 October 2016, concerning the change of previous resolution of the Government of the Republic of Lithuania adopted on 7 November 2012, No. 1354, Concerning the approval of the natural gas supply diversification procedure. This, among other things, reduced the designated supplier's, LITGAS UAB, minimal threshold of LNG to be regasified at the LNG terminal to 325 million cubic meters of natural gas (or 3 867 500 000 kWh). The change also revised the distribution of LNG terminal's mandatory quantity to energy producers and the procedures related to disposing of surplus of LNG terminal's mandatory quantity on the market.

In addition, the Government of the Republic of Lithuania on 16 November 2016 adopted a resolution, concerning the change of previous resolution of the Government of the Republic of Lithuania adopted on 7 November 2012, No 1354 concerning the approval of the natural gas supply diversification procedure. It revised the process of capacity allocation set in the natural gas supply diversification procedure. The amendments enabled a possibility to initiate an adjustment of the annual natural gas capacity allocation based on objective and reasonable grounds. The amendments also included incentives for system users and consumers using natural gas during the warm season of the year (April-October) and other adjustments related to capacity allocation process.

During 2016 in the LNG terminal 16 LNG carriers (2015 – 5 LNG carriers) have been accepted which in total delivered 1,000.6 thousand tons of LNG (in 2015 – 318.6 thousand tons); 1,238.2 million m3 (2015 – 382.8 million m3) natural gas regasified and supplied to the gas transmission system. LNG terminal revenues comprise Eur 66,966 thousand (in 2015 – Eur 69,882 thousand).

In 2016 there were 3 LNG terminal users (in 2015 was only one user) – UAB LITGAS, AB Achema and UAB Lietuvos duju tiekimas assigned LNG supplier through the LNG Terminal.

In 2017, it is planned to accept 7 gas carriers which will deliver around 966,000 m3 of LNG (436,000 tonnes of LNG) in total. In addition, over 500 million nm3 of natural gas will be degasified and supplied to the natural gas transmission system. According to estimations, this amount might increase after agreements on LNG supply are signed with Achema, AB (which successfully used the services of the LNG terminal in 2016) in 2017 or after new users of the LNG terminal join in. It should be noted that in January 2017 the LNG terminal saw the launch of LNG re-loading operations and around 24, 800 m3 were re-loaded to small-scale gas carriers over January.

The demand of the LNG terminal's capacities depends on the following principal criteria:

- The overall need for gas in the Lithuania and other Baltic countries;
- The pricing and supplied quantity of the competing source of natural gas (gas supplied by a pipeline);
- The restrictions of Lithuania's natural gas infrastructure (capacities of the trunk gas pipelines).
- LNG supply in the World market;
- LNG prices in the region and in the world;
- Terms and period of the Gas supply contracts;
- LNG carriers' supply and freight costs.

The natural gas market overview

Lithuania has several principal gas using sectors: households, energy sector, industries using gas as a raw material for the production of fertilizers and other industries. The major part of natural gas is used in the heating energy sector (about 0.3 billion m3 per year) and in industries, using natural gas as a raw material for the production of fertilizers, which receive continuous and not season based natural gas flow (about 1.1-1.3 billion m3 per year).

The total need for natural gas in Lithuania amounts to approximately 2.0–2.2 billion m3 per year. Before the commencement of the LNG terminal activities, Lithuania imported gas from solely one supplier, i.e. Russia's gas company OAO Gazprom. Therefore in the future the LNG terminal's capacities could satisfy the annual amount of natural gas, consumed in Lithuania and also partially supply the neighboring markets with natural gas. The sole large consumer, using natural gas as a raw material in Lithuania is AB Achema which consumes almost one half of the total volume of Lithuania.

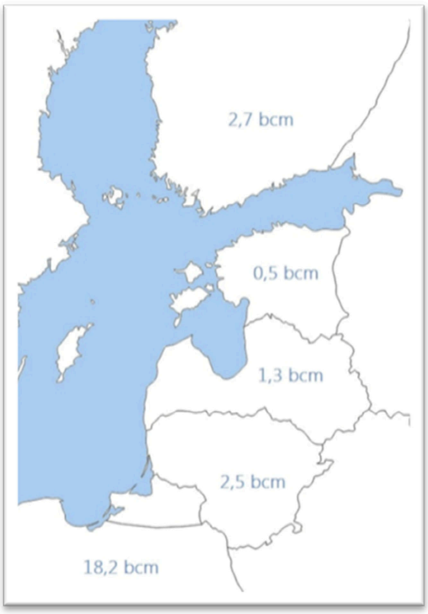
Baltic States' natural gas market

In case of need, the LNG terminal is able to supply natural gas to all three Baltic States. In 2016 Lithuania consumed approximately 2.1 billion m3 (22 TWh) of gas per year. Latvia's and Estonia's gas markets are significantly smaller – in 2016 they respectively consumed 1.33 and 0.47 billion m3 of gas. By creating the conditions for attractive gas prices, the LNG terminal can become a real alternative to the existing natural gas providers in the Baltics.

After laying the planned gas link between Lithuania and Poland (hereinafter -GIPL), there would be a possibility to supply LNG to Poland's market, which has good potential due to Poland's significantly larger use of gas. The Polish market demonstrates clear potentials for considerably bigger gas consumption; however, it has to be admitted that the degree of competition between Poland and other states–gas suppliers is also more intense. In 2016, the decision was made to postpone the date of finalisation of the GIPL project in the territory of the Republic of Lithuania to 2021.

Another gas pipeline project is planned to be executed in the Eastern Baltic region, which will connect Estonia and Finland (hereinafter – Baltic Connerctor). The project is foreseen to be completed in 2020. In case no new LNG terminal is constructed in the Gulf of Finland (which is also in the plans), the Company LNG terminal will get the possibility to expand the gas supply market to Finland, where the consumption reaches approximately 2.7 billion m^3 per year.

The information on the consumption of gas in the Baltic in 2015:



One of the principal risks, which must be considered when planning the LNG terminal's activities, is the reduction of use of natural gas. During the time period from 2015 to 2016 the consumption of natural gas in Lithuania reduced by 16% , from 2011 to 2016 - 49% , due to the growing prices and increasing accessibility of alternative sources. Nevertheless, it can be forecasted that the consumption of natural gas is likely to stabilize in the nearest future.

Gas pipeline projects in the Baltic States

The energy projects, executed in the Baltic Region would create preconditions for development of the LNG market and more efficient use of the available LNG terminal's capacities. One can distinguish the following energy projects, relating to gas supply, which are of strategic importance to the Company:

- The gas supply link between Lithuania and Poland(hereinafter – GIPL);
- Increasing the capacities of the gas supply link between Lithuania and Latvia;
- Increasing the capacities of the gas supply link between Latvia and Estonia;
- The Baltic Connector gas supply link between Finland and Estonia;
- Enlargement and Modernisation of Inčukalns Underground Gas Storage Facility.

Gas pipeline projects in the Baltic States:

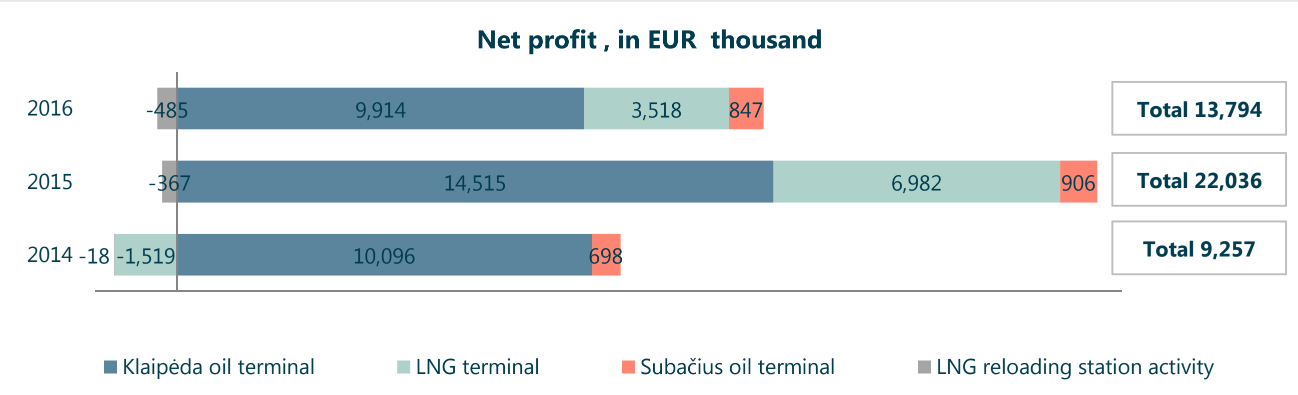
FINANCIAL RESULTS OF ACTIVITY

AB Klaipėdos nafta financial results for the year 2016:

- Revenues - EUR 103,839 thousand, 5.3 per cent less compared to the year 2015;
- Net profit EUR 13,794 thousand, 37.4 per cent less compared to year 2015, net profit margin – 13.3 per cent (in 2015 – 20.1 per cent).
- EBITDA - EUR 28,446 thousand, -23.4 per cent less compared to year 2015, EBITDA margin – 27.4 per cent (in 2015 – 33.9 per cent).

The financial results of the activities of AB Klaipėdos nafta are divided into the four activity units or segments: Klaipėda oil terminal (KNF), Subačius oil terminal (SKB), the Liquefied Natural Gas Terminal (SGD) and LNG reloading station project and its activities (GDP). Importance of each segment over Company's financial results is provided herein:

In EUR thousand	January-December		Change in per cent
	2016	2015	
Sales revenue in total	**103,839**	**109,702**	**-5.3%**
KNF	34,075	37,259	-8.5%
SKB	2,798	2,561	9.3%
SGD	66,966	69,882	-4.2%
GDP	-	-	-
Net profit in total	**13,794**	**22,036**	**-37.4%**
KNF	9,914	14,515	-31.7%
SKB	847	906	-6.5%
SGD	3,518	6,982	-49.6%
GDP	(485)	(367)	32.2%
EBITDA in total	**28,446**	**37,136**	**-23.4%**
KNF	17,422	22,533	-22.7%
SKB	1,790	1,839	-2.7%
SGD	9,763	13,166	-25.8%
GDP	(529)	(402)	31.6%



The key financial ratios of the Company (in EUR thousand, if not indicated otherwise):

	2016	2015	2014	2013	2012
Transhipment of oil products (thousand tons)	7,338	6,461	5,587	5,834	6,912
LNG regasification, thousand MWh	14,611	4,559	494	-	-
Investments (acquisitions of non-current assets):	16,874	6,809	40,130	28,577	10,158
Klaipėda oil terminal	7,284	809	1.183	10,065	3,665
LNG terminal	-19*	5,429	38,572	18,512	6,493
LND reloading station	9,308	429	-	-	-
Subačius oil terminal	301	142	375	81	-
Financial figures					
Sales revenue	103,839	109,702	39,775	36,741	40,223
Gross profit	20,797	29,123	13,150	14,704	16,666
EBITDA	28,446	37,136	16,628	18,307	20,753
EBIT	15,270	24,362	9,091	11,101	14,121
Financial and investment activities result	211	-482	-285	-23	533
Profit before taxation (EBT)	15,095	24,104	9,069	11,101	14,121
Net profit	13,794	22,036	9,257	10,325	12,001
Current assets	55,536	58,713	32,687	44,067	32,542
Non-current assets	186,895	180,074	189,231	151,669	129,648
Total assets	242,431	238,787	221,918	195,735	162,190
Shareholders' equity	192,969	196,804	174,715	165,562	155,356
Profitability					
Return on assets (ROA)	5.7%	9.6%	4.4%	5.8%	7.7%
Return on equity (ROE)	7.1%	11.9%	5.4%	6.4%	8.0%
Gross profit margin	20.0%	26.5%	33.1%	40.0%	41.4%
EBITDA margin	27.4%	33.9%	41.8%	49.8%	51.6%
EBIT margin	14.7%	22.2%	22,8%	30.2%	35.1%
EBT margin	14.5%	22.0%	22.8%	30.2%	35.1%
Net profit margin	13.3%	20.1%	23.3%	28.1%	29.8%
Turnover					
Accounts receivable, days	37	92	17	32	36
Accounts payable, days	36	30	75	78	26
Financial structure					
Debt ratio	0.26	0.21	0.27	0.18	0.04
Capital to assets ratio	0.80	0.82	0.79	0.85	0.96
Gross liquidity ratio (current ratio)	3.61	5.56	2.05	3.37	7.21
Quick ratio	3.52	5.40	1.95	3.34	7.14
Market value ratios					
Price-Earnings Ratio (P/E)	14.8	6.4	12.8	10.8	11.1
Earnings per share (EPS)	0.036	0.058	0.024	0.027	0.033

* Acquisitions of the non-current assets of the LNG terminal are negatived because have been adjusted by the insurance compensation (amounting EUR 119 thousand) related with the construction of the LNG terminal constructions.

Revenues

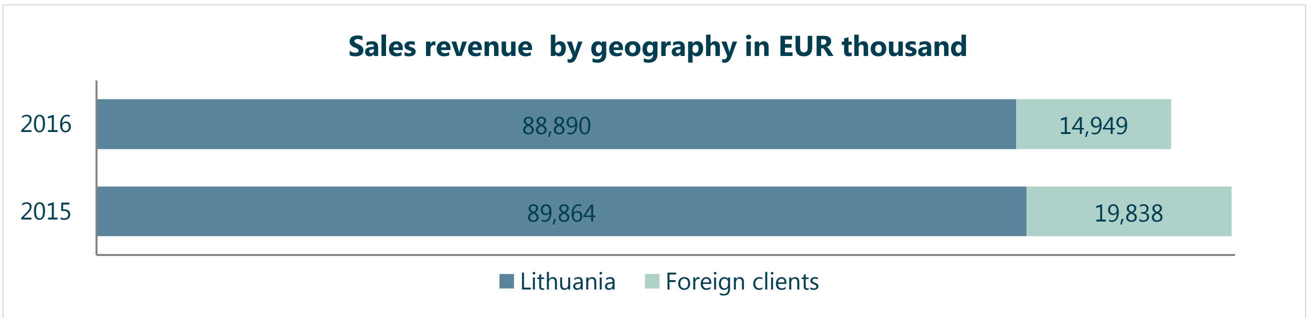
The **sales revenues** of the Company of year 2016 comprise EUR 103,839 thousand and comparing with the year 2015 (EUR 109,702 thousand) has decreased by EUR 5,863 thousand (5.3 per cent less). The decrease is related with the decrease in revenues of the LNG and oil terminals.

The total **revenues of the LNG terminal** activity in 2016 amounted to EUR 66,966 thousand, and compared to 2015, decreased by EUR 2,916 thousand or 4.2 per cent. The revenues from the LNG terminal's activities are regulated as set by the laws and for the year 2016 they were approved by the NCC baced on the forecasted natural gas consumption capacities. Although after it was found the capacities are lower than forecasted the part of security supplement dedicated to compensate the Companys' LNG terminal costs and regulated return has not been adjusted because of LNG revenue surplus received in 2015. Worth to remind that approximately EUR 5.2 million of additional revenue were recognized comparing to those calculated based on regulation (due to higher volume of gas consumption and received interests and forfeits recognized as revenues). For more concerning regulated revenues refer to the article below.

