



2018

**AB KLAIPĖDOS NAFTA**

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

**FOR THE SIX MONTHS PERIOD ENDED 30 JUNE 2018  
(UNAUDITED)**



## CONTENT

Statement of financial position.....	3
Statement of financial position (cont'd).....	4
Statement of comprehensive income .....	5
Statement of changes in equity.....	6
Cash flow statement.....	7
Explanatory notes to financial statements .....	8
Confirmation of responsible persons .....	17
Interim report for the six months period ending on 30 June 2018.....	18

## STATEMENT OF FINANCIAL POSITION

	Notes	30-06-2018 <i>(unaudited)</i>	31-12-2017 <i>(audited)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets		631	490
Property, plant and equipment	3	200,217	201,449
Long-term receivables	5	2,359	2,628
Investment into subsidiaries		200	200
Investment into associates		157	210
<b>Total non-current assets</b>		<b>203,564</b>	<b>204,977</b>
<b>Current assets</b>			
Inventories	6	1,085	1,126
Prepayments		522	246
Trade receivables	7	12,601	11,998
Prepaid income tax		599	384
Other receivables and accrued incomes	8	1,244	767
Short term deposits	9	50,000	65,000
Cash and cash equivalents	10	23,901	16,747
<b>Total current assets</b>		<b>89,952</b>	<b>96,268</b>
<b>Total assets</b>		<b>293,516</b>	<b>301,245</b>

(cont'd on the next page)

Explanatory notes, set out on pages 8 - 16, is an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION (CONT'D)

	Notes	30-06-2018 <i>(unaudited)</i>	31-12-2017 <i>(audited)</i>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	1	110,376	110,376
Share premium		3,913	3,913
Legal reserve		10,750	9,899
Reserve for own shares		15,929	15,929
Other reserves		42,345	43,196
Retained earnings		10,210	17,031
<b>Total equity</b>		<b>193,523</b>	<b>200,344</b>
<b>Non-current amounts payable and liabilities</b>			
Deferred income tax liability		372	363
Non-current employee benefits		336	291
Loan	11	74,912	76,105
Grants related to assets		4,897	4,006
<b>Total non-current amounts payable and liabilities</b>		<b>80,517</b>	<b>80,765</b>
<b>Current amounts payable and liabilities</b>			
Loan	11	1,447	246
Loan interest	11	29	28
Trade payables	12	11,832	13,641
Payroll related liabilities	13	2,448	2,680
Prepayments received		2,750	2,642
Other payables and current liabilities	14	970	899
<b>Total current amounts payable and liabilities</b>		<b>19,476</b>	<b>20,136</b>
<b>Total equity and liabilities</b>		<b>293,516</b>	<b>301,245</b>

Explanatory notes, set out on pages 8 - 16 an integral part of these financial statements,

## STATEMENT OF COMPREHENSIVE INCOME

	Notes	For the six months period ended 30 June 2018 <i>(unaudited)</i>	For the three months period ended 30 June 2018 <i>(unaudited)</i>	For the six months period ended 30 June 2017 <i>(audited)</i>	For the three months period ended 30 June 2017 <i>(unaudited)</i>
Sales	15	52,739	24,916	52,341	25,062
Cost of sales	16	<u>(40,052)</u>	<u>(20,132)</u>	<u>(41,276)</u>	<u>(20,522)</u>
Gross profit		<b>12,687</b>	<b>4,784</b>	<b>11,065</b>	<b>4,540</b>
Operating expenses		(2,684)	(1,384)	(2,814)	(1,539)
Other income		259	1	35	(16)
<b>Profit from operating activities</b>		<b>10,262</b>	<b>3,401</b>	<b>8,286</b>	<b>2,985</b>
Income from financial activities	17	161	40	74	68
Loss from financial activities	17	<u>(204)</u>	<u>(109)</u>	<u>(133)</u>	<u>(81)</u>
<b>Profit before income tax</b>		<b>10,219</b>	<b>3,332</b>	<b>8,227</b>	<b>2,972</b>
Income tax income (expense)		(9)	124	(838)	(393)
<b>Net profit</b>		<b>10,210</b>	<b>3,456</b>	<b>7,389</b>	<b>2,579</b>
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		-	-	-	-
<b>Total comprehensive income</b>		<b>10,210</b>	<b>3,456</b>	<b>7,389</b>	<b>2,579</b>
Basic and diluted earnings (losses) per share, in EUR	18	0.027	0.009	0.019	0.007

Explanatory notes, set out on pages 8 - 16, is an integral part of these financial statements,

## STATEMENT OF CHANGES IN EQUITY

Notes	Share capital	Share premium	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Total
<b>Balance as at 31 December 2016</b> <i>(audited)</i>	<b>110,376</b>	<b>3,913</b>	<b>9,209</b>	<b>15,929</b>	<b>39,748</b>	<b>13,794</b>	<b>192,969</b>
Net profit for the six months	-	-	-	-	-	7,389	7,389
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	7,389	7,389
Dividends declared	-	-	-	-	-	(9,656)	(9,656)
Transfers between reserves	-	-	690	-	3,448	(4,138)	-
<b>Balance as at 30 June 2017</b> <i>(unaudited)</i>	<b>110,376</b>	<b>3,913</b>	<b>9,899</b>	<b>15,929</b>	<b>43,196</b>	<b>7,389</b>	<b>190,702</b>
<b>Balance as at 31 December 2017</b> <i>(audited)</i>	<b>110,376</b>	<b>3,913</b>	<b>9,899</b>	<b>15,929</b>	<b>43,196</b>	<b>17,031</b>	<b>200,344</b>
Net profit for the six months	-	-	-	-	-	10,210	10,210
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	10,210	10,210
Dividends declared	-	-	-	-	-	(17,031)	(17,031)
Transfers between reserves	-	-	851	-	(851)	-	-
<b>Balance as at 30 June 2018</b> <i>(unaudited)</i>	<b>110,376</b>	<b>3,913</b>	<b>10,750</b>	<b>15,929</b>	<b>42,345</b>	<b>10,210</b>	<b>193,523</b>

Explanatory notes, set out on pages 8 - 16, is an integral part of these financial statements,