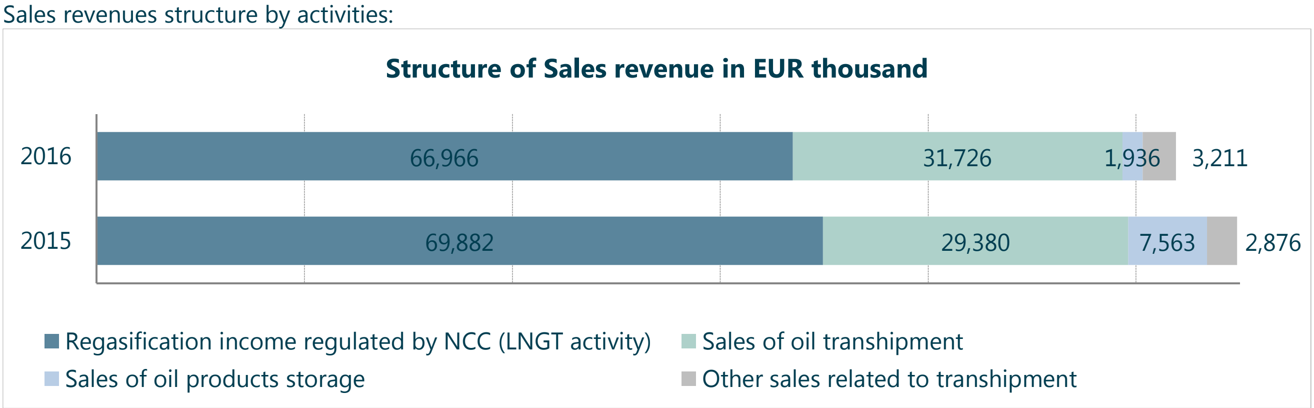
Sales revenues from the Oil terminal operations of 2016 amounted EUR 34,075 thousand and comparing to 2015 decreased by 8.5 per cent. Although the oil product transhipment volume increased, the drop in revenues by EUR 3,184 thousand is in related with the changes in services pricing and structure of transshipments contracts. These changes are refvlected by the factors of the market and that allows the Company to remain competitive and to attract higher transhipment volumes.

Subačius oil terminal sales revenues of 2016 increased by 9.3 per cent (or by EUR 237 thousand) because of larger petroleum products storage quantities, both due to higher commercial quantities and higher state reserve quantities.

Sales revenue by geography and structure is provided herein. Sales revenue from foreign clients – are revenues from the clients which use thanshipment and storage services of the oil products made in Russia and Belorussia (related with foreigh markets).



Sales revenues structure by activities:



Expenses

Total **cost of sales** of the Company of 2016 comprises EUR 83,042 thousand, comparing to 2015 (EUR 80,579 thousand) it has increased by 3.1 per cent or by EUR 2,463 thousand. This change was Company's **operating expenses** have increased by EUR 1,082 thousand (22.4 per cent) and comprise EUR 5,905 thousand as at period end. From them mainly due to the higher railway services (EUR +1,225 thousand) and increase in LNG terminal total cost of sales (by EUR 615 thousand).

KNF segment operating costs increased by EUR 489 thousand, LNG terminal administration costs is higher by EUR 386 thousand.

The listing of the major expenses is presented below:

In EUR thousand	2016	2015	Change in per cent
KNF depreciation costs	6,575	6,686	-1.7%
KNF employees related costs	6,301	6,281	0.3%
KNF variable costs (gas, electricity, rail roads)	7,009	5,662	23.8%
Other KNF production and administrative costs	3,804	2,948	29.0%
Total KNF costs	23,689	21,577	9.8%
FSRU leasing and FSRU related costs	50,786	50,415	0.7%
LNGT depreciation costs	5,738	5,270	8.9%
LNGT employees related costs	2,846	2,503	13.7%
Other LNGT costs	3,469	3,650	-5.0%
Total LNGT costs	62,839	61,838	1.6%
SKB costs	1,886	1,585	19.0%
GDP costs	533	402	32.6%
Total operating and administrative costs	**88,947**	**85,402**	**4.2%**

In 2016 the **total amount of LNG terminal's costs** was EUR 62,839 thousand, the major part of which were the costs of rent of the vessel Independence and the expenses, related with the vessel's operation (totally EUR 50,786 thousand), as well as staff remuneration, depreciation and berth lease costs. During the last year the depreciation of the LNG terminal's assets amounted to EUR 5,738 thousand (EUR 5,270 thousand for 2015). The personnel related costs grew by 13.7 per cent or EUR 343 thousand to total EUR 2,846 EUR.

In 2016 the total amount of the **Klaipėda oil terminal's costs** amounted to EUR 23.689 thousand (2015 – EUR 21.577 thousand) and increased by EUR 2.112 thousand. The oil terminal's gas, electricity and railroad costs (the main variable costs of the Company) totally increased by EUR 1,347 thousand or by 23.8 per cent. The increase in these costs is related with the transhipment volume growth by 15.2 per cent or or by 955 thousand tons. The increase of this cost category was mostly affected of the increased railway costs.

Comparing with 2015 the railway costs are higher by EUR 1,225 thousand, the largest part of this amount is for the overdue rail tanks that happened during busy season (Jan-April). Moreover, from the July of 2016 adopted higher rail tariffs for the company.

Comparing with 2015 heating costs of KNF increased 103 thousand EUR. Increase is related with the transhipment volume increase of HFO (+8.7%), but the gas purchase price has dropped (-6.6%) and positively compensated increase of total gas consumption (increase of 12%).

Electricity costs are lower by the lower average price, which since 2016 is tied with market prices. The price has reduced by 13.1% compared with 2015.

Oil terminal staff costs increased by EUR 20 thousand or by 0.3 per cent comparing with 2015. Depreciation and amortization costs are lower by EUR 111 thousand.

In 2016 the total amount of costs for the **Subačius oil terminal** grew by 19.0 per cent or by EUR 301 thousand. The increase of expences is related with the operating costs of the entire Company allocation over the segments. That has not been done in 2015 and before.

Financial results

In 2016 EBITDA comprised EUR 28,446 thousand compared to 2015 (EUR 37,136 thousand) it decreased by 23.4 per cent or by EUR 8,692 thousand. EBITDA margin was 27.4 per cent, for 2015 – 33.9 per cent.

In 2016 the financial activity profit is EUR 211 thousand. Income from financial activities comprise from: EUR 310 thousand LITGAS UAB share sale profit, EUR 119 thousand fines and delays income, EUR 11 thousand interest on bank accounts. Financial activities costs are EUR 177 thousand interest costs, EUR 56 thousand exchange rate fluctuation costs, EUR 72 thousand other costs.

In 2016 the Company's net profit was EUR 13,794 thousand (EUR 22,036 thousand), compared to 2015, the net profit dropped by -37.4 per cent or by EUR 8,242 thousand. The main reasons for the net profit decreased could be spited as follows:

- EUR 4,601 thousand dropped net profit from oil terminal activities resulted from the drop in revenues in relation with the changes in structure of transshipments contracts and increased costs (mainly railway services).
- EUR 3,464 thousand dropped LNG terminal net profit in relation with revenues decrease (EUR 2,916 thousand) and increase in costs (mainly depreciation and FSRU hire expenses).
- EUR 59 thousand dropped SKB net profit from increased indirect action costs.
- Effect EUR 118 thousand from the increased expenses dedicated for the LNG reloading station project development and development of other bussinesses.

The net profit margin for 2016 amounted to 13.3 per cent, the gross profit margin reached 20.0 per cent (in 2015 respectively 20.1 per cent and 26.5 per cent). The profit per one share amounted to EUR 0.036/share (EUR 0.058/share in 2015).

In 2016 the Company's annual return on equity (ROE) amounted to 7.1 per cent (11.9 per cent in 2015), the return on assets (ROA) – 5.7 per cent (9.6 per cent in 2015).

Regulated profit of LNG terminal

LNG terminal, its infrastructure and connection implementation as well as exploitation costs fully or partially are included into the natural gas transmission service price in accordance with the rules and guidance's set by the NCC based on the regulations set in the Energy Law, Natural Gas Law and other laws of the Republic of Lithuania related with energy prices regulation.

The revenue of the LNG terminal activity comprise from: i) LNG regasification revenue; ii) LNG reloading revenue and iii) liquefaction price which is collected through additional security supplement to the natural gas transmission price (hereinafter – LNG security supplement). Calculating the LNG liquefaction price for the financial period from the total calculated LNG terminal activity revenues owned for the Company are deducted by the sum of forecasted LNG reloading and regasification revenue.

LNG security supplement is paid by the users of natural gas transmission system, including the end users, together with the other payments for the natural gas transmissions services. The payments are collected by the transmission service operator (hereinafter - TSO) either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO. The LNG Security Supplement is established by the NCC on an annual basis in proportion to the forecasted consumption capacities of natural. The funds afterwards are transferred to the Company.

The total LNG terminal revenue level is confirmed by the NCC based on the approved methodic of Government regulated prices in the natural gas sector (hereinafter – Methodic). According to this methodic total LNG terminal revenue level is calculated for upcoming year by summing 2 constitutes: 1) Forecasted necessarily costs for the LNG terminal operational assurance; 2) Forecasted LNG terminal infrastructure investment return.

In the financial accounting (IFRS) LNG terminal revenues are recognized according to the factual declared gas consumption capacities for the reporting period and correspondingly calculated factual LNG security supplement part owned by the Company. LNG terminal costs are recognized on accrual basis for the reporting period. This leads to differences between the financial LNG terminal segment profit and regulated profit which is calculated based on the NCC methodic.

The regulated LNG terminal profit is calculated adjusting the investment return for the period by the income or expenses not attributable for the regulated activities in terms of regulation (but have impact for the financial profit).

Below is the historical comparison of the LNG terminal regulated and financial profit:

In EUR thousand	2014	2015	2016 (unaudited by NCC)
Financial LNG terminal profit	600	6,981	3,518
Regulated profit (in terms of Methodic)	414	3,525	3,329
Difference	186	3,456	189
Difference (cumulative)	186	3,643	3,832

According to the regulation additionally received amount shall be dedicated for compensation of the LNG terminal necessarily expenses for the coming financial periods.

The decrease in regulated profit is related with the reducing amount of regulated asset base. Correction of the regulated profit (comparing to one disclosed in previous year financial statements) is related with the results of the audit of the regulated profit for the year 2015 and audit of the LNG terminal infrastructure amount and return on investments for the year 2014 and 2015.

Balance sheet items

In 2016 the Company's non-current assets increased insignificantly (by 3.8 per cent) to EUR 186.896 thousand. The increased of non-current assets is related with investments and acquisition of property, plant and equipment that at the end of the year comprise EUR 182,925 EUR (31-12-2015 – EUR 176,821 thusand). The total amount of investments and acquisition of non-current assets in 2016 comprise EUR 16,874 thousand, including EUR 9,308 thousand for Klaipėda oil terminal, LNG reloading station - EUR 9,308 thousand, smaller investments were made into SKB and LNG terminal respectively EUR 314 thousand and EUR 113 thousand.

In 2016 the current assets decreased by EUR 3,178 thousand and at the end of the year amounted to EUR 55,536 thousand. The major part of the current assets comprise from cash and cash equivalents – EUR 42,056 thousand, about twice as in 2015 (EUR 23,788). The trade receivables decreased to EUR 10,603 thousand (by EUR 17.113 thousand less).

After the decrease of the current assets and increased sort term liabilieties, the total liquidity ratio reduced to 3.61, i.e. the current assets exceed the current liabilities almost 4 times. As of 31 December 2016 the current assets amounted to 22.9 per cent and the cash – to 17.3 per cent of total assets.

Changes in equity in 2016 were related with the net result of the financial year, payment of dividends for the previous year (EUR 17,629 thousand) and transfer between reserves (4,407 EUR). The unallocated profit as of the end of 2015 has been distributed as dividends, the statutory reserve and other reserves. At the end of 2016 the Company's equity amounted to 79.6 per cent of the overall assets (82.4 per cent at the end of 2015). The detailed information about the share capital is provided in the chapter "Information about shareholders and shares of the Company".

The Company's long-term liabilities at the end of the last year amounted to EUR 34.071 thousand (EUR 31,431 thousand at the end of 2015). Change is mainly related with the increase in a LNG reloading station grants and comprise EUR 2,781 thousand total at the year end. In 2016 the amount of the loan received from the European Investment Bank unchanged and amounted to EUR 29,693 thousand (EUR 29,693 thousand like at the end of 2015).

The change in the current liabilities resulted from the reduction of debts to suppliers and, at the end of the year, amounted to EUR 15.391 thousand (EUR 10,552 thousand at the end of 2015).

INVESTMENTS

The most important investments of 2016 stated below:

No.	Project	Investments in 2016 (incl. prepayments)	Project description
1.	LNG reloading station construction	EUR 11.3million	After evaluation of LNG market changes which lead to possibilities of larger LNG consumption and seeking for wider LNG terminal potential usage, AB Klaipėdos nafta begun new infrastructural project – LNG reloading station. LNG reloading station is under construction the territory where AB Klaipėdos nafta oil terminal is situated. The maximum capacity of the station – 5,000 cbm. Project implementation progress is listed under the table.
2.	The 1st stage of expansion of Light Oil Products (LFO) Park in Klaipėda oil terminal	EUR 4.0 million	The 1st stage of Klaipėda oil terminal expansion essence is to expand light oil product tanks park in the north of Company's territory, thus enlarging the transshipment volume and provided services efficiency. The 1st stage of Klaipėda oil terminal expansion consist of three separate projects (stated below). The approved amount of sum EUR 13.1 million. The investment end period – in middle of 2017.
2.1	Light oil product tanks expansion	EUR 0.8 million	To expand light oil product tanks park in the north of Company's territory. New tanks capacities: 3 x 5,000 cbm and 4 x 1,400 cbm. Total new tanks capacity 20.6 thousand cbm.
2.2.	Construction of fuel oil with water tanks	EUR 0.9 million	The project consist 2 tanks x 4,200 cbm projection and construction. New capacities will let to take more fuel oil water and loosen tanks for the loading oil products.
2.3	Expansion of the oil truck lot capacities	EUR 2.3 million	The project consist construction of new tanks for bio-additive storage, the modernization of truck lots for better service provision. The expansion of the oil truck lot capacities will expand the number of services provided.
3.	Flexibility and capacity of oil transshipment improvement project	EUR 1 million	Investments will expand the capacity of loading volumes and flexibility of provided services. In 1quarter of 2016 the decision was made to install additional LFO pipeline between trestle pumping station and LFO storage tanks park. This pipeline will enlarge the efficiency of oil terminal infrastructure. Company could more efficiency accept different types of LFO, work with smaller LFO cargo batches, will appear new possibilities for LFO import and export possibilities.
4.	Subačius oil terminal Investments	EUR 0.3 million	Different infrastructural and general investments.
5.	LNG terminal investments	EUR 0.1 million	Different infrastructural and general investments.

Significant LNG small scale investments events in 2016:

12 February 2016. AB Klaipėdos nafta signed an EPC contract with consortium of PPS Pipeline Systems GmbH and Chart Ferox, a. s. It is agreed, that LNG station will start functioning after 15 months from the contract's entry into force and work will be done on Autumn 2017. The value of the contract is Eur 27.7 million.

25 March 2016. The Company presented the official letter for a contractor regarding the commencement of the work and after the proceeding of advance payment the time given to finish the work starts the countdown.

25 April 2016. In the second week of April 2016 started the construction of first LNG pressure tank (metal blanks cutting).

20 June 2016. At the Chart Ferox a.s. factory (Děčín), started first internal tests and visual inspection of LNG pressure tank, where responsible representatives of the Company have also participated.

8 July 2016. The Connecting Europe Facility (CEF, part of the EU financing program) Coordination Committee approved the financial support of EUR 15 million for the joint project "Blue Baltics", which expands liquefied natural gas (LNG) bunkering network across the Baltic Sea. The EU support is dedicated for five companies including the Company. The Company should receive EUR 4 million of EU funds for the construction of LNG distribution station.

August 2016. Two from five LNG pressure tanks were finished in Chart Ferox a.s. factory in Děčín (capacity – both 1.000 cbm).

On 12 October 2016, the State Territorial Planning and Construction Inspectorate concluded that the territorial planning procedures, planning aims and solutions of the detailed plan met the requirements of the Territorial planning and other legal acts and agreed that the detailed plan could be submitted for approval.

On 24 October 2016, the pilot poles program started for the identification of the conditions of the designed bases and foundations for the LNG distribution station.

It is planned that the partial operation of the distribution station will commence in 15 months after the date of entering into effect of the contract and all the works will be completed in the end of 2017. The contract foresees the possibility to extend it for the time period up to 14 months (up to 12 months due to the territorial planning procedures, which are likely to protract and 2 months – due to other reasons).

Klaipėda oil terminal approved investments

21 July 2016 the extraordinary general meeting of shareholders approved the decision for the implementation of oil terminal trestle 3A road modernization investment project with the total price not exceeding EUR 5.5 million (excl. VAT). Under this project the current trestle will be modernized and updated with the equipment enabling to heat and unload heavy oil products. In the end of 2016 projection works are finished. Procurement procedures have started.

22 august 2016 the extraordinary general meeting of shareholders approved the decision for the implementation of 2nd stage AB Klaipėdos nafta oil terminal expansion (supplementary railway track and trestle, expansion of light oil product tanks) investment project for the price not exceeding EUR 49.4 million (excl. VAT). In the end of 2016 feasibility studies and projection works are accomplished.

ACTIVITY PLANS AND FORECASTS

Goals and tasks of AB Klaipėdos nafta for 2017 are related with the continuation of the activities and implementation of Company's strategy for the year 2017-2020. The following goals are set for the upcoming year:

- To conduct transshipment of oil products in Klaipėda port in a safe, reliable and competitive manner thus increasing the attractiveness of the oil terminal;
- To conduct safe, efficient activities of the LNG Terminal operator and ensure the possibility of import of liquefied natural gas to Lithuania and the neighboring countries;
- To build LNG reloading station and start LNG small scale activities;
- To ensure efficient storage of the national mandatory reserve of oil products;
- To finish the I stage of the LFO terminal expantion and start with the II stage of expansion projects;
- To improve efficiency of the internal processes, increase competencies of the employees of the Company.

In 2017 the Company will continue it work towards ensuring a sufficient volume of **oil products transhipment**. It is expected to retain the oil products' flow at similar level as in 2016. At present the main contracts for this year are already concluded and the minimum quantities of transhipment are guaranteed but the Company will continue working in order to ensure the further transhipment volumes by both long-term and short-term contracts. Currently the market situation concerning the transit cargos is unfavourable because of reduction of the crude oil supply for the Bellorusian refineries. However it is expected for the improvement of situation in the first half of 2017. The implement investments – the 1st stage of oil terminal expansion – are planned to be finished in 2017. These investments will allow the Company to supply addtional services of LFO transhipment by smaller batches with a larger variety of products, significantly increase import handling volume through expanded auto truck loading plant and supply services for chemical products reloading. All these efforts will help to maintain stable and high level transhipment revenues.

Next to the work over transhipment volumes the Company will strive for making the terminal being even more efficient, flexibly adapting with the variety of products and retaining high level of profitability.

Implementing the long term statregy of the Company the investment projects for the 2nd expansion stage of the oil terminal were approved and most of them will start in 2017. The aim will be to use advanced technologies with a focus on automation of processes when expanding the terminal.

The Company's **LNG terminal** created all preconditions for an independent gas market, providing the consumers the possibility to choose the most attractive and acceptable gas supply source. That is evidenced by the 3 users of the terminal's capacities in 2016. Although the allocated capacities for 2017 are lower the Company is properly prepared and ready to accept and regasify hihgher amounts of natural gas.

The contracts show to both Lithuania and all Baltic States' markets that the LNG terminal is able to ensure an efficient logistics chain and create preconditions for importing natural gas on competitive conditions. At the same time the Company will continue its work prividing more favourable and attractive services for potential terminal users and to ensure effective logistic chain as well as create possibility to import gas in competitive way.

The focus also will be directed for the additional service of the LNG terminal – LNG reloading. In 2017 already two reloading operations were made. For improvement of this activity Company plans additional investments that shall be made during this year.

In order to reduce the LNG terminal's costs to the natural gas users, the Company will continue working ensuring the minimum terminal's costs. Company will make further actions in order to receive financing for acquiring the FSRU and therefore reduce the annual leasing costs of the LNG floating storage unit.

In 2017 the Company plans to finish the LNG reloading station construction. LNG bunkering and LNG loading into auto trucks services are planned to be provided in this facility. These activities shall be integrated into the existing activity of the oil terminal therefore adequate preparation both for processes and competencies is required. On the other side the synergy of the new activities shall enforce dicersification activities for the Company and strengthen Companys positions in the LNG logistics chain in Baltic Region.

In 2017 the Company plans to allocate approximately up to EUR 49 million for the infrastructure investments, including:

- Approximately EUR 16.1 million into the construction of the LNG small scale terminal infrastructure;
- Approximately EUR 7.4 million to finish the I stage of the oil terminal's LFO tank park expansion;
- Approximately EUR 17.1 million to start the II stage of the oil terminal's expansion;
- Approximately EUR 6 million into investmenst of acquisitions or renewal of other oil terminal's equipment (including modernization of jetty related equipment)
- Approximately EUR 2 million – other investments.

It is no less important to ensure the observance of environmental protection, occupational and fire safety requirements and efficient protection of the Company, its employees and the surrounding areas against air and environment contamination and accidents.

INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY

Shareholders and Shares of the Company

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

The Company's shares are traded on the regulated market; they are listed in the Baltic Main List (before 4 April 2016 in Baltic Secondary List) of the Stock Exchange of AB NASDAQ OMX Vilnius.

Shareholders of the Company

As at 31 December 2016 all the shares of the Company were owned by 1,993 shareholders (on 31 December 2015 – 1,847). All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General meeting of Shareholders.

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

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

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

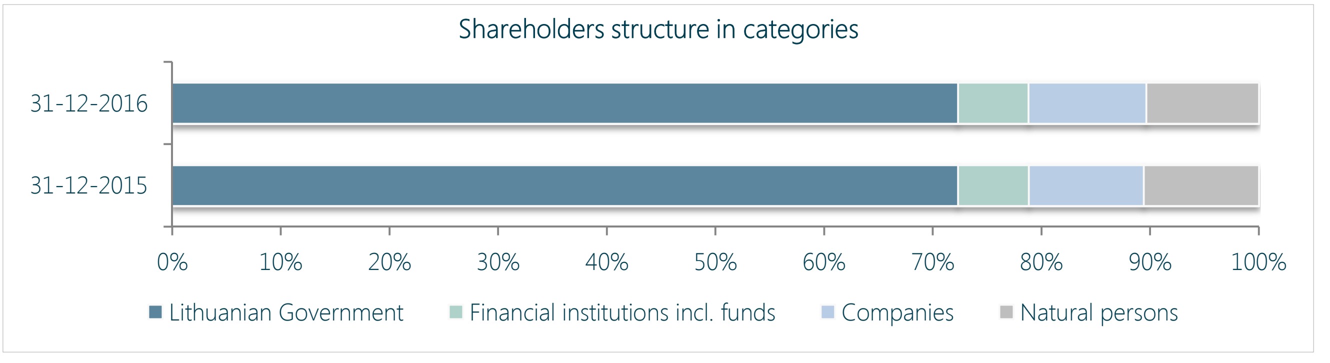
1. to attend the General Shareholders' Meetings and to vote according to voting rights carried by their shares (unless otherwise provided for by the laws);
2. to receive information on the Company to the extent allowed by the imperative norms of the valid laws;
3. to file a claim with the court for reparation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

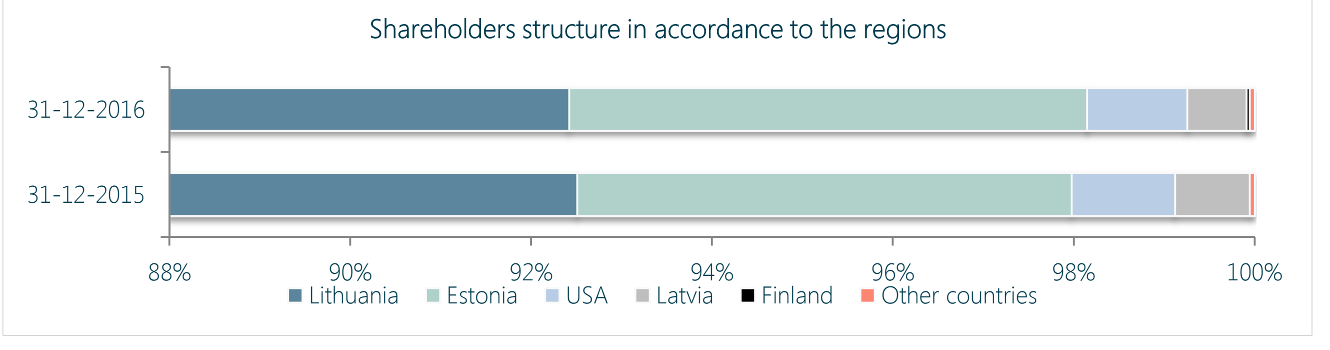
The Company has not been informed about mutual agreements of its shareholders which could limit the transfer of securities and (or) right of vote.

Major shareholders of the Company who have more than 5% of shares of the Company as 31 December 2016 and 2015:

Shareholder's name (company's name, address, company code of registration)	31 December 2016		31 December 2015	
	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 (Gediminas Ave. 38/2, Vilnius, 302308327)	275,241,290	72.32	275,241,290	72.32
Concern AB Achemos grupe (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**

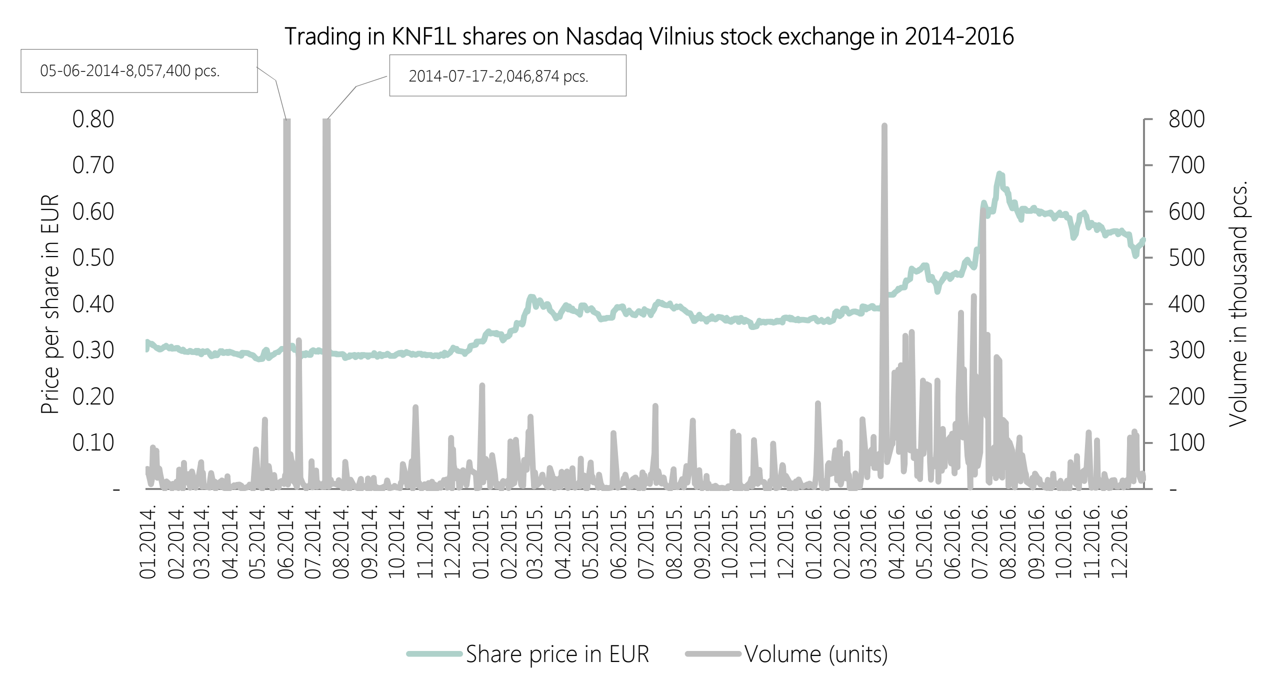
Shareholders structure in categories and to the regions:

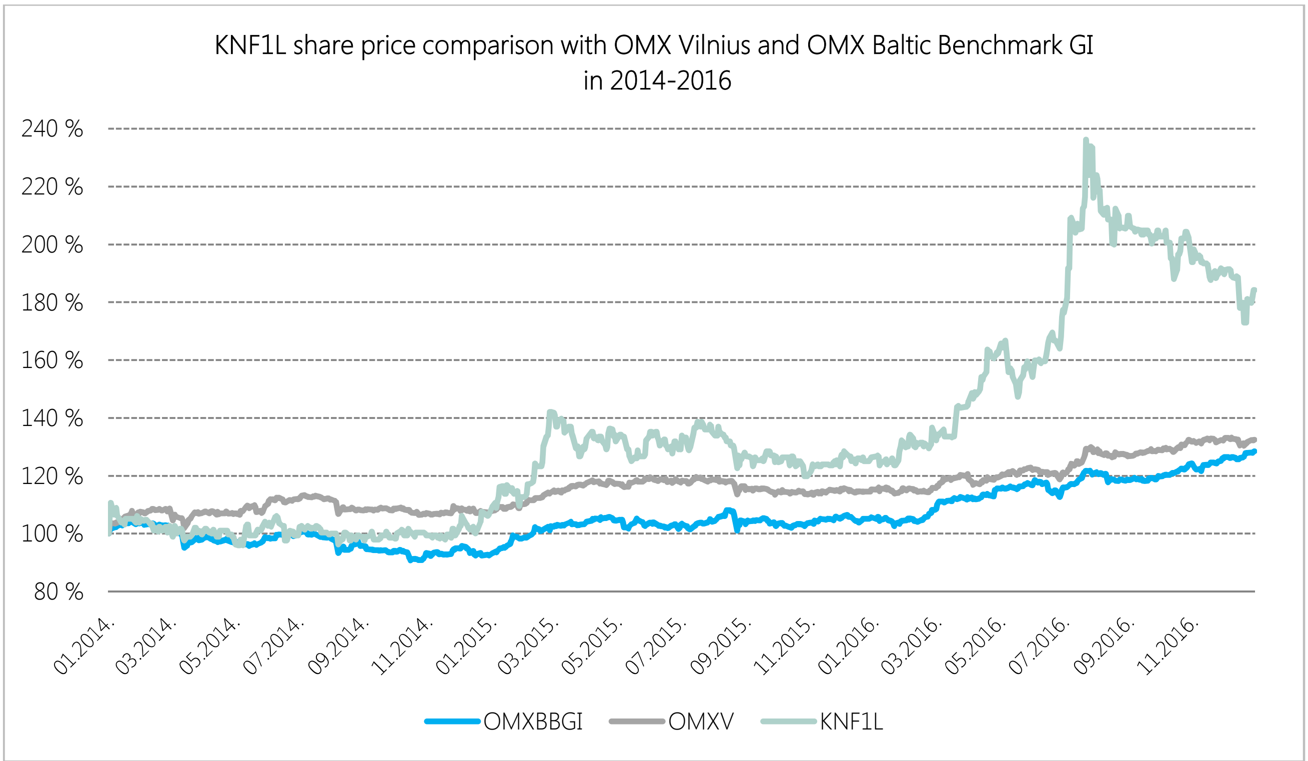




Dynamics of the share price at NASDAQ OMX Vilnius during 2012 – 2016

	2016	2015	2014	2013	2012
Highest share price in EUR	0.705	0.419	0.325	0.381	0.430
Lowest share price in EUR	0.360	0.315	0.280	0.289	0.359
Price per share at the end of the period in EUR	0.538	0.369	0.311	0.292	0.369
Average share price in EUR	0.505	0.373	0.295	0.344	0.387
Traded volume, pcs.	17,879,294	5,257,607	14,454,031	3,644,550	4,061,889
Turnover in EUR thousand	8,730	1,955	4,320	1,249	1,588
Capitalisation in EUR thousand	204,766	140,444	118,369	111,137	133,282





Authorized share capital of the Company

The Company's authorized share capital amounted to EUR 110,375,793 as of 31 December 2016 (EUR 110,375,793 as of 31 December 2015). All the shares of the Company are fully paid. 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 nominal value of 0.29 EUR. The Company did not acquire own shares in 2016 and do not have any own shares as at period end.