## CASH FLOW STATEMENT

	Notes	For the six months period ended 30 June 2018 <i>(unaudited)</i>	For the six months period ended 30 June 2017 <i>(audited)</i>
<b>Cash flows from operating activities</b>			
Net profit	18	10,210	7,389
Adjustments for noncash items:			
Depreciation and amortization		6,908	6,896
Impairment and write-off (reversal) of non-current tangible assets		(8)	(16)
Loss (profit) from disposal of fixed assets		(250)	-
Change in vacation reserve	13	68	66
Change in non-current liabilities for employees		45	1
Change in allowance in inventory	6	2	119
Other non-cash adjustments		(590)	51
Accrued income		49	333
Income tax expenses		9	838
Change in allowance for doubtful receivables		(216)	-
Interest income		(27)	(15)
Interest expenses		102	-
		<b>16,302</b>	<b>15,662</b>
<b>Changes in working capital</b>			
(Increase) decrease in inventories		38	-
Decrease (increase) in prepayments		(275)	109
Decrease (increase) in trade and other accounts receivable		(387)	(2,231)
Decrease (increase) in other accounts receivable		106	-
Increase (decrease) in trade and other payables		(510)	546
(Decrease) increase in prepayments received		108	131
Increase (decrease) in other current liabilities and payroll related liabilities		293	(309)
		<b>15,675</b>	<b>13,908</b>
Income tax (paid)		(578)	(1,089)
Interest received	17	27	15
Net cash flows from operating activities		<b>15,124</b>	<b>12,834</b>
<b>Cash flows from investing activities</b>			
(Acquisition) of property, plant, equipment and intangible assets		(7,041)	(10,208)
Proceeds on sale of property, plant and equipment		250	-
Change in short term deposits	9	15,000	-
Received grants, subsidies		892	1,225
Received dividends		54	56
Net cash flows from investing activities		<b>9,155</b>	<b>(8,927)</b>
<b>Cash flows from financing activities</b>			
Dividends (paid)		(17,031)	(9,656)
Interest (paid)		(94)	(83)
Net cash flows from financing activities		<b>(17,125)</b>	<b>(9,739)</b>
<b>Net increase (decrease) in cash flows</b>		<b>7,154</b>	<b>(5,832)</b>
<b>Cash and cash equivalents on 1 January</b>	10	<b>16,747</b>	<b>42,056</b>
<b>Cash and cash equivalents on 30 June</b>	10	<b>23,901</b>	<b>36,224</b>

Explanatory notes, set out on pages 8 - 16, is an integral part of these financial statements,

## EXPLANATORY NOTES TO FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

AB 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, 92276 Klaipėda, Lithuania.

The main activities of the Company include operation of oil terminal, oil products transshipment services and other related services, as well as operation of the liquefied natural gas terminal (hereinafter referred to as “LNGT”) primarily dedicated 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 AB 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 30 June 2018 all the shares were owned by 2,205 shareholders (as of 30 June 2017 all the shares were owned by 2,110 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 six months of the year 2018 and 2017. The Company's shares are listed in the Baltic Main List on the NASDAQ Vilnius Stock Exchange (ISIN code LT0000111650, abbreviation KNF1L).

As of 30 June 2018 and 30 June 2017 the shareholders of the Company were:

	30 June 2018		30 June 2017	
	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 UAB Achemos grupė (Jonalaukis village, Jonava district, 156673480)	39,148	10.29	38,975	10.24
Other (less than 5 per cent each)	66,217	17.39	66,390	17.44
Total	380,606	100.00	380,606	100.00

The average number of employees on 30 June 2018 was 389 (377 – on 30 June 2017).

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

The Company applies the same accounting policies and the same calculation methods in preparing Interim Financial Statements as they have been used for the Annual Financial Statements of the year 2017. The principles used in preparation of financial statements were presented in more detail in the Notes to the Financial Statements for 2017.

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

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.



### 3 NON-CURRENT TANGIBLE ASSETS

During the six months of 2018 the Company continued works in the following most significant projects:

- The second stage investment in the expansion of the light oil products storage tank park. The project started in July 2017. As of 30 June 2018 the value of construction in progress amounted to EUR 6,454 thousand (During the six months of the year 2018 investment amounted to EUR 3,760 thousand).
- Liquefied natural gas (LNG) onshore reloading station. On July 2018 the major part of the project completed and taken into exploitation amounting to EUR 26,205 thousand. The remaining part of construction in progress amounts to EUR 3,285 thousand as of 30 June 2018.
- Development of the railroad tracks (comprise of the acquired equipment). As of 30 June 2018 the value of construction in progress amounted to EUR 1,626 thousand.
- Other investment. As of 30 June 2018 the value of constructions in progress amounted to EUR 605 thousand.

Part of the Company's property, plant and equipment with the acquisition cost of EUR 32,332 thousand as on 30 June 2018 was completely depreciated (EUR 31,218 thousand on 31 December 2017), however, it was still in operation.

The depreciation of the Company's non-current tangible assets for the six months of 2018 amounts to EUR 6,787 thousand (EUR 6,896 thousand – in 2017 six months), EUR 6,689 thousand of depreciation charge has been included into cost of sales (EUR 6,760 thousand – in 2017 six months), EUR 4 thousand was reimbursement of the costs according the grant agreement (EUR 7 thousand – in 2017 six months), no depreciation transferred to inventory value during the six months of 2018 (EUR 5 thousand of depreciation charge was transferred to inventory value in 2017 six months) and the remaining amount EUR 97 thousand (EUR 102 thousand – in 2017 six months) has been included into operating expenses in the Statement of comprehensive income.

### 4 OPERATING SEGMENTS

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

- KNT – oil terminal in Klaipėda supplying oil products, providing transshipment and other related services;
- SGD – LNG terminal in Klaipėda, which receives and stores liquefied natural gas, regasifies it and supplies to Gas Main;
- SNT - Subačius oil terminal in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers;
- GDP – LNG related business development which includes LNG reloading station activities and development of other LNG projects.

Main indicators of the business segments of the Company included into the statement of comprehensive income for the financial year as of 30 June 2018 and Statement of financial position as of 30 June 2017, are described below:

#### 4 OPERATING SEGMENTS (CONT'D)

For the six months period ended 30 June 2018	SGD	SNT	GDP	KNT	Total
Revenues from external customers	32,456	1,325	285	18,673	52,739
Profit before income tax	3,291	369	(557)	7,116	10,219
Segment net profit	3,287	368	(558)	7,113	10,210
Interest revenue	27	-	-	-	27
Interest expense	87	-	10	5	102
Depreciation and amortisation	2,748	433	5	3,722	6,908
Impairment and write-off of non-current tangible assets	-	(5)	-	(131)	(136)
Acquisitions of tangible and intangible assets	171	33	656	4,896	5,756
Segment total assets*	80,385	13,049	39,854	86,327	219,615
Financial liabilities	76,449	-	(66)	5	76,388
Segment total liabilities	84,615	164	7,771	7,443	99,993

For the six months period ended 30 June 2017	SGD	SNT	GDP	KNT	Total
Revenues from external customers	34,980	1,143	-	16,218	52,341
Profit before income tax	3,393	185	(872)	5,521	8,227
Segment net profit (loss)	3,048	166	(783)	4,958	7,389
Interest revenue	14	-	-	1	15
Interest expense	79	-	3	2	84
Depreciation and amortisation	2,816	470	-	3,610	6,896
Impairment and write-off of non-current tangible assets	-	-	-	(16)	(16)
Acquisitions of tangible and intangible assets	217	94	3,996	5,901	10,208
Segment total assets*	70,154	2,453	15,829	117,342	205,778
Loan and related liabilities	29,632	-	-	-	29,632
Segment total liabilities	37,623	152	5,894	7,630	51,299

Segment total assets\* - total assets of the Company, excluded Cash and cash equivalents and short term deposits at the period end.

#### 5 LONG-TERM RECEIVABLES AND ACCRUED INCOME

	30-06-2018	31-12-2017
Long-term accrued income	2,359	2,628

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 recognised on a straight line basis over the lease term, i.e. the income is calculated on average tariff of the all leasing term (10 years).

#### 6 INVENTORIES

	30-06-2018	31-12-2017
Diesel fuel for the LNG Terminal purpose	716	770
Natural gas	206	221
Fuel for transport and other equipment	23	34
Spare parts, construction materials and other inventories	1,259	1,218
	2,204	2,243
Write-down of spare parts, construction materials and other inventories	(1,119)	(1,117)
	1,085	1,126

As of 30 June 2018 the Company had accounted write-off of inventories in the amount of EUR 1,119 thousand (EUR 1,117 thousand on 31 December 2017), that have been written off down to the net realisable value. The Company makes write-off the inventories to the net realisable value if they are not used for more than 6 months. Write-off has been accounted for mostly construction materials and spare parts, which were not used during the reconstruction (1996 – 2005).

## 6 INVENTORIES (CONT'D)

Write-off of inventories to the net realizable value of EUR 2 thousand for the six months ended of 30 June 2018 (reversal of write-off of inventories to the net realizable value amounts to EUR 8 thousand as of 31 December 2017) are included under operating expenses in the profit (loss).

As of 30 June 2018 the Company stored 1,4 thousand MWh (As of 31 December 2017 – 1,4 thousand MWh) (the quantities are unaudited) natural gas in the connecting pipeline for the Liquefied natural gas terminal activities. As of 30 June 2018 in the Liquefied natural gas reloading station the Company owned 5,6 thousand MWh natural gas for the purpose of debugging and commissioning works (As of 31 December 2017 – 4,6 thousand MWh).

As of 30 June 2018 the Company stored 265 thousand tons of oil products delivered for transshipment in its storage tanks (198 thousand tons as on 31 December 2017) (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 into oil products. The oil products belonged to third parties are insured by the Company in order to cover the loss or damages incurred (if any).

As of 30 June 2018 the Company stored 815 thousand MWh (As of 31 December 2017 – 919 thousand MWh) (the quantities are unaudited) of natural gas products delivered for transshipment 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. The Company is responsible for the insurance of the products.

As of 30 June 2018 in the Liquefied natural gas reloading station the Company stored 1,8 thousand MWh natural gas products, belonged to the third parties (As of 31 December 2017 – 23 thousand MWh) (the quantities are unaudited). 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.

## 7 TRADE RECEIVABLES

	30-06-2018	31-12-2017
Receivables from LNG terminal activities	9,380	9,489
Receivables for trans-shipment of oil products and other related services	3,767	3,271
Less: impairment allowance	(546)	(762)
	<u>12,601</u>	<u>11,998</u>

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

## 8 OTHER RECEIVABLES AND ACCRUED INCOME

	30-06-2018	31-12-2017
Short-term accrued income for storage of oil products	817	597
Real estate tax receivable	-	33
Receivable grant	34	9
VAT receivable	6	4
Other receivables	387	124
	<u>1,244</u>	<u>767</u>

## 9 SHORT TERM DEPOSITS

	30-06-2018	31-12-2017
Short-term bank deposits at the commercial bank	50,000	65,000

As of 30 June 2018 the Company had 2 term deposits at banks, amounted to EUR 50,000 thousand, with maturity of more than 3 months (As of 31 December 2017 – EUR 65,000 thousand).

## 10 CASH AND CASH EQUIVALENTS

	30-06-2018	31-12-2017
Cash at bank	23,901	16,747

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

Currency	30-06-2018	31-12-2017
EUR	19,539	12,374
USD	4,362	4,373
	<u>23,901</u>	<u>16,747</u>

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

	30-06-2018	31-12-2017
A +	906	663
AA -	11,664	8,918
A -	11,266	-
A	65	7,166
	<u>23,901</u>	<u>16,747</u>

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

## 11 FINANCIAL LIABILITIES

	30-06-2018	31-12-2017
European Investment Bank's loan	54,552	54,351
Nordic Investment Bank's loan	21,807	22,000
Payable loan interest	29	28
	<u>76,388</u>	<u>76,379</u>

## 12 TRADE DEBTS AND OTHER PAYABLES

	30-06-2018	31-12-2017
Payables for FSRU operating leasing	4,816	4,482
Payable to contractors	5,921	7,185
Payable for rent of land	394	393
Payable for gas services	46	371
Payable for railway services	193	291
Other trade payables	462	919
	<u>11,832</u>	<u>13,641</u>

On 30 June 2018 trade payables of EUR 4,543 thousand were denominated in USD (EUR 4,202 thousand – on 31 December 2017). Remaining amounts are in EUR.