Dividends

On 26th April 2016, the ordinary General Meeting of Shareholders was held which approved the audited financial reports and profit distribution of 2015. The Company allocated to the Shareholders dividends to the amount EUR 17,629 thousand or EUR 0.0463 for one share from the 2015 profit (in 2015 the Company allocated for payment of dividends EUR 92.6 thousand or EUR 0.0002 for one share). Dividends were paid to the shareholders in funds.

Below is the historical information about paid dividends in previous periods for the prior financial year:

	2016	2015	2014	2013	2012
Dividends in EUR thousand	17,629	92.6	103.2	118.8	16,503.0
Dividends per one share in EUR	0.0463	0.0002	0.0003	0.0003	0.0457
Net profit per 1 share in EUR	0.06	0.02	0.03	0.03	0.09
Dividends for net profit, %	80%	1%	1%	1%	49%

On 25th January 2016 the Board of AB Klaipėdos nafta has approved the corporate strategy of the Company for 2016 -2020 and, in order to define the Company's dividend calculation, payment and declaration process, the Board of the Company, by implementing the strategy, also approved the Dividend Policy of the Company. The Dividend Policy provides that the Board of the Company shall, on the basis of net profit of previous financial year of the Company and General Manager's proposal regarding profit distribution, present the draft decision to approve the dividend allocation equal to 50% of the Company's annual net profit to the Company's shareholders.

During 2016-2020 the Company sets the goal to increase the shareholders' value and pay stable dividends. The main objectives for a newly created dividend policy are:

- To create transparent dividend calculation procedure;
- To ensure attractiveness of investment into the Company;
- To balance short-term and long term interests of shareholders, that is to find a balance between short term profit distribution and long term Company development, value growth.

The strategy for 2016 – 2020 estimates that the management of the Company would propose to shareholders meeting to approve the distribution as dividends not less than 50 per cent of it's net profit, if such distribution will not disturb the implementation of strategic projects and ensure acceptable financial ratios.

The amount of dividends proposed may be adjusted if:

- The significant change in Company's financial standing and forecasted financial ratios;
- The Company has difficulties to collect compensation for the LNG terminal lease expenses;
- The change of plans for the implementation of strategic projects, their scope or funding needs.

Agreements with intermediaries of public securities trading

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

AB SEB bank Financial Markets Department:	
Company code	112021238
Address	J.Balčikonis Street 7, LT-08247 Vilnius, Lithuania
Telephone	1528
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 AB NASDAQ Vilnius for the companies listed on the regulated market. Refer to the Appendix No 1 to the Annual Report for the compliance report.

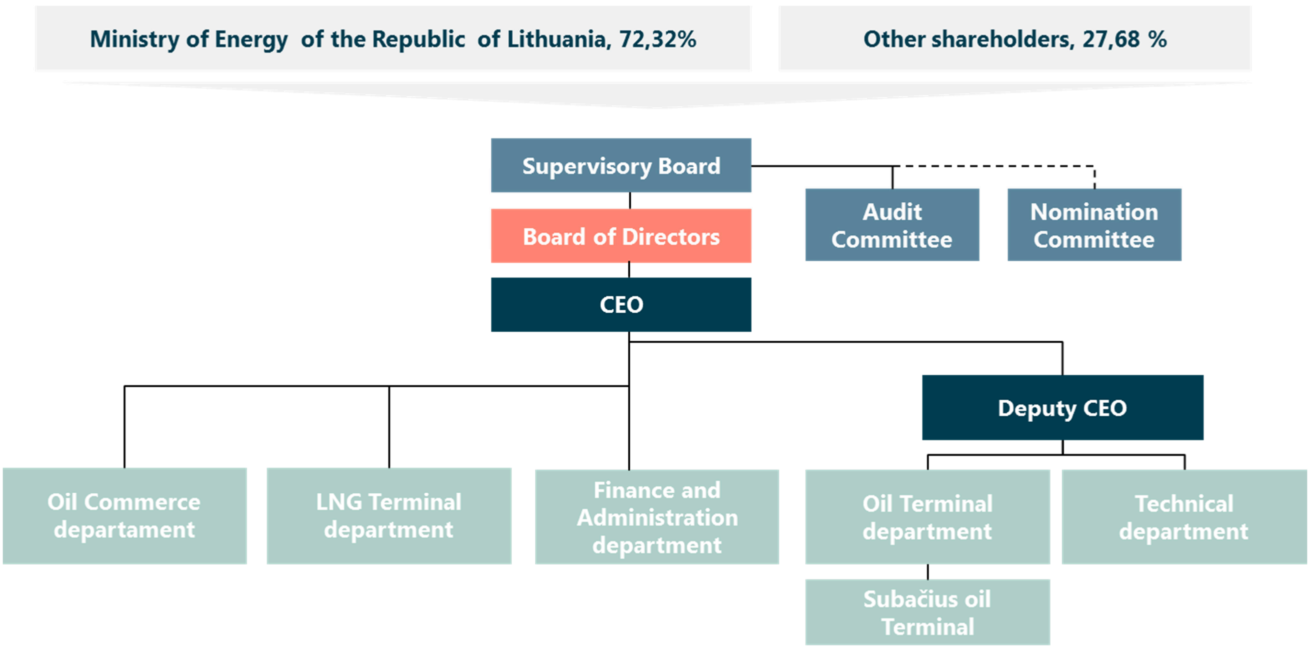
Management structure

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,
- CEO – General Manager.

Organizational and management structure of the Company:



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 or authorised Director of any other department of the Company always participates in the Shareholders Meetings while the member of the Supervisory board and the CFO participate depending on the questions addressed.

In the last general meeting of Shareholders the following reprentatives of the Company took part: General manager of the Company, Director of Finance and Administration Department, members of the Bord: Rytis Ambrazevičius, Mindaugas Jusius, Dainius Bražiūnas, member of the Supervisory Board and Audit Committee Eimantas Kiudulas Head of Law department and auditor of independent Audit Company.

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 AB Klaipėdos nafta, approved by the Company's Supervisory Board, regulate functions, rights and duties of the Audit Committee. The key functions of this committee are: observe preparation process of the Company's Financial Statements, observe the process of audit performance, analyse efficiency of the systems of internal audit and risk management.

By decision of 19 September 2016, the Supervisory Board of the Company set up a committee on the **Nomination commitee** of candidates for the post of independent Board members of public limited liability company Klaipėdos Nafta which serves as an advisory body to the Supervisory Board. The selection committee is comprised of 4 (four) members – Agnė Amelija Kairytė, Romas Švedas, Eimantas Kiudulas, Audrius Misevičius – and the experts, namely, Šarūnas Dyburis and Paulius Martinkus, will be appointed for as long as new independent Board members of the Company are elected, however, for no longer than the expiry of the tenure of the Company's Supervisory Board. The functions, rights and responsibilities of the Selection Committee are set forth in the Regulations of the Committee on the Selection of Candidates to the Post of Independent Board Members of Public Limited Liability Company Klaipėdos Nafta approved by the Supervisory Board, in the documents on the activities of the Supervisory Board and the Selection Committee. The major functions of the Selection Committee are to announce a public selection of candidates for the post of independent board members, to assess the eligibility of the candidates and submit the selected candidacies to the Supervisory Board.

In 2016, as many as 5 meetings of the Selection Committee were held which were attended by all members of the Committee.
After the Selection Committee conducted the selection, on 30 December 2016 and 24 January 2017, the Supervisory Board chose two independent members of the Company's Board.
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 1 December 2016 including, in the Company 4 out of 5 Board members were acting, after one of board member Rytis Ambrazevičius resign on 1 December 2016, till the 29 December 2016 inclusive authorization for board member implemented 3 of 5 Board memebers, after Supervisory Board elected Giedrius Dusevičius as a member of Board, from 30 December 2016 at the Company authorizations of board member implemented 4 of 5 Board members, after Supervisory Board elected Bjarke Pålsson a member of Board, from 24 January 2017 started procced Company's Board of 5 members as established at the Articles of Association. The Board members elect the Chairman of the Board (Note: During the period of time from 20 March 2013 till 31 December 2016 including, the Company constant Chairman of the Board has not been elected, therefore, every time by ad hoc principle the Chairman of the Board was elected from the Board members). The number of the terms of office a member may serve on the Board is not limited. A person who is a member of the Supervisory Board of the Company, who under the legal acts may not serve in this office shall not be elected or serve as member of the Board. The powers of the members of the Board and activities of the General Manager have been determined by the Law on Stock Companies and the Articles of Association of the Company.

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

Members of the Supervisory Board as at 31 December 2016

Agne Amelija Kairytė

(born in 1982) – Chairman of the Supervisory Board of the Company, elected for the term of 4 years at the extraordinary general meeting of shareholders held on 11 February 2013. 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 (from 5 January 2017 - chancellor of Ministry of Energy of the republic of Lithuania). Participation in the activity of companies and organizations: member of the Board of SC Amber Grid till 28 April 2016, member of Board of JSC "EPSO-G" from 11 May 2016, member of the Board of state enterprise Ignalinos atominė elektrinė. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Romas Švedas

(born in 1970) - Member of the Supervisory Board of the Company, elected for the term of 4 years at the extraordinary general meeting of shareholders held on 11 February 2013. Education: Vilnius University faculty of law, qualification - lawyer (1993), Umea University (Sweden) – political democracy (1991), World Trade Organization (Switzerland) – foreign trade policy (1993), International Law Institute (Washington, USA) – negotiations for the international trade contracts (1994), Baltic Institute of Corporate Governance: executive program of corporate governance (2010). Employment: Vilnius University Institute of international relations and political science - lecturer, independent consultant, head of MB Romas Svedas ir partneriai, United Nations ESPOO convention - member of Implementation committee, European Union Agency for the Cooperation of Energy Regulators – member of the Administrative Board. Has no direct interest in the share capital of the Company. Participation in the activity of companies and organizations: Board member of SC „Lietuvos geležinkeliai" from 14 December 2016, Head of Board of SC "Lietuvos geležinkeliai" from 16 December 2016. No shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Eimantas Kiudulas

(born in 1970) - Member of the Supervisory Board of the Company, member of the 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, member of the Board. Participation in the activity of other companies – owner of Eimantas Kiudulas enterprise, JSC LEZ projektu valdymas - member of the Board, JSC PO7 director, Head of association, Board member and Head of Board of Free Economic Zone, Board member of JSC "Baltijos enzimai", till 6 May 2016 Head of JSC Metalo valdymo projektai - CEO, from 25 October 2016 Board member and Head of public institution of KLAIPĖDOS EKONOMINĖS PLĖTROS AGENCY, JSC Pro BioSanus - member of the Board. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During 2016 no remuneration has been calculated for the member of the Supervisory Board. They did not receive any loans, guarantees or assets.

During 2016 were 6 Supervisory Board conferences, all Supervisory Board members were participated.

Name	Position in the Company	The independence criteria	Cadency commencement date
Agnė Amelija Kairytė	Chairman of the Supervisory Board	-	From the 11 February 2013
Romas Švedas	Member of the Supervisory Board	Independent	From the 11 February 2013
Eimantas Kiudulas	Member of the Supervisory Board	Independent	From the 11 February 2013

Members of the Audit Committee as at 31 December 2016

Linas Sasnauskas

(born 1971) - Chairman of the Audit Committee of the Company, elected by the Supervisory Board on 18 March 2013 for a term of four years (chairman of the Audit Committee elected by on 21 September 2015). Education: Vilnius University, Bachelor in economics (1994), "Baltic Management Institute", master in business management (2000), Baltic Institute of Corporate Governance, companies management program (2015). Employment: JSC Carlsen Baltic Board – CEO, from 1 September 2016 SC Lietuvos pastas - member of the Board. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

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.

Kasparas Žebrauskas

(born 1974) - Member of Audit Committee of the Company, elected by Supervisory Board on 14 September 2015 for a term of Audit Committee work end. Education: Vilnius university, economics Master degree (1996); member of ACCA. Works at JSC BDO auditas ir apskaita, Manager of Quality and Risk management; JSC BTH Vilnius, Director. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During 2016 the calculated total remuneration for the Audit Committee members for the work in the Audit Committee amounts to EUR 21.7 thousand (in 2015 – EUR 15.2 thousand), the amounts per each remember are specified below. 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 AB Klaipėdos nafta, determined by the Supervisory Board.

During 2016 were 5 Audit Committee conferences, all Audit Committee members were participated.