### 13 LIABILITIES RELATED TO LABOUR RELATIONS

	30-06-2018	31-12-2017
Accrual of annual bonuses	548	1,246
Accrued vacation reserve	1,120	1,052
Salaries payable	381	11
Social insurance payable	303	368
Income tax payable	95	3
Other deductions	1	-
	<u>2,448</u>	<u>2,680</u>

### 14 OTHER CURRENT LIABILITIES

	30-06-2018	31-12-2017
Accrued tax expenses and liabilities	329	289
Accrued expenses and liabilities	458	519
Other liabilities	183	91
	<u>970</u>	<u>899</u>

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

### 15 SALES INCOME

	For the six months period ended 30 June 2018	For the six months period ended 30 June 2017
Income from LNGT services regulated by NCC	32,554	34,980
Sales of oil products transshipment and storage services	19,299	15,449
Other sales related to transshipment and other services	886	685
Income from sale of inventory	-	1,227
	<u>52,739</u>	<u>52,341</u>

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

## 16 COST OF SALES

	For the six months period ended 30 June 2018	For the six months period ended 30 June 2017
FSRU lease and other related expenses	23,309	25,671
Depreciation and amortization	6,755	6,760
Wages, salaries and social security	3,739	3,554
Natural gas	1,779	1,258
Rent of land and quays	1,159	1,141
Railway services	1,149	953
Electricity	793	603
Repair and maintenance of assets	269	262
Insurance services	219	225
Tax on real estate	152	228
Transport	138	138
Services for tankers	108	83
Tax on environmental pollution	73	42
Work safety costs	52	25
Rent of facilities	36	35
Other	322	288
	<u>40,052</u>	<u>41,276</u>

## 17 INCOME (EXPENSES) FROM FINANCIAL AND INVESTMENT ACTIVITIES – NET

	For the six months period ended 30 June 2018	For the six months period ended 30 June 2017
Interest income	27	15
Fines income	134	3
Dividends receive	-	56
Financial income, total	<u>161</u>	<u>74</u>
(Losses) from currency exchange	(101)	(45)
Interest expenses	(102)	(84)
Other financial activity expenses	(1)	(4)
Financial activity expenses, total	<u>(204)</u>	<u>(133)</u>

## 18 EARNINGS PER SHARE, BASIC AND DILUTED

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

	For the six months period ended 30 June 2018	For the six months period ended 30 June 2017
Net profit attributable to shareholders	10,210	7,389
Weighted average number of ordinary shares (thousand)	<u>380,606</u>	<u>380,606</u>
Earnings per share (in EUR)	<u>0.027</u>	<u>0.019</u>

## 19 RELATED PARTY TRANSACTIONS

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Company and transactions with them during the six months of 2018 and 2017 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions:

		Purchases	Sales	Receivables	Payables
State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation	2018 six months	1,159	4	4	394
	2017 six months	1,158	-	-	171
AB Lietuvos geležinkeliai owned by the State of Lithuania represented by the Ministry of transportation	2018 six months	1,223	-	-	193
	2017 six months	1,072	-	-	159
AB Lesto, owned by the State of Lithuania represented by the Ministry of Energy	2018 six months	-	-	-	-
	2017 six months	-	-	-	-
AB Lietuvos dujos	2018 six months	1,065	99	28	46
	2017 six months	1,298	109	21	269
UAB Lietuvos dujų tiekimas	2018 six months	-	31,919	9,268	-
	2017 six months	-	34,295	9,900	-
AB Amber Grid	2018 six months	-	1,428	1,221	-
	2017 six months	-	1,327	268	-
VĮ Lietuvos naftos produktų agentūra	2018 six months	-	204	51	-
	2017 six months	-	313	3	-
UAB LITGAS	2018 six months	330	-	-	49
	2017 six months	292	-	-	47
AB Energijos skirstymo operatorius	2018 six months	462	-	-	73
	2017 six months	309	-	-	51
UAB Energijos tiekimas	2018 six months	-	-	-	-
	2017 six months	-	8	3	-
Other related parties	2018 six months	4,239	33,654	10,572	755
	2017 six months	4,129	36,052	10,195	697

### Remuneration to the Management and other payments

The Company's Management is comprised of Chief Executive Officer, Heads of Divisions and Functional Managers.

	For the six months period ended 30 June 2018	For the six months period ended 30 June 2017
Labour related disbursements	1,433	1,428
Number of managers	39	36

During the six months of the years 2018 and 2017 the Management of the Company did not receive any loans, guarantees, or any other payments or property transfers were made or accrued.

## 20 SUBSEQUENT EVENTS

By initiative of Ministry of Energy of Republic of Lithuania and according to the decision of the Company's Board, dated 13 July 2018, an extraordinary general meeting of shareholders of the Company was convened on 23 July 2018.

Agenda of the meeting:

1. Regarding the amendment to the Articles of Association of the Company, presenting them as a new version.
2. Regarding the confirmation of amended Guidelines on determination the remuneration for the activity in AB Klaipėdos Nafta collegial bodies.

Adopted decisions:

1. Regarding the amendment to the Articles of Association of the Company, presenting them as a new version:

*„1. To amend the Articles of Association of AB Klaipedos Nafta, presenting them as a new wording;*

*2. To authorise (with the right to delegate the authority) the General Manager of AB Klaipedos Nafta to sign the new wording of the Articles of Association of AB Klaipedos Nafta, to present it for notary approval, to present it for registration with the Registry of Legal Entities and to perform other related actions“.*

2. Regarding the confirmation of amended Guidelines on determination the remuneration for the activity in AB Klaipėdos Nafta collegial bodies:

*“To approve the amended Guidelines on determination the remuneration for the activity in AB Klaipėdos Nafta collegial bodies.”*



## 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, Mindaugas Jusius, Chief Executive Officer of AB Klaipėdos Nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos Nafta, and Rasa Tamaliūnaitė, Chief Accountant hereby confirm that to the best of our knowledge the above-presented unaudited Interim condensed Financial Statements of AB Klaipėdos Nafta for the six months period ended on 30 June 2018, 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 AB Klaipėdos Nafta.