Name	Position in the Company	The independence criteria	Payments, thousand Eur	Cadency commencement date
Linas Sasnauskas	Chairman of the Audit Committee (from 21 September 2015)	Independent	7,2	From the 21 September 2015 (previously served as a member of the Audit Committee)
Eimantas Kiudulas	Member of Audit Committee	Independent	7,2	From the 18 March 2013
Kasparas Žebrauskas	Member of Audit Committee	Independent	7,2	From the 14 September 2015

Members of the Board as at 31 December 2016

Mindaugas Jusius

(born 1979) – Independent member of the Board of the Company since 24 October 2011. Education: Vilnius University, Master in Banking (2003), ISM University of Management and Economics, EMBA (2008). London Business School, leadership programme (2008), Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2010). Employment: Director of Swedbank Life Insurance SE. Participation in the activity of other companies: Member of forein legal person management body of Swedbank Life Insurance SE. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Dainius Bražiūnas

(born 1983) – Member of the Board of the Company since 25 August 2014. Education: Vilnius Gediminas Technical University, Bachelor in energy (2005). Employment – head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania. Participation in the activity of other companies: till 28 April 2016 SC Amber Grid Board member, till 21 October 2016 JSC BALTPOOL, Board member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Mantas Bartuška

(born 1984) – Board member of the Company since 25 September 2014, elected by the Supervisory Board until the term of office of the acting Board of Company. Earlier was employed as Director of Finance and Administration Department of the Company (since 18 May 2010). Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). Works at: since 16 December 2016 general manager of the SC "Lietuvos geležinkeliai". Participation in the activity of other companies: till 21 October 2016 Chairman and Member of the Board of JSC BALTPOOL. Since 14 December 2016 member of board of the SC "Lietuvos gelezinkeliai". Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Giedrius Dusevičius

(born in 1971) – independent member of Board since 30 December 2016, elected till the end of the Board of Company cadence. Education: Vilnius University, Faculty of Economics, Diploma in Production Economy and Management (1989); Vilnius University, Institute of International Relations and Political Science (1994); INSEAD, Management Programme (AMP, 2006). Participation in the management of other companies – he worked as CEO of Hanza Lizingas (1996-2004), AB Hansabankas (now Swedbank, 2004-2008), head of Group Products at AB Swedbank (Stockholm, 2011-2013). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Bjarke Pålsson

(born in 1968) – independent member of Board since 24 January 2017, elected till the end of the Board of Company cadence. Education: University of St. Gallen (HSG) in Switzerland, CEMS Master's Study Programme of Quantitative Economics and Finance. Copenhagen Business School in Denmark, Master's in Finance (without a final thesis) (1992). Copenhagen Business School in Denmark, Bachelor's in Economics. Workplace – Managing Director of Financial Strategy and Origination in the company Nykredit (Denmark). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Independent member of the Board is paid based on the agreement concluded with the Company that is approved by the Supervisory Board. Member of the Board M. Bartuška is not paid for work as the Board member; in 2016 he received remuneration only based on the employment contract as General Manager of the Company. In 2016 for the independet members of the Board total remuneration amount comprise EUR 21.1 thousand.

Members of the Board in 2016 did not receive any loans, guarantees or assets.

All member of the Board of the Company attended all 20 Board meetings held during the year 2016.

Name	Position in the Company	The independence criteria	Payments, thousand Eur	Board member from the date
Rytis Ambrazevičius	Member of the Board	Independent	10,8	From the 24 October 2011, till the 1 December 2016
Mindaugas Jusius	Member of the Board	Independent	10,3	From the 24 October 2011
Dainius Bražiūnas	Member of the Board	-	-	From the 25 July 2014
Mantas Bartuška	Member of the Board till the 16 December 2016, Head manager of the Company	-	-	From the 25 September 2014
Giedrius Dusevičius	Member of the Board	Independent	-	From the 30 December 2016
Bjarke Pålsson	Member of the Board	Independent	-	From the 24 January 2017

The Directors of the Company as at 31 December 2016

Osvaldas Sabaliauskas

(born 1968) – from 27 January 2014 is a deputy General Manager of the Company. 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; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Marius Pulkauninkas

(born 1978) - Director of Finance and Administration Department, since 3 January 2017 temporarily designated to the General Manager position. Works at the Company since 20 October 2014. Education: Vilnius University Faculty of Economy, bachelor in Business administration and management (2000) and master in the same field (2002). Marius Pulkauninkas has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Gediminas Vitkauskas

(born 1957) – Director of Oil terminal department. 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; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Tadas Matulionis

(born 1977) - Director of the LNG terminal department. Works at the Company since 2 April 2013. Education: Kaunas university of Technology, Bachelor in telecommunication engineering (2001), Vytautas Magnus University, master of business administration (2004). No participation in other companies management. Tadas Matulionis has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Genadijus Andrejevas

(born 1974) – Director of Technical department (since 1 October 2015). Works at the Company since 4 May 2011. Education: Vilniaus Gediminas Technical university, Master of Engineering computer science (1999), Kaunas university of Technology, bachelor of thermal engineering (1996). No participation in other companies management. Genadijus Andrejevas has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Darius Šilenskis

(born 1981) – Director of Oil commerce department since 28 September 2015. Education: Baltic Management Institute, Master of executives international business management (EMBA), (2013), Vytautas Magnus University, Master of business administration (2013), Mykolas Riomeris university, Master of law (2006, Law and management studies), Bachelor of law (2004, International law if the Sea studies). No participation in other companies management. Darius Šilenskis has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

No members of the Company's management have been convicted of crimes against property, business or finances. Information about leading managers' salary is stated in chapter *Personnel*. On 16 December 2016 the general manager of AB Klaipėdos nafta Mantas Bartuška presented the Board of the Company with resignation notice.

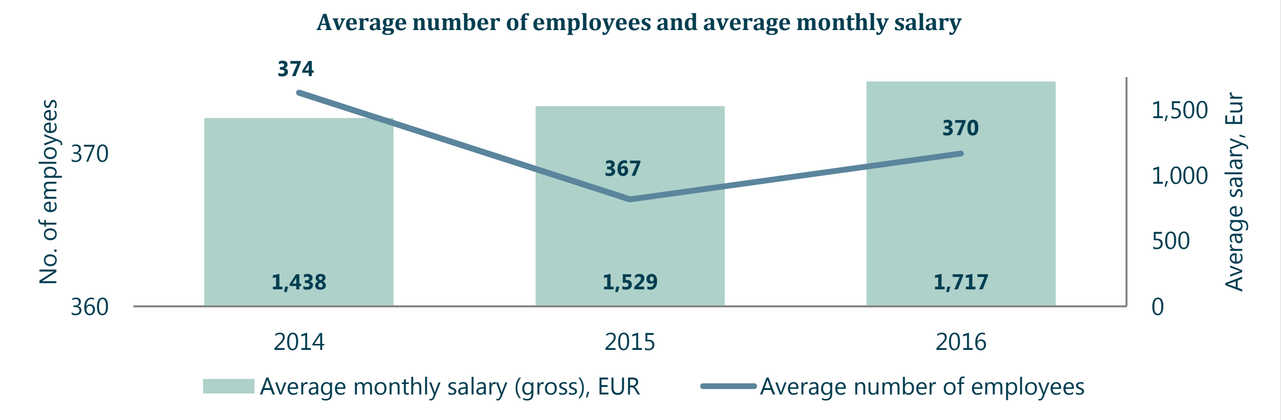
INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

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's culture that creates added value and improving internal communications.

As of 31 December 2016 there were 374 employees working at the Company (31 December 2015 - 364 employees).

The average number of employees in 2016 (total number 370) grew by 3 employees or 0.8 per cent compared with 2015 (367).



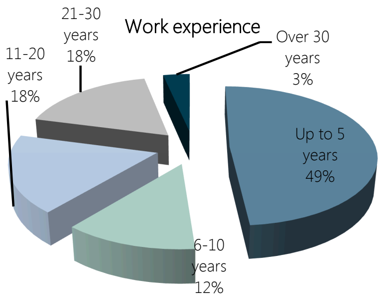
In 2016 (see the table below) from the total number of employees, workers comprised 47 per cent (in 2015 – 52 per cent), specialists 43 per cent (in 2015 – 38 per cent), managing personnel - 10 per cent (in 2015 - 10 per cent.).

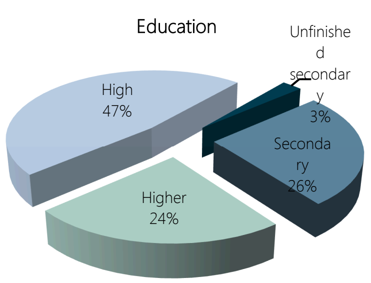
Employees of the Company according to categories

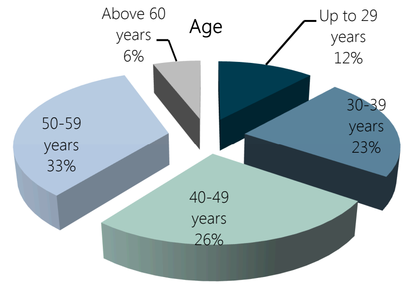
Employee category	Average number of employees		Change in per cent
	2016	2015	
Managers [1)]	37	36	2.8
Specialists	160	140	14.3
Workers	173	191	-9.4
Total	**370**	**367**	**0.8**

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

As at 31 December 2016 in the Company were employed 74 per cent of males and 26 per cent of females (correspondingly 75 and 25 per cent as of 31 December 2015). The average ages of the Company's employees – 44 years. Detailed information about employees' age, work experience and education are provided in Figures herein.







Payroll system and Remuneration Policy

The Company seeks 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. For that reason in September 2016 has been formed and approved the Remuneration Policy.

Average monthly salary according to employee groups

Employee category	Average monthly salary (gross), EUR		Change, %.
	2016	2015	
Managers [1)]	3,918	3,513	11.5
Specialists	1,755	1,611	8.9
Workers	1,235	1,127	9.5
Average of the Company [2)]	**1,717**	**1,529**	**12.3**

[1)] The Company's managers include: General Manager, Deputy Manager, Heads of Divisions and and Functional Manager, Heads of Divisions. The following sums were calculated for the remuneration to the Company's managers in 2016: EUR 2,400 thousand (in that amount taxes paid by the employer included EUR 570 thousand) when in 2015 – EUR 2,157 thousand (including EUR 512 thousand of taxes paid by the employer); on the average EUR 65 thousand to each manager of the Company per year (in 2015 EUR 60 thousand for manager).

[2)] The average monthly salary is calculated in accordance to average monthly wage calculation procedure as stated in the State companies' employees' average monthly salary calculation procedure approved by the Lithuania Government on 23 August 2002, resolution No. 1341 and its subsequent changes.

The Employee Remuneration Policy was approved by the Board of the Company on 9 September 2016. This policy (hereinafter referred to as the 'Remuneration Policy') defines the principles of the setting and payment of remuneration and the incentivisation of employees. The Remuneration Policy shall apply to all employees of the Company.

The purposes of the Remuneration Policy are to:

- Establish clearly understandable and transparent procedures for the setting and payment of remuneration and the incentivisation of employees, aiming at ensuring the Company's competitiveness in the labour market;
- Encourage the employees to attain the objectives set in the Company's strategies and to create value added while fostering the values of the Company.

An employee's pay may consist of the following components: a fixed component, i. e. a monthly salary (or a wage) and a variable component payable for either short-term performance results or the annual results of the Company's/the employee's performance.

The Company's remuneration system is based on the Hay Group Method which measures jobs by relative size, nature and importance (in order to ensure that each job within the Company is fairly rewarded). The monthly salary/wage is set for a job upon evaluation of the level of knowledge and work experience required for the job, the complexity of functions, the degree of responsibility and management, the importance of the job for the Company's results and related risks, and working conditions. In order to ensure competitiveness of the employees' pay and to incentivise the staff to improve performance, the setting of pay (both fixed and variable components) relies on the 50th and 75th percentiles' interval of Lithuanian companies with invested foreign capital. Employees in the same position can receive different monthly pay depending on qualifications, experience, capabilities, and functions and responsibilities assigned to the employee. The variable component is set according to the procedure laid down in the Remuneration Policy.

Each employee's pay is reviewed in relation to current trends on Lithuania's labour market; the Company's performance results; the results of evaluation of the employees' performance; and the market supply and demand for jobs relevant to the Company.

System of remuneration to the Company's management

The Board of the Company sets the salary of the Managing Director, the pay ceiling for employees directly subordinate to the Managing Director, and the procedure for incentivisation of management personnel for both short-term and annual results.

For the purposes of incentivisation of the management personnel, the Board of the Company has approved the Procedure for Rewarding Klaipėdos Nafta AB's Management Personnel, which is aimed at encouraging managers to exceed the corporate annual targets and not just meet them. The fund of annual bonuses to the Company's management is set depending on (i) the percentage by which the net profit is exceeded; and (ii) the degree of meeting of the annual corporate targets. In any case, however, the total amount of bonus fund for all management personnel may not exceed the sum of their salaries for three months.

No compensations are paid to the Managing Director, the Deputy Managing Director and the Directors of Departments in the case of resignation or recalling from the post. Also, there are no additional payments/compensations in the form of shares, or any other form, for their work with the Company at the time of leaving it.

The procedures for employee performance evaluation and annual bonus allocation

The Company has implemented the procedures for employee performance evaluation and annual bonus allocation. These bonuses depend from the achievement of the goals set directly for person or for the Company. 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 being discussed.

For the last five years the Company conducts personnel surveys in order to determine the level of employee satisfaction with the work environment and the Company and the level of engagement as well as to improve relevant areas and working conditions of employees. The personnel surveys in 2016 revealed that 77.26 per cent of employees are satisfied with their work environment, the Company and its culture (by 6.62 per cent more comparing to the results of 2015 and greater by 4.41 per cent comparing to 2014). The overall average employee satisfaction index in Lithuanian manufacturing companies is about 50-55 per cent. Involved and in part involved Companys's personnel in 2016 amounted 92.50 per cent and by 0.4 per cent greater compared to 2015, and uninvolved Companys's personnel the same per cent lower.

The Collective Agreement

The Collective Agreement is concluded between the Employer (the Company) and the Employees; it establishes conditions applicable to work, payment for work, time for work and rest, personnel training, health and safety and other social and economic guarantees. The main purpose of the Agreement is to form proper conditions for the development of economic and business activity and ensure the standards of working conditions higher than required by the legal acts of the republic of Lithuania.

The Collective Agreement provided the following additional social guarantees for employees:

- An annual one-time allowance equal to 2.5 minimal monthly wage is paid before the 1 September to an employee having three or more children under the age of 18;
- Funeral allowance 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 minimal wage is paid to an employee for the birth of a child on a day of his/her birth;
- Anniversary allowances equal to 1 minimal wage 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;
- For employees who have reached retirement age and retirement pay extra, depending on time of service, higher than the Labour Code of the Republic of Lithuania provides for severance compensation;
- AB Klaipėdos nafta supports cultural, sport and tourist activities of its employees, different events and other social activities which could be attended by all employees of the Company without any limitations or discrimination.

Development of Competencies

The Company continually organizes the following instruction, job qualification and other trainings for employees.

The experts of the Occupational Safety and Health Department and the Fire Safety and Environmental Protection Department of the Company conduct Introductory Occupational Safety and Health, Fire Safety and Civil Protection Instructions for new recruits. Heads of Divisions of the Company instruct their employees on-site at least once per year.

External personnel carrying out works at the territory of the Company and customers's employees leave gasoline and diesel tank trucks, shall be acquainted (instructed) with the requirements on Occupational Safety and Health, Fire Safety and Civil Protection Instructions applicable at the terminals. In 2016 the Company instructed a total of 1,214 external employees (in 2015 – 765).

The employees performing hazardous works as well as works involving operation of potentially hazardous machinery or its supervision are always taught safe methods following the written procedure guidance, which has been approved by the Company's general manager, concerning testing and assessing Employees' training and knowledge on occupational safety and health. Following the written procedure guidance, which has been approved by the Company's general manager Regarding Instructions for employees. In 2016 a total number of 160 employees were trained and/or certified. The employees operating energy machinery are periodically certified under the procedure provided for in the Order of the Minister of Energy of the Republic of Lithuania.