Chief Executive Officer

Mindaugas Jusius

Chief Financial Officer

Jonas Lenkšas

Chief Accountant

Rasa Tamaliūnaitė



2018

# AB KLAIPĖDOS NAFTA INTERIM REPORT

FOR THE SIX MONTHS PERIOD  
ENDED 30 JUNE 2018

## **CONTENT**

GENERAL INFORMATION .....	20
KEY OPERATING AND FINANCIAL INDICATORS OF AB KLAIPĖDOS NAFTA .....	21
MANAGEMENT COMMENT REGARDING FINANCIAL RESULTS .....	22
INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES .....	23
THE COMPANY'S STRATEGY .....	27
SIGNIFICANT EVENTS OF THE REPORTING PERIOD .....	28
SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD .....	29
BUSINESS ENVIRONMENT AND MARKET .....	29
FINANCIAL RESULTS OF ACTIVITY .....	33
UPDATE ON THE ANNUAL FORECASTS .....	37
INVESTMENTS .....	38
INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY .....	39
RISK FACTORS AND RISK MANAGEMENT .....	41
MANAGEMENT OF THE COMPANY .....	42
INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY .....	43
OTHER INFORMATION .....	45

### Abbreviations:

KN – AB Klaipėdos nafta  
KNT – Klaipėda oil terminal;  
LNKT – Liquefied Natural Gas Terminal;  
LNG – Liquefied Natural Gas;  
OP - Oil Products;  
HFO – Heavy Oil Products;  
LFO - Light Oil Products;  
SNT – 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.

## GENERAL INFORMATION

### 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:	<a href="http://www.kn.lt">www.kn.lt</a>

### Reporting period

AB Klaipėdos nafta Interim Report is prepared for the period from 1 January 2018 until 30 June 2018.

### Confirmation of responsible persons

Referring to the 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 Bank of Lithuanian, Responsible Persons Mindaugas Jusius, Chief Executive Officer of AB Klaipėdos nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos nafta, and Rasa Tamaliūnaitė, Chief Accountant of AB Klaipėdos nafta, hereby confirm that to the best of our knowledge the Annual Report of AB Klaipėdos nafta for six months of 2018 includes a fair review of the performance of the business and the present state of the Company together with the update on the main risks and uncertainties that are encountered.

### Persons responsible for the information submitted in the Interim Report

Job title	Full name	Telephone number
AB Klaipėdos nafta, Chief Executive Officer	Mindaugas Jusius	+370 52 127 733
AB Klaipėdos nafta, Chief Financial Officer	Jonas Lenkšas	+370 52 502 879
AB Klaipėdos nafta, Chief Accountant	Rasa Tamaliūnaitė	+370 46 391 636

## KEY OPERATING AND FINANCIAL INDICATORS OF AB KLAIPĖDOS NAFTA

		H1 2018	H1 2017	Change	
				+/-	%
<b>KEY OPERATING INDICATORS</b>					
Transshipment of oil products	thousand tons	3,594	3,262	332	10.2
LNG regasification	thousand MWh	4,519	4,869	-350	-7.2
<b>KEY FINANCIAL INDICATORS</b>					
Sales revenue	EUR'000	52,739	52,341	398	0.8
Gross profit	EUR'000	12,687	11,065	1,622	14.7
EBITDA <sup>2)</sup>	EUR'000	17,229	15,207	2,022	13.3
Net profit	EUR'000	10,210	7,389	2,821	38.2
EBITDA margin	%	32.7%	29.1%	3.6 p. p.	-
Net profit margin	%	19.4%	14.1%	5.2 p. p.	-
		30-06-2018	30-06-2017	Change	
				+/-	%
Total assets	EUR'000	293,516	242,002	51,514	21.3
Shareholders' equity	EUR'000	193,523	190,702	2,821	1.5
Financial debts	EUR'000	76,388	29,664	46,724	157.5
Other debts	EUR'000	23,605	21,636	1,969	9.1
Return on equity (ROE) <sup>2)</sup>	%	10.3%	5.0%	5.4 p. p.	-
Return on assets (ROA) <sup>3)</sup>	%	7.4%	3.9%	3.5 p. p.	-
Debt ratio	%	0.52	0.27	0.25 p. p.	-
Capital to assets ratio	%	0.66	0.79	-0.13 p. p.	-
Gross liquidity ratio (current ratio) <sup>5)</sup>	%	3.97	3.28	0.68 p. p.	-
Quick ratio <sup>6)</sup>	%	3.90	3.20	0.70 p. p.	-

<sup>1</sup> EBITDA = earnings before interest, taxation, depreciation and amortization;

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

<sup>3</sup> Return on assets (ROA) = net profit of the last twelve months / (total average assets at the end of the period + total average assets at the beginning of the period) / 2;

<sup>4</sup> Debt ratio = total current and non-current liabilities at the end of the period / total equity at the end of the period;

<sup>5</sup> Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

<sup>6</sup> Quick ratio = (total current assets at the end of the period - Inventories at the end of the period) / total current liabilities at the end of the period.

## **MANAGEMENT COMMENT REGARDING FINANCIAL RESULTS**

The first half-year of 2018 has been a financial success for KN, which is particularly encouraging in the context of organisation's goals. During the said period the Company succeeded in avoiding negative factors, in particular those related to the oil product loading market and the macroeconomic environment, which has led to excellent results in the operation of oil terminals. Besides, implemented infrastructure projects, which have required substantial efforts, have already produced tangible results.