In 2015 the procedure of internal trainings for the employees of production subdivisions was approved, and all the necessary programs, employee trainings and certification are designed under this procedure. 35 internal training programs were approved in 2016-2015 according to which employees were trained and/or certified. Internal trainings as well as periodic certifications are organized for the purposes of acquiring and renewing professional knowledge, learning and testing skills of the Company's specific production technological processes and equipment, and maintaining employees' high professional standards. The general trainings for the development of competencies of employees are performed by sending staff to the seminars and conferences organized by external parties or by organizing internal trainings. The annual employee training plans are made on the basis of the following: Company's strategy, the objectives of human resources development, needs expressed by the staff of subdivisions, needs reflecting in the interviews about annual evaluation of employees as well as in the documents on evaluation given at the end of adaptation period of new-hires. Each year, the improvement of internal communication werw organized teamwork. Over 80 executives and experts participated in these teamwork trainings. One of them was meant to emphasize and show the importance of the Company's processes and personal participation, and to enhance cooperation. The other was Company-oriented and employees' social responsibility-oriented training. In the year of 2016, on average employees had a training/improved their professional skills spending 8,922 working hours (or an average of 3.0 days a year per person for trainings) on training and development, out of which:

Employee category	Working hours a year of training		Average days a year per person for trainings	
	2016	2015	2016	2015
Managers [1)]	1,928	1,261	6.5	4.5
Specialists	5,392	4,336	4.3	3.9
Workers	1,602	1,941	1.1	1.3
Average of the Company	**8,922**	**7,538**	**3.0**	**2.6**

Every year the Company prepares human resources reserve educational plans for important and difficult job positions as this is essential in order to ensure the continuation of the Company's activities, and employee training plans are prepared to ensure required qualifications.

SOCIAL RESPONSIBILITY OF THE COMPANY

In its activities the Company follows the principles of business ethics and social responsibility of higher standards. The Company strives to become reliable social partner in Klaipėda and contribute to solving of important social problems.

First of all, the Company could be named as the major supporter in the region. The funds allocated for support first of all are diverted to support cultural, infrastructural, health and social security projects associated with the region, where the Company conducts its activities. When allocating funds the Company follows the order of funds allocation procedure applied to the distribution of funds for public benefit purposes. The Company supports the following public sectors and activities:

- environmental protection;
- health care;
- social protection and labour;
- preservation of cultural, religious and ethical heritage;
- informal and civic education;
- sports;
- improvement of public policy;
- other public benefit purposes and selfless activities selected yearly by the Board of the Company.

In 2016 m. the Company allocated EUR 130 thousand (in 2015 – EUR 140 thousand). In 2015 the Company sponsored significant cultural centers of Klaipėda region – libraries, Drama and Musical theatres. It is primary and long term lasting sponsor of the main events of the city of Klaipėda, such as the Sea Festival, Klaipėda jazz festival. Special attention is paid to the organizations that are located near the Company's territory. The Company also supports the local sportsmen: encourages and stimulates activities of disables sportsmen; organization of championships and other cultural, sports, and education initiatives, support religion communities.

Employees of the Company being responsible to each other and society among the Collective Agreement observe the requirements of the following documents:

- Personnel Policy;
- Remuneration Policy
- The Code of Ethics;
- Procedure of the employee performance evaluation and bonus allocation;
- Procedure of adaptation for newcomers;
- Procedure of Internal trainings;
- Human Resource Reserve Policy and other.

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".

LNG Cluster

The LNG terminal and the putting into operation, from mid-2017, of an LNG distribution station currently under construction in the territory of KN will open wide opportunities for the science – business partnership in the development of the regional maritime LNG business. The new cluster will become a driver of development of advanced LNG technologies, along with the saving of natural resources and controlling environmental pollution.

LNG is a novelty in the Baltic Sea Region both as a fuel and a technology. It is interesting for scientists as an area of work and as an opportunity for the further development of the infrastructure base provided by the LNG terminal.

As well as establishing an alternative gas supply channel, in the future the LNG terminal will enable the development of the LNG market in Klaipėda, Lithuania, and the Baltic Sea Region.

In the process of implementation of the LNG terminal project, KN has formed a team of specialists with strong competences that now can share experience with foreign partners. KN's engineers and other specialists provide consulting to the builders of Cartagena (Columbia) terminal and are often invited to take part in international conferences on LNG.

The advance of LNG technologies generates new investments in the infrastructure development and innovative technologies, which will be useful for Lithuania's engineering industry and science in the creation, development and commercialisation of new products and technologies, creating new jobs with high value added, introducing new study programmes and training specialists.

We are in a new and challenging phase of innovation development in the maritime sector, which provides great opportunities for the maritime states. Lithuania will utilise the emerging opportunities in full if it manages to train specialists in time, conducts research in the areas relevant to the maritime industry and transport, and promotes energy efficiency.

To avail of the economic potentials of the LNG to the maximum, Klaipėdos Nafta, AB, which implemented the project on the LNG Terminal and performs the functions of its operator, the Western Shipyard Group, Klaipėda University (KU) and Klaipėda Research and Technology Park signed an agreement on the development of a cluster and execution of joint activity on 8 April 2016. After signing the agreement, the Lithuanian Maritime Academy, which is the only educational institution preparing specialists with maritime specialties in Lithuania, joined the cluster. The LNG cluster signed a cooperation agreement with one of the biggest Croatian universities, namely, the University of Rijeka. The latter agreement will ensure close cooperation in promoting the expansion of LNG-related studies and exchange in Lithuania. The contribution of the University of Rijeka, which has extraordinary and centuries-old traditions in LNG research and preparation of corresponding specialists, to the cooperation with KU will be a considerable step in creating, developing and opening the prospects of engineering studies related to LNG terminals in Klaipėda.

The idea of the cluster is supported by the Ministry of Energy and the Ministry of Education and Science. The agreement made all parties to commit to cooperate by incorporating the potentials of studies and business which, in turn, determined the development of a new specialty in the port city. Taking care of social welfare in the port city Klaipėdos Nafta, AB will finance eight slots of the targeted study programme to be introduced in Klaipėda University (KU) – Liquefied Natural Gas (LNG) Terminal Engineering.

In the beginning of September 2016, the LNG cluster accepted a new member, namely, Emerson (USA) which became the first international partner of the cluster. By attracting an international partner, Klaipėdos Nafta, AB seeks to develop competences of the cluster and promote the occurrence of competences of modelling small-scale LNG terminal management systems. They would significantly increase the competitiveness of the cluster in the field of LNG distribution services and technology production.

Work safety

Work safety is one of the Company's priorities because it strives to create safe and healthy working environment. Workplace risk assessment is carried out and the level of risk is determined prior to allowing employees to start their work in a new workplace. If workplace risk level is considered to be unacceptable or intolerable, measures needed to eliminate the risk or reduce it to an acceptable level are proposed and implemented. Personal protective equipment against any risk factors existing at workplaces is provided to employees free of charge. Personal protective equipment list is coordinated by trade union and approved in companys' Collective Agreement.

The employees performing hazardous works as well as works involving operation of potentially hazardous machinery or its supervision are always taught safe methods following the written procedure guidance, which has been approved by the Company's general manager, concerning testing and assessing Employees' training and knowledge on occupational safety and health. Following the written procedure guidance, which has been approved by the Company's general manager, regarding Instructions for employees, all the Company's employees are instructed at least once a year, how to perform safe work in their workplaces. The employees operating energy machinery are periodically certified under the procedure provided for in the Order of the Minister of Energy of the Republic of Lithuania.

Health of employees

The Company is one of the few companies in Lithuania that has a licensed health center. It provides the first aid, initial preventive practical and theoretical health support, it is established 31 first aid mobile stations (in departments), where emplyees can get first medical care when injured, measure temperature or blood pressure, preventive employees' health care, infection control, control of risk factors for hazards; the center also organizes medical check-up prior to employment and while being in employment. Both employers and employees are advised on health matters. In 2016, 190 employees had medical check-ups (in 2015 – 120), 45 employees participated in the first aid and hygiene awareness training (in 2015 – 60).

Physical medicine and rehabilitation room with modern science approved practice-proven equipment is set in the Company's health center. A range of physiotherapy treatments based on the doctor's referral are provided. Employees are provided with free vaccines against tick-borne encephalitis, typhoid, influenza and other illnesses. In 2016, 212 employees were vaccinated (in 2015 – 195).

In its health center the Company organizes, at its own expense, preventive – rehabilitation treatment to the employees that work in the increased pollution conditions. During 2016 these services were used by 105 employees (in 2015 – 95).

Civil Protection

The Company manages three potentially hazardous objects (PHO) of higher level, namely, the Liquefied Natural Gas Terminal, Klaipėdos Nafta Terminal and Subačius Fuel Base. In case of accident in any of these objects, danger would be posed not only to the employees working in these objects but also to the residents of surrounding areas. PHOs of higher level are controlled by the Fire and Rescue Department under the Ministry of Interior which annually organises complex inspections of the Company-operated hazardous objects in cooperation with a number of other institutions performing the functions of state control. Having checked the state of safety in the Company's PHOs in 2016, an inspection commission did not identify any violations which would pose risk to the safety of use of the objects.

Environmental protection

Both while planning new activities and when using the existing Oil and Liquefied Natural Gas Terminals as well as Subačius Fuel Base, the Company follows the key environmental protection principles established in the National Environmental Protection Strategy. The oil terminal is used on the basis of environmental protection terms and conditions set forth in the Integrated Pollution Prevention and Control (IPPC) Licence issued by the Environmental Protection Agency (EPA); meanwhile, Subačius Fuel Base – according to the environmental protection conditions stipulated in the Emission Allowance issued by the EPA. The Liquefied Natural Gas Terminal, i.e. the ship – storage facility is used on the basis of the environmental protection terms and conditions set forth in the (IPPC) Licence issued by the EPA. It should be noted that the responsibility for the use of the ship – storage facility is assumed by Hoegh Ltd; for this reason, no detailed information on the environmental protection aspects of the ship – storage facility will be provided. The tables below provide the main environmental components in the Oil Terminal and Subačius Fuel Base which are affected by the economic activity and which are subject to the measures intended to reduce/avoid the potential negative effect as well as measures for monitoring of the environmental condition.

Involvement of the Society in Environment-Related Decision-Making

In planning new economic activities, enlargement or modernisation of the existing terminals the Company complies with the provisions established in the Republic of Lithuania Law on the Assessment of the Impact of Proposed Economic Activities on the Environment and the Law on Territorial Planning. When environmental impact assessment procedures or territorial planning procedures are conducted, the public is provided with opportunities to familiarise itself with the planned economic activities as early as possible and to put forward any remarks, comments or suggestions.

In 2016, two selections on the compulsory imperative of the environmental impact assessment (EIA) with regard to the planned economic activities, namely, enlargement of the park of light oil products and construction of a new oil product loading/unloading overhead road as well as rail trackside, were performed. It should be noted that within the scope of EIA selection risk analyses of the planned economic activities were carried out during which individual and social risk was measured and it was identified that employees of the adjacent companies and residents living in the closest areas to the Oil Terminal fall within the category of the universally acceptable risk zone. Having evaluated the material of the EIA selection, the responsible authority yielded selection conclusions stating that the aforementioned planned economic activities did not require EIA. The public was made aware of the conclusions on the compulsory imperative of the EIA. All negative impact reducing measures which were planned in the EIA selection documents will be implemented when building and using new objects.

In 2016, the detailed plan on reconstruction of Klaipėdos Nafta, AB approved by Decision No. 2015 of the Klaipėda City Municipal Council of 22 December 1998 (hereinafter referred to as the "Detailed Plan") was corrected. The new version of the Detailed Plan provided conditions for the development of the project on the Liquefied Natural Gas (LNG) Distribution Station in the territory of the Oil Terminal. It should be noted that in the scope of the Detailed Plan, the Road and Transport Research Institute drew up a study on the transportation of LNG via Klaipėda city. The study examined the itineraries for transportation of LNG and the itinerary which would be the safest for the public and environment was chosen. The public was made aware of the solutions of the corrected Detailed Plan – a public presentation of the solutions of the Detailed Plan was organised (though legal acts regulating territorial planning do not provide for the requirement to necessarily organise a public meeting when a Detailed Plan is amended). By informing the society about the planned projects the Company ensures the right of the public to know the right to participate in decision-making in relation to environment as provided for in the Aarhus Convention are exercised.

Principle of ecological effectiveness

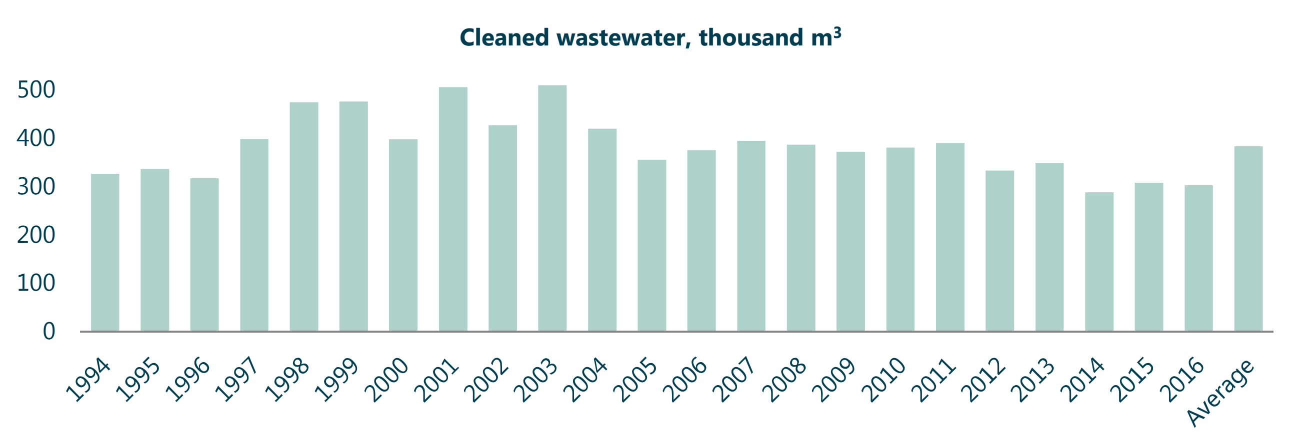
The purpose of this principle is to consume less energy and other natural resources for the same volume of services. In 2016 the Company continued renew of its heat exchangers system. With the renewed part of heat exchangers system, the procedures for unloading a set of rail wagons will take shorter time on average and will save thermal energy. This renewal of a part of heat exchangers will enable implementation of the Principle of Pollution Prevention as reduced need for vapour in the boiler room will result in decreased amount of gas combustion, thus a smaller amount of nitrogen oxides and carbon monoxides will be emitted into the atmosphere. Shorter time for unloading a set of rail wagons will reduce emissions of air pollutants, namely, volatile organic compounds (hereinafter referred to as VOC).

In order to decrease volume of consumed paper, improve procedures of document management and reduce costs, the Electronic documents management system (DocLogix) was installed in the Company which allows managing and archiving all documents in electronic way. This measure enables the Company to achieve significant paper savings.