The growth in the key financial indicators has been caused not only by balanced freight flows, but also by efficiently controlled costs of terminals, ongoing investment projects, and streamlined internal processes. So in the first half-year of 2018 compared with the first half of 2017 the key financial ratios of the Company increased as follows:

- net profit (EUR 10.2 million) increased by 38.2 per cent,
- EBITDA (EUR 17.2 million) increased by 13.3 per cent,
- Sales revenue (EUR 52.7 million) increased by 0.8 per cent.
- Return on equity (counting result of the last 12 months) of the KN reached 10.3 per cent (5.0 per cent in the corresponding period of the previous year) and the first half-year of 2018 EBITDA margin was 32.7 per cent (29.1 per cent in the first half of 2017).

In the first half of 2018 Company's Klaipėda and Subačius oil terminals in total handled 3.59 million tons of oil products and transshipment increased by 10.2 per cent comparing to the same period of 2017, i.e. 3.26 million tons. Company's Klaipėda and Subačius oil terminals sales revenue (Eur 20.0 million) increased by 15.2 per cent, net profit (EUR 7.5 million) increased by 46.0 per cent. The transshipment turnover increase was mainly affected by the increased flow of oil products from Belarus and increased cargo turnover of tank-trucks.

Despite the fact that transshipment volumes in the ports of the eastern Baltic Sea shore have shrunk during the analyzed period, the increase in the Company's loading volumes shows that our strategy to expand oil terminal capacities by enhancing flexibility is really working well and we can successfully compete by providing the clients with a greater diversity of high quality services.

During the first half of 2018 LNG terminal regasification and reloading volumes (4.5 million MWh) are lower by 7.2 per cent comparing with the same period of 2017. Main reasons are higher global prices of LNG and therefore lower reserved capacities. The sales revenues of LNG terminal in the first half of 2018 comprise EUR 32.46 million and were lower by 7.2 per cent comparing with the first half of 2017. The activity of LNG terminal is regulated therefore revenue of LNG activity does not depend on re-gasification volume.

The Company's LNG terminal has also operated successfully and efficiently during this period, although gasification has slightly decreased due to high LNG prices and consequently lower terminal capacities.

On 25 May 2018, the LNG terminal carried out the 50th loading operation. Klaipėda terminal, which has been operating for three and a half years, has become one of the most efficiently operating LNG terminals in Europe.

Having started in late 2017 with small-scale operations by loading LNG trucks at the LNG reloading station, Klaipėda LNG terminal has become the first floating LNG terminal worldwide which provides all integrated LNG logistics services: LNG reloading, storage, gasification or supply by land and sea. After the construction of the LNG reloading station is over, the development of commercial activities of this infrastructure will face major works and challenges, and the first operations related to these services make us rather optimistic in terms of quality.

The results achieved in the first half-year of 2018 encourage us to continue to strive for the defined strategic goals: to increase added value both in respect of the Company and the main shareholder – the state of Lithuania, and to pursue an even more efficient growth by improving internal processes and implementing the investment projects envisaged in the Company's Strategy for 2016–2020.

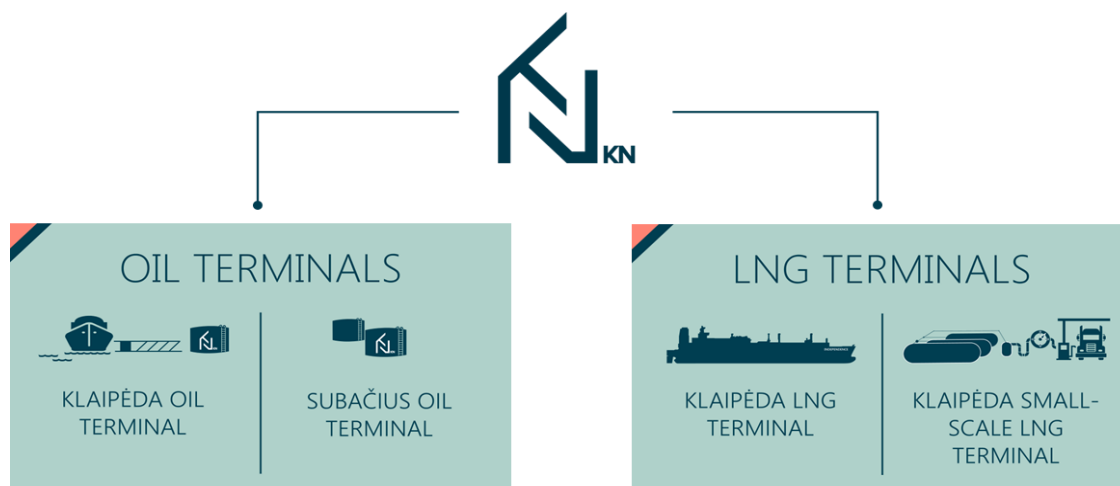
We are proud to have such professional and motivated KN employees who can jointly face and overcome the greatest challenges, and in order to maintain strong motivation we will continue focusing on the strengthening of our organisational culture.

Another important goal for this year is related to the preparation of the plan of environmental measures for terminals as well as its further implementation. According to the plan for 2020 we are planning to invest 4.4 million Eur for environmental measures.

## INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES

AB Klaipėdos nafta – strategically important company in terms of energy security for the Lithuania and neighbour regions ensuring import opportunity of the liquefied natural gas 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. Besides activities mentioned above, the Company starts small scale LNG activities.

The Company's operations can be divided into 2 lines of activity and four separate activities: oil product transshipment (Klaipėda oil terminal), long term oil product storage (SNT), LNG terminal operation and LNG related activities development (including small scale LNG terminal and participation in other LNG terminal projects). The management assesses financial results of each activity and sets individual strategic goals.



### Information about investment into other companies:

The Company has invested into the following companies as of 30 June 2018:

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 BALTPPOOL	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.

## Klaipėda oil terminal

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

The Company is also provides opportunity 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.

The Company's Oil Terminal reloads these oil products:

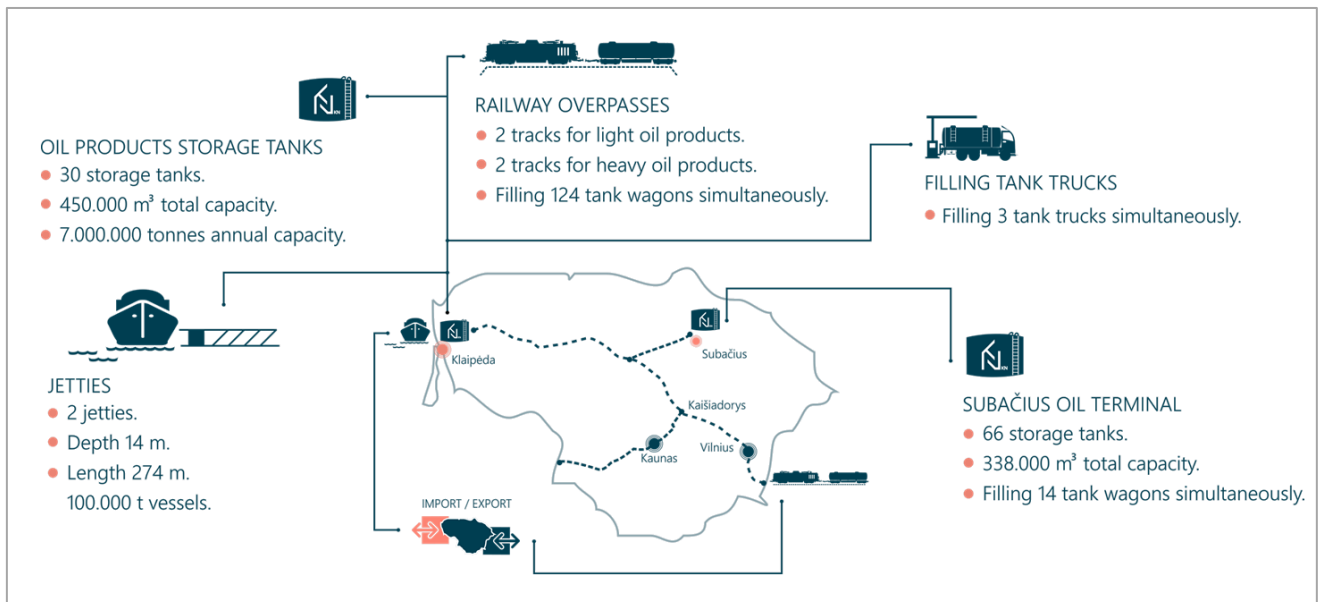
Light Oil Products (hereinafter – LFO):

- 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.

## Oil terminal infrastructure



## SUBAČIUS OIL TERMINAL

Terminal located in Kunčiai village, Subačius ward of Kupiškis district.

Subačius oil terminal provides the following services:

- Storage of oil product (fuel) stocks of the Lithuanian State;
- Long-term storage of oil products (fuel) to private or business customers;

- 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.



## LIQUEFIED NATURAL GAS TERMINAL

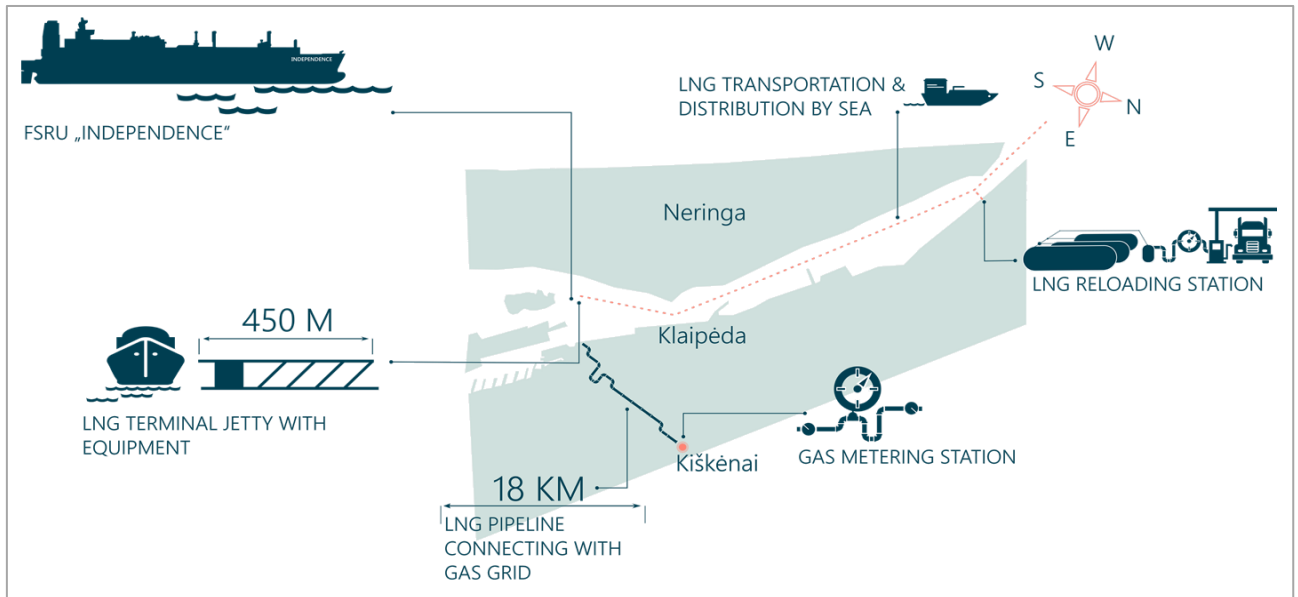
Operation of the LNGT was commenced on 27 November 2014 upon the obtainment of natural gas liquefaction license issued by the National Commission for Energy Control and Prices.

The LNG terminal is based on Floating Storage and Regasification Unit technology. The LNG vessel-storage (FSRU) is leased by the Høegh 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.

### LNG terminal infrastructure



### The LNG Terminal services

The Terminal provides i) LNG regasification, ii) LNG reloading services.

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

- LNG loading into FSRU 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 acceptance – opportunity to deliver LNG cargo by LNG carriers of 65,000 – 160,000 m<sup>3</sup> capacity (if not agreed otherwise);

- LNG storage at the Terminal until its reloading, but in any case not more than for 60 calendar days;
- LNG reloading (re-export) – loading of the LNG quantity set by the Terminal user's schedule into LNG carriers which cannot be smaller than 5,000 m<sup>3</sup> and not larger than 65,000 m<sup>3</sup> over a period of maximum 48 hours.