Principle of Pollution Prevention

A number of environment protection measures have been implemented in the Company in order to reduce environmental pollution:

- The Company has its own wastewater treatment plants which are capable of cleaning industrial and surface sewage of oil product terminal up to an approved normative limit; afterwards, the purified wastewater is discharged into the natural environment – the Curonian Lagoon. The Company's wastewater treatment plants within the territory of Klaipėda State Seaport serve as a seaport reception facilities which receive bilge water (waterpolluted with oil products) from vessels. During 2016, 96 vessels/tankers discharged their bilge water into the Company's wastewater treatment plants; this amount constituted 50.0 per cent (in 2015 - 51.5 per cent) of the total volume of hazardous waste received and treated by the Company. It handled around 13.88 thousand tons (in 2015 - 17.1 thousand tons) of hazardous waste per year which was polluted with oil products. Part of this hazardous waste has been recovered, i.e. waste polluted with oil products turned into a product – liquid fuel mixture.



- Prevention of waste accumulation is conducted in the Company. Waste is collected separately from secondary raw materials suitable for processing. In 2016 oil product terminal, as a waste manager, handled 10.49 t (in 2015 –11.96 t) of hazardous waste (bilge water, water polluted with oil products), and 2.1 t of biologically treated sludge (2015 – 3.2 t). While conducting its activities, the Company transferred 280 t (in 2015 – 173 t) of separated waste and 285.4 t (in 2015 – 344.4 t) of secondary raw materials (280 t of scrap metal and 5.4 t of paper) from oil production and liquefied natural gas terminals to other companies for further handling. In 2016 The Subačius oil terminal accumulated 56.9 t (in 2015 – 6.6 t) of waste which was transferred to waste managers.
- VOC recovery unit with an efficiency of about 95 per cent is in operation while stevedoring services, namely, discharge of light oil products from rail wagons into containers, are being provided at oil product terminal. When discharging gasoline from containers into a tanker, VOC vapour combustion unit with an efficiency of about 95 per cent is in operation. Implementation of minimization measures for air pollution allows the Company to reduce its annual emission of VOC by about 125 t. Oil product terminal has over 70 per cent of containers, used for storage/loading of oil products, with pontoons which help to reduce VOC release into the atmosphere.
- The Company performs monitoring of air pollutants emitted from stationary sources, also monitoring of impact on environment including observations of underground water, ambient air and surface water (the Curonian Lagoon). According to the analysis based on monitoring data of impact on ambient air quality and impact on surface water, the Company has not exceeded the permissible limit of pollution value, in addition monitoring results of impact on underground water show that "historical" pollution of soil and underground water with oil products has actually been decreasing within the territory of the Company.
- In 2016 the Company's operating costs for environmental protection (including maintenance of waste treatment plants) amounted to EUR 823.1 thousand (in 2015 – EUR 828.3 thousand). Additionally, during 2016, EUR 12.0 thousand (in 2015 – EUR 29.3 thousand) were allocated for different environment protection studies (studies of polluting materials, etc.).

Principle of Responsibility ("polluter pays")

This principle is implemented each year by paying a tax into the public purse for environment pollution from stationary and mobile sources of pollution. In 2016 the Company pays an annual tax about EUR 5 thousand (in 2015 – EUR 7 thousand) to the public purse for environment pollution from oil terminal.

Since 2015, the Company has been compensating the expenditures related to environment pollution tax and acquisition of emission allowances incurred by LNG floating storage and which are directly paid by the vessel owner, i.e. Hoegh LNG. In 2016, the amount accounted as environment pollution tax and pollution fees were EUR 201.0 thousand (in 2015 –

EUR 130.7 thousand) (increase related with larger volume of LNG regasification). Part of the money paid into the public purse is allocated for ongoing environment protection measures in municipalities where the Company carries out its activities.

The Company carries out its activities in accordance with the requirements of Environment Protection Agency provided for in environment protection licenses which were granted to oil product terminal

and the Subacius fuel storage facility. The company has approved safety management policy, the main purpose of which is to ensure rational utilization of natural resources, and implementation of pollution minimization measures set in the environment protection licenses.

In order to prevent accidents/incidents which are likely to result in environment pollution, the Company has installed systems of automatic fire detection and extinguishing, computer-assisted control of loading process; and technologies for air, soil and water protection against pollution in accordance with the EU standards. The management of extreme situations, fire protection and territory protection comply with the requirements of the Republic of Lithuania institutions of fire protection, labour security, civil safety, environment protection, port control. About once a year, the inspectors of competent institutions carry out analysis of danger and risk at the Company's terminals and SFB. Managers of the Company take careful note of provided recommendations and develop risk minimization plans that are involved in Company's investment plans.

The Company, as the object of danger level II, 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.

AWARDS AND ACHIEVMENTS

Since 4th April 2016 stock company Nasdaq Vilnius AB listed AB Klaipėdos nafta shares (KNF1L) in to the Baltic Main List. AB Klaipėdos nafta shares were listed on the Baltic Secondary List until April 3.

As a result of the semi-annual review the new composition of the index OMX Baltic 10 was set and became effective from the 1st of July, 2016. For the first time AB Klaipėdos nafta shares (KNF1L) – became a part of the tradable index OMX Baltic 10. Under this decision AB Klaipėdos nafta shares officially became one of the ten most liquid shares in the Nasdaq Baltic markets.

AB Klaipėdos nafta shares (KNF1L) have reached the highest price in all trading history in Nasdaq Vilnius stock exchange market. On July 25th 2016 the new highest KNF1L share price (EUR 0.705) has been recorded.

On 26th January 2017 Nasdaq announces the winners of the Baltic Market Awards 2016. KN was awarded in 4 categories:

- "Best investor relation in Baltics" – AB Klaipėdos nafta 2nd place;
- "Most visible improvement over 3 years" – AB Klaipėdos nafta 1st place;
- "Best reporting company" – AB Klaipėdos nafta 2nd place;
- "Best interactive investor relations" – AB Klaipėdos nafta 3rd place.

In occured competition „Lithuanian buissines leaders" organised by „Verslo žinios", AB „Klaipėdos nafta" was a winner in transport and storage sector group. According to set financial and bussines sustainability indicators company was evaluated in high level. KN reached the best financial results in it's history, implemented extraordinary LNG projects.

OTHER INFORMATION

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

Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented in the Explanatory note to the Company's financial statements for 2016. In 2016 there were no changes in type of transactions with related parties, which could have made impact on the Company's financial activity. All transactions with the related parties have been performed under market conditions (following the arm's length principle).

Information about the audit

During the General Meeting of Shareholders of the Company which took place on 30th April 2015 of the Company, the shareholders have appointed JSC Ernst & Young Baltic to audit financial statements of the years 2015-2016, assess the annual statement and perform the audit report. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of auditing services EUR 14.5 thousand for the each financial year (2015 and 2016). JSC Ernst & Young Baltic also performed the audit financial year 2014 audited financial statements, annual report. JSC KPMG Baltics performed the audit of financial status reports and related reports on changes in common incomes, authorized capital and cash flows for the time period 2008-2013 as well as for the accounting policies and other supplementary notes.

The proposal regarding approval of the audit company is provided by the management of the Company after public procurement procedures. To participate in procurement tender 4 international audit companies are invited (UAB Ernst & Young Baltic, UAB PricewaterhouseCoopers, UAB KPMG Baltics and UAB Deloitte Lietuva), the winner is selected based on the lowest price criteria.

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 Marius Pulkauninkas, acting General Manager of AB Klaipėdos nafta, and Asta Sedlauskiene, Head of Accounting Division of AB Klaipėdos nafta, hereby confirm that to the best of our knowledge the above-presented Annual Report of AB Klaipėdos nafta for 2016 gives a true and fair view of the business development and performance, description of the Company.

Acting General Manager		Marius Pulkauninkas
Head of Accounting Division		Asta Sedlauskienė

Annex to the annual report

AB KLAIPĖDOS NAFTA GOVERNANCE REPORTING

The public limited liability company AB Klaipėdos nafta (hereinafter referred to as the "Company"), acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

Summary of the Corporate Governance Report:

AB Klaipėdos nafta aims to make its corporate management and internal processes in a way to ensure transparent, effective and profitable activities. The internal control proceses and management practices implemented within the Company are in line with the best management practice principles.

The Company's management structure and managing bodies are described in detail in the article *Managemt of the Company* of the annual report. In this paragraph also provided coporate management scheme, connection with the other bodies and short description of the functions of the each managing body. Also in mentioned paragraph is found the information regarding remuneration for service in the colleagual bodies and amount accounted for the each member of the bodies.

In order that all management and supervision bodies of the Company axectly and clearly understand the targets, directions and objectives the corporate strategy is being prepared where foreseen long term strategic goals and tasks. The Board of the Company is responsible for the strategy setting of the Company. The up to date corporate strategy goals are described in the paprагraph *The Company's Strategy*.

Paragraph *Risk factors and risk management* descirbes the main risks the Company is facing in its activity, also short risks identification and they mitigation proceses implemented within the Company are included.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
Principle I: Basic Provisions **The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.**		
1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.	Yes	The development strategy and objectives of AB Klaipėdos nafta have been set up in its internal documents (Annual Report placed publicly on the website of AB NASDAQ Vilnius) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment, declaring how it plans to act in the interests of the shareholders and increase shareholders' equity. The Articles of Association of the Company are publically announced on NASDAQ Vilnius Stock Exchange's and Companys website, according to the procedures defined for the companies listed on the regulated market.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.	Yes	The General Meeting of Shareholders and the Board of the Company adopt the main strategic resolutions, making impact on the shareholders value increase. During the year under review, the General Meeting of Shareholders of the Company and the Board adopted decisions related with implementation of the strategic projects of the Company, core decisitions related with activities of the Company. The Company's Supervisory Board and its advisory body, Audit Committee have ensured active monitoring and supervision of the Company's activity.
1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.	Yes	The Company's Supervisory Board, its advisory body - Audit Committee, the Company's Board and the Company's General Manager implement this recommendation. The documents regulating the activities of the management and supervisory bodies were approved providing the principles and procedures for the cooperation between the Company's management and supervisory bodies, and regular supervision and control carried out by the supervisory bodies additionally ensure the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders. If necessary, general meetings are organized, where the members of the Company's Board, Supervisory Board, and Audit Committee are invited.
1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.	Yes	The Company's bodies respect the rights and interests of the persons participating in or connected with the Company's operation: 1. Employees – since its establishment the Company has been cooperating and performing social partnership with the representatives of its employees (the Board of the Company by its resolutions assigns additional means for the execution of the Collective Agreement and extra stimulation of the employees, etc.); 2. Creditors - the Company takes on and fulfils its financial and other obligations in accordance with the budget approved by the Board of the Company and the LNG terminal project investment financing plan provided within it; 3. Suppliers – the Company's Boards adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association; 4. Clients –the Company's Boards adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		products in the cases defined in the Articles of Association; 5. Other persons (local company) – by the resolution of general shareholders meeting part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the annual support budget, including the projects plan which is made based on the principles that the prioritized support for Klaipėda region and focusing on the support to be annually dedicated for both local companies and institutions and organizations located near the Company.
Principle II: The corporate governance framework **The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.**		
2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, was also created within the Company.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief Executive Officer; submits proposals and comments to the General Meeting of Shareholders regarding the strategy of the Company's operation, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts). The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation; approves the annual budget, annual policy plan and operational objectives, funds investment procedure, adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, significant transactions, realization of rights of the Legal Entity's member within the companies under

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		control, different commitments, etc.). The Company's Audit Committee performs the assigned by the Supervisory Board separate supervisory functions (monitors and supervises the preparation of Company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board. The internal regulations for election of collegial body the Supervisory Board by the Company's shareholders meeting are set in the way ensuring: minor shareholders' interests are properly represented, this body accountability to the shareholders and objective supervision of the Company's activity and its managing bodies. The management system of the Company ensures that collegial supervisory body elected by the shareholders operates properly and effectively, and the rights assigned to it has to ensure effective supervision of the managing bodies and protection of the all shareholders interests.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board of the Company is comprised of five members elected by the Supervisory Board[1]. The Supervisory Board is comprised of three members elected by the General Meeting of Shareholders of the Company. The Audit Committee of the Company is comprised of three members elected by the Supervisory Board. None of the Company's management or supervisory bodies are comprised of that number of members that a separate person or group of persons could dominate them adopting the decisions.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the	Yes	The opportunity to recall both separate members of collegial bodies and the whole collegial body *in corpore*, before the end of the term of officeis provided in the documents regulating activity of the

1 Note: From the 1 January 2016 till the 1 December 2016 Member of Board responsibilities were acting 4 out of 5 Members of Board, from the 2 January 2016 till the 29 December 2016 inclusive Member of Board responsibilities at he Company were acting 3 out of 5 Members of Board, from the 30 December 2016 till the 23 January 2017 Member of Board responsibilities at he Company were acting 4 out of 5 Members of Board, since 24 January 2017 started procced Company's Board of 5 members as established at the Articles of Association.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.		management and supervisory bodies and the Company's Articles of Association. The Board members (one or all) have the right to recall the Supervisory Board, and the General Meeting of Shareholders has the right to recall the Supervisory Board members (one or all). The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members; however, the restrictions on the candidates to the Supervisory Board are applied according to the applicable legal acts ensuring an appropriate rotation of the members of these bodies, necessary development of their professional experience and rather often additional approval of their status. Audit Committee corresponds to the term of office of the Supervisory Board by which it was elected and which can also recall members of the Audit committee before the end of the term of office. Thus, the procedure of recall of the members of the Company's supervisory bodies is not easier than the procedure of dismissal of the Company's Executive Director (General Manager) or the Board member.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	Till the 16 December 2016 the Chief Executive Officer of the Company was also a member of its Board. But the chairperson of the Company's Board and the Chief Executive Officer of the Company was not the same person[2]. The Chief Executive Officer of the Company has not been a chairperson of the Company's General Meeting of Shareholders elected by the collegial body. The chairperson of the Company's Supervisory Board or its members has never been Board members or the General Managers of the Company.
Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting **The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.**		
3.1. The mechanism of the formation of a collegial body to be elected by a general	Yes	The collegial body of the Company is elected following the order established by the Law on

[2] In 2016 there was no Chairperson of the Board, so every time one of the Board members is elected as the chairperson of the Board conference under the principle *ad hoc.* The Company's Chief Executive Officer was not elected as the chairperson of the meeting *ad hoc*.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.		Companies of the Republic of Lithuania and the Articles of Association of the Company. Additional candidates for the members of the collegial body elected by the General Meeting of Shareholders, according to the procedures defined, can be delegated by all shareholders holding the amount of shares giving them not less than 1/20 of the total votes.
3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	Information about the candidates to become members of a collegial body is presented in advance publishing this information on the website of AB Nasdaq Vilnius before the General Meeting of Shareholders or publishing it during the meeting for the shareholders participating in the General Meeting of Shareholders if the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest, and for this purpose they submit declarations about the absence of conflict of interest and are obliged to immediately inform the body by which they were elected of any new circumstances that may lead to the conflict of interest. The Company informs the public of the positions by the collegial body in its annual and six month interim report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies.
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests to the Company's body that elects them. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body. The information about the composition of the Company's collegial bodies and the competences of their members are publicly disclosed to the shareholders in AB Nasdaq Vilnius Stock Exchange website and Company's website oil.lt and annual report of the Company (in 2016 there was changed one of the collegial managing bodies[3]; in 2016 has not changed any member of Audit committee), AB Klaipėdos nafta web page (www.kn.lt) and also 2016 annual report of the year. Investors' relations tools are to be developed further regarding these questions.

[3] 24 Janury 2017 elected 5 out of 5 Company's Members of Board by the Supervisory Board decision.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy.	Yes	The collegial body ensures that its members are competent however periodic evaluation is not performed. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit were appointed questioning if Audit Committee, acting collegially, shall have recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Not applicable	The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a special tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities and to organize annual examinations. However, the Company's chief executive officers personally inform and introduce the Company's organization and activity to the new members of the collegial bodies.
3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.	Yes	Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, at least 2 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent. During the year under review, the Company's Board had 2 independent members (out of 4), Audit Committee had 3 independent members (out of 3), and the Supervisory Board had 2 independent member (out of 3).

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider	Yes	The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies, however, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by SC Nasdaq Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the Independency Criteria defined by the Requirements for Audit Committees (with later amendments and supplements) that were approved by the Resolution No. 1K-18 of the Lithuanian Securities Commission on 21 August 2008. The independent members of the collegial bodies are, too, appointed (elected) in compliance with the provisions of the paragraph 64 of the Procedure description of the Implementation of the State Proprietary and Non-proprietary Rights in State-owned Companies (approved by the Government decision No. 665 of 06 06 2012). In order to evaluate the independence of the candidates for the company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest of the collegial of 3.0 days a year pe The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content but not the form.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
(inclusive of financial, legal, counseling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He/she has not been in the position of a member of the collegial body for over than 12 years; 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.	Yes	Refer to the comment regarding the item 3.7 above. In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies and in the Company's Articles of Association.
3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. (When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent.) When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Not applicable	Refer to the comment submitted regarding the item 3.6 above. The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies set out in the Code.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information. The Company regularly specify in its published periodical reports the relation of the Company's collegial bodies to the Company, as well as information about possession (absence) of the Company's shares The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings. A fixed monthly remuneration is paid, which depends on the actual time spent, but is limited to a maximum payable amount. The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board. The General Meeting of Shareholders has a right to reward (pay tantiemes) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[4] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.	Yes	The Company's Board approves the business strategy of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board, too, analyses and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, and other significant information.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		In addition, the Board analyses and evaluates the company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders. The Board regularly analyses and assesses financial status of the Company, as well as periodic financial results, submits recommendations on the appropriate management of the Company to the Company's managing bodies.
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making, as well as taking into account employees' interests and public welfare. Independent members maintain their analyses, as well as independence in decision-making, and acting.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The members of the collegial body duly perform their functions: they actively attend the meetings and devote sufficient time and attention to perform their duties as members of the collegial body. The members of the collegial bodies actively participate in the ongoing meetings both directly and voting in advance in written or by telecommunication means. During the year under review, neither of the Company's collegial bodies missed so many meetings that hence it would have participated less than in the half of the meetings of the respective collegial body.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. According to the Company's Articles of Association, in certain cases the most important decisions of the company shall be taken only after they are approved by the General Meeting of Shareholders. All significant Company's events are publicly available according to the procedure prescribed by law for the Company's shareholders on the website of SC Nasdaq Vilnius Stock Exchange. Additional informing of the shareholders except that provided in the legal acts is not carried.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[5]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its	Yes	The Company's collegial bodies are independent from the Company's managing bodies and, according to the Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations by third parties on the issues that fall under the collegial body's or (and) its committees' competence.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.		
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The advisory body, i.e. Audit Committee, formed by the Supervisory Body acts within the Company. The Supervisory Body determined its functions, rights, obligations and remuneration procedure. The Company's Audit Committee has been assigned with advisory functions related to the audit control and assessment and covering supervision of financial reports preparation and audit execution process, examination of its effectiveness and implementation of recommendations, analysis of need of internal audit functions and so on, observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group. Other specialized committees are not established within the Company, however collegial management body, i.e. the Company's Board, is responsible for the issues related to the appointment of the Company's directors and determination of the remuneration for the Company's directors. The Board appoints and dismisses the Company's Chief Executive Officer, regularly evaluates skills, knowledge and experience of other Company's directors; discusses general application policy of remuneration (including stimulation) systems; determines remuneration of all Company's management personnel as it is defined in the Description of the Company's the highest Management Structure (or in the list of staff positions) approved by the Board and its bonus procedure. According to the practice established within the Company, the majority of independent Board members vote for the adoption of the decisions on the relative issues.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning	Yes	The advisory body, i.e. Audit Committee, consit of three members. Selection to the Member of Board committee consist of four members.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Refer to the comment submitted regarding the item 4.7 above. The advisory body, the Audit Committed, formed by the Supervisory Board, comprises of three members. After election the third member all three members are independent. An advisory body consisted by the Supervisory Board – Nomination committee consist of four members.
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Yes	Refer to the comment submitted regarding the item 4.7 above. The documents of the operation of the Company determine that the Audit Committee has to regularly (at least two times per year) inform the Supervisory Board about its operation, and to provide the Supervisory Board with its operation report one time per year. The main information about the Company's Audit Committee and its composition is published in the Company's annual report.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Refer to the comment submitted regarding the item 4.7 above. The documents of the operation of the Company provide the right for the members of the Audit Committee according to the need to invite at its discretion to its meetings the Company's responsible persons and receive from them necessary explanations. The system of anonymous postings about the violations done in the Company is also provided and introduced in the Company.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Yes	The documents of the operation of the Company provide the right for the purpose of members of Board to create Nomination committee. Candidates for Company's independent Members of Board Nomination committee created 16-09-2016 by the Supervisory Board. Nomination committee functions determine by Nominated committee work regulations confirmed of Supervisory Board. Members and experts of Nomination committee select Supervisory Board. By the Supervisory board approved competency requirements for the candidates, Nomination committee prepare and approve candidates for Company's independent Members of Board nomination description, publish and carries public candidates nomination, analyses, assess and consider candidates applications and documents, organize and coordinate conversations with candidates and also nominate candidates to the independent Members of Board, offered for the Supervisory Board.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members	Not applicable	Refer to the comment submitted regarding the item 4.7 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the	Yes	Refer to the comments submitted regarding the items 4.7 - 4.10 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of		

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	The internal documents of the Company do not directly provide for a separate assessment for the collegial body, acting the supervision functions, activities because it was not required by the legal acts of the Republic of Lithuania. But on 12-06-2015 the Board of the Company decided to perform self assement annualy and on 12-06-2015 the first assements was peformed, based on the Board self assements guidance prepared by the State Coordinaiton Centre. The assement is designed to evaluate organizational, teamwork,skills, competencies and performance efficiency aspects and whether the set goals have been achieved, Information about the collegial bodies organization itself and activity procedures are disclosed

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		periodically in the annual report. The Company sets the goal for 2017 to improve more the information announcement procedures of Company's internal organization indicating what essential changes were made based on the self assement reults.
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	A chairperson of the collegial body of supervision - the Supervisory Board and a chairperson of the collegial body of management - the Board implement this provision in the Company. In 2016 there was no Chariperson of the Board, so every time one of the Board members is elected as the chairperson of the Board under the principle ad hoc.The Company's Chief Executive Officer was four times elected as the chairperson of the meeting ad hoc.
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.	Yes	The documents of the operation of the Company provides that the meetings of the Company's Supervisory Board are convened at least once in a quarter according to need, and the ordinary meetings of the Company's Board are carried out according to the schedule approved by the Board, which during the reporting period provided frequency of the Board meetings, i.e. once in a calendar month or more often, thereby ensuring continuous solution of the essential Company's management issues.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	The Company observes provisions stated in this recommendation. The members of the collegial body together with the convocation to the meeting receive a notice on the agenda of the meeting convened. According to the procedure and the terms provided in the documents of the operation of the Company, the Company's collegial bodies receive according to the set form written information about the matter under consideration when the decision is adopted, and when information is submitted only to collegial body's knowledge – on demand. In the Company's practice, the meeting agenda during the meeting is changed and supplemented only in cases when all members of the collegial body participate in the meeting and it is necessary to immediately solve important Company's issues and all members of the collegial body agreed with this agenda change and supplement.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The Company observes provisions stated in this recommendation. If necessary, in the Company's determined practice, the general Company's management and supervision bodies' meetings are also convened.
Principle VI: The equitable treatment of shareholders and shareholder rights **The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.**		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	The Company observes provisions stated in this recommendation.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in	Yes	According to the Law on Companies of the Republic of Lithuania and Articles of Association all important transactions, and in set cases the key conditions of these transactions are approved by the Board, and also in cases prescribed by the Law on Companies an approval of the General Meeting of Shareholders is additionally received for such Board's decisions.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of SC Nasdaq Vilnius Stock Exchange and on the Company's website (www.kn.lt). Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them.
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company www.kn.lt). The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.kn.lt). Information indicated and the documents are published in the information disclosure system of SC Nasdaq Vilnius Stock Exchange in Lithuanian and English languages.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	The shareholders of the Company can implement their right to participate at the meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts. The Company also furnishes its shareholders with the opportunity to vote in advance in written by completing and submitting to the Company the general voting ballot.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at	Not applicable	Taking into account the structure of the shareholders (controlling interest is owned by the

<table>
<tr><th>PRINCIPLES / RECOMMENDATIONS</th><th>Yes and No
Not applicable</th><th>COMMENTARY</th></tr>
<tr><td>shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</td><td></td><td>Government of the Republic of Lithuania) and the valid regulations for organisation of the meeting of shareholders ensuring full advance publication of the material of the General Meeting of Shareholders and publicity of the decisions adopted by the shareholders (publishing all this information on the website of SC Nasdaq Vilnius Stock Exchange) and the opportunity to vote in advance, there is no necessity to additionally install costly system of IT, which would give the opportunity for the shareholders to vote during the meeting of the shareholders using telecommunication terminal equipment.</td></tr>
<tr><td colspan="3">Principle VII: The avoidance of conflicts of interest and their disclosure

The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</td></tr>
<tr><td>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</td><td>Yes</td><td>The members of the Company's supervisory and management bodies oblige to act in such a manner so as to avoid conflict of interests with the Company. This is determined in the Articles of Association of the Company and in other documents of operation of the Company.

For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations.

During the reporting period, there are no cases identified of conflict of interests between the Company and the member of its supervisory and management. A Member of Board M. Bartuška, since his appointment of SC Lietuvos geležinkeliai member of management body, he withdraws from voting at the Company's Board conferences considering about loading and other questions, related with oil terminal operations.</td></tr>
<tr><td>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</td><td>Yes</td><td>Refer to the comment submitted regarding the item 7.1 above.</td></tr>
</table>

<table>
<tr><th>PRINCIPLES / RECOMMENDATIONS</th><th>Yes and No
Not applicable</th><th>COMMENTARY</th></tr>
<tr><td>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</td><td>Yes</td><td>During the reporting period, the members of the Company's supervisory and management bodies concluded with the Company only the following transactions: non-disclosure agreement (obligations) and the independent members of the collegial bodies - also concerning remuneration for the work in the Company's collegial body according to the conditions established by the body that elected them. The General Manager of the Company has also concluded the Employment Contract with the Company under the conditions approved by the Company's Board. During the year under review, no other transactions between the Company and the members of its collegial bodies were concluded.</td></tr>
<tr><td>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</td><td>Yes</td><td>The members of the Company's Board have been familiarised with these provisions and they oblige to observe these recommendations.

According to the practice established in the Company, the members of the Company's management and supervisory bodies withdraw both when the decisions adopted and in the cases when the transactions and (or) issues related to the member of the collegial body by personal or business interest are considered (as for information) in the collegial body.</td></tr>
<tr><td colspan="3">Principle VIII: Company's remuneration policy

Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</td></tr>
<tr><td>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</td><td>Yes</td><td>The Company has no formal remuneration policy, but there are remuneration regulations in the collective agreement which key principles are described in the annual report, article about the employees.

The information about the key principles of the Company's Directors remuneration, bonuses payments rules and other related information is revealed in the annual report of the year under review.

The information about the Company's accrued average monthly remuneration (including according to the different categories of the employee) during the year under review is published on the website www.kn.lt .</td></tr>
<tr><td>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the</td><td>Yes</td><td>Refer to the comment in item 8.1 above.

(The Company's directors' remuneration policy for the subsequent years has been provided in the annual report.) The annual report contains information about the amount of money (or other</td></tr>
</table>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.		compensations, if there was any) accrued for the members of the Company's bodies and directors'.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	Yes	The information is presented in the annual report.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Yes	The information is presented in the annual report (if there was any such case).
8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.5.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.	Yes	

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.5.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Not applicable	Refer to the comment in item 8.1 above.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The amount of annual bonuses depends on the predetermined and measurable performance criteria, i.e. on the level of the budgeted net profit achievement and realization of the set annual goals.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	Not applicable	During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.		
8.11. Termination payments should not be paid if the termination is due to inadequate performance.		
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		
8.13. Shares should not vest for at least three years after their award.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	Directors' remuneration setting function is performed y the Board of the Company. Shareholdes are invited in all meeting of Shareholders where they can raise questions regarding remuneration of the Directors.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	There is no official remuneraition policy at the Company. General principles of the remuneration are disclosed in the annual report.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.20. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
Principle IX: The role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.**		
9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organisations regulating and

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc. 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.		controlling the Company's activities. The management bodies consult with the employees on corporate governance and other important issues, (employee) participation in the Company's share capital is not limited. Publicity of the essential information about the Company's activity creates the conditions for the holders of interests to participate in the management of the Company according to the procedure established by the law and the Article of Association, as well as for the Company's employees also according to the Collective Agreement of the Company.
Principle X: Information disclosure and transparency **The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.**		
10.1. The company should disclose information on: The financial and operating results of the company; Company objectives; Persons holding by the right of ownership or in control of a block of shares in the company; Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; Material foreseeable risk factors; Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; Material issues regarding employees and other stakeholders; Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list. 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be	Yes	Performance and corporate governance is regularly disclosed by distributing press posts about material events on SC Nasdaq Vilnius Stock Exchange website, as well as in the Company's annual reports and financial statements, press releases published in the exchange and in other public presentations of the Company activity. The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company's activity. The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC Nasdaq Vilnius Stock Exchange.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of SC Nasdaq Vilnius Stock Exchange so that the submitted identical information in both languages could simultaneously be announced thus guaranteeing its simultaneous dissemination to all Company's shareholders so that all Company's shareholders and investors have the same opportunities to familiarize with information and adopt certain investment decisions. In its practice the Company focuses on publication of notifications about essential events before or after SC Nasdaq Vilnius Stock Exchange trading session.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Refer to the comment in item 10.5 above. Similarly to published information in the system of SC Nasdaq Vilnius Stock Exchange, information is also published on the Company's website. Access to information in the system of SC Nasdaq Vilnius Stock Exchange and on the Company's website is free for the shareholders.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's annual reports, other periodical accounts prepared by the company and material events announcments are placed on the company's website

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	The Company observes this recommendation, annually, an independent firm of auditors conducts an audit of the Company's annual financial statements and report according to the International Accounting Standards and submits an independent auditor's report concerning financial statements.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The Company's Board (a colleagual body) proposes a candidate firm of auditors to the General Meeting of Shareholders taking into account the results of Public Procurement of acquiring audit services. According to the practice established in the Company, the Company's Supervisory Board is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services. The Supervisory Board according to the Articles of Association of the Company can make their comments and suggestions over the Company's annual financial statements, annual report and profit allocation draft.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Boards as much as they consider it to be important.