LNG terminal prices and KN revenues are regulated by NCC. Variable prices are listed below although the major revenues are received through Security Supplement added to the gas transmission price that is approved by the NCC annually.

Terminal service	Price set
LNG regasification service* variable price (applicable for 2016-2018)	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 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 agreed 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 on-going period if there are any free capacities left.

### **KLAIPĖDA SMALL-SCALE LNG TERMINAL**

The purpose of the LNG Reloading Station is to create a small-scale LNG infrastructure in the Baltic States and Poland. That ensures energy supply for the off-grid locations, as well as brings clean energy benefits to the multiple users. It also enables the use of clean fuel in maritime industry and heavy road transport.

The facility is designed to accept LNG from the small-scale carriers, temporary store LNG, and load LNG to the trucks or bunker LNG fuelled ships. It consists of five 1.000 m<sup>3</sup> tanks, with possibility to expand the volume up to 10 tanks in future.



#### **Terminal services:**

- 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 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.

#### **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.

#### **Transport**

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

## THE COMPANY'S STRATEGY

In 2016 the Board of AB Klaipėdos nafta approved the corporate strategy for period 2016 - 2020 (hereinafter - the Strategy).

### 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.

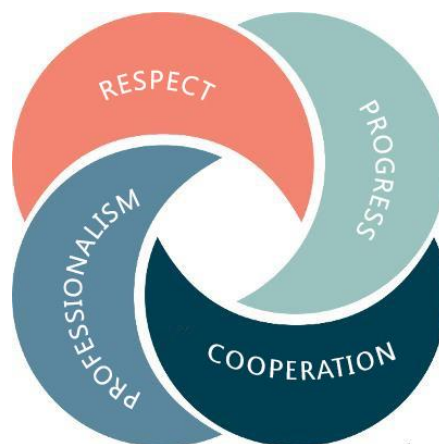
The Company both in its daily activity and implementing its strategic goals, is being led by these in 2018 renewed **values**:

#### Respect

- We are polite and open;
- We respect and honor everyone's diversity, opinion, job and time;
- We are socially responsible – take care of environment and public welfare;
- We are guided by the principle that reward must be fair and clear.

#### Progress

- We are open to innovation;
- We make business processes more effective;
- Every day we strive to be better than yesterday;
- We are oriented towards environmentally friendly technologies.



#### Professionalism

- We do our work efficiently;
- We take responsibility for the work and decisions we make;
- We are heading for results;
- We operate safely and reliably the infrastructure we have.

#### Cooperation

- We help each other – we are one united team;
- We share information, knowledge and experience with each other;
- We seek a sustainable and common partnership;
- We publish the information in accordance with the highest standards of transparency.

The general and business 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 activities	Long term fuel storage (SNT)	
<ul style="list-style-type: none"> <li>Increase awareness and attractiveness to the owners of oil products</li> <li>Improve flexibility and capacity of oil transshipment</li> </ul>	<ul style="list-style-type: none"> <li>Provide an alternative source for the supply of natural gas to Lithuania</li> </ul>	<ul style="list-style-type: none"> <li>Create small scale LNG infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Proper storage of national reserve of oil products</li> </ul>	
<ul style="list-style-type: none"> <li>Enlarge the scope of activities and services provided</li> <li>Ensure safe operations of the oil terminal</li> </ul>				

## SIGNIFICANT EVENTS OF THE REPORTING PERIOD

**4th January 2018.** AB Klaipėdos nafta has become a national corporate member of Baltic Institute of Corporate Governance (BICG)

**3rd April 2018.** AB Klaipėdos nafta and Freeport LNG, the US liquefied natural gas (LNG) supplier and the operator of the future LNG terminal, has signed a memorandum of understanding (MoU) in Washington related to further cooperation in onshore infrastructure needed for FSRU based LNG import terminals development areas.

**4th April 2018.** AB Klaipėdos nafta and K2 SAGL, a company registered in Switzerland, has signed a long-term agreement regarding services related to the transfer of oil products at the Klaipėda oil terminal.

**11th April 2018.** The experts from the international company Poyry Management Consulting presented a study on securing long-term import of liquefied natural gas (LNG).

**27th April 2018.** Convened ordinary general meeting of shareholders of the Company:

- Approved the audited Financial Statements and Annual report of AB Klaipėdos nafta for the year 2017.
- Distributed the Company's profit for 2017, allocation of profit to dividends amounted EUR 17,030 thousand or EUR 0.0447 per share.

- Elected members of the Supervisory Board and determined fixed monthly remuneration for independent Supervisory board members and approved standard contract form, regarding the activity of independent Supervisory board member.

For the 4 years cadence of supervisory board members elected: Tomas Lukoševičius, Eimantas Kiudulas and Andrius Varanavičius.

**27th April 2018.** The Supervisory Council adopted the decision to extend the mandate of the Board members of AB Klaipėdos Nafta Dainius Bražiūnas, Mantas Bartuška, Giedrius Dusevičius and Bjarke Pålsson for the one year term or until the new Board is elected.

**28th May 2018.** The Supervisory Board elected independent Supervisory Board member Eimantas Kiudulas as a Chairman of Supervisory Board.

**25th May 2018.** The 50<sup>th</sup> LNG reloading operation was taken at the LNG terminal operated by the Company.

**8th June 2018.** AB Klaipėdos nafta has signed agreements with two LNG terminal users, i.e. UAB LITGAS and UAB Lietuvos dujų tiekimas, who have been allocated the part of terminal capacities before the upcoming Gas Year. UAB LITGAS and UAB Lietuvos dujų tiekimas have booked capacities from 1st October 2018 until 30th September 2018.

## SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

**23th July 2018.** Convened extraordinary general meeting of shareholders of the Company adopted these decisions:

- To amend the Articles of Association of AB Klaipėdos Nafta, presenting them as a new wording;

### 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

- The amended Guidelines on determination the remuneration for the activity in AB Klaipėdos Nafta collegial bodies.

Meeting of Shareholders are published on the website of the Company [www.kn.lt](http://www.kn.lt) and in AB NASDAQ Vilnius ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)) Stock Exchange.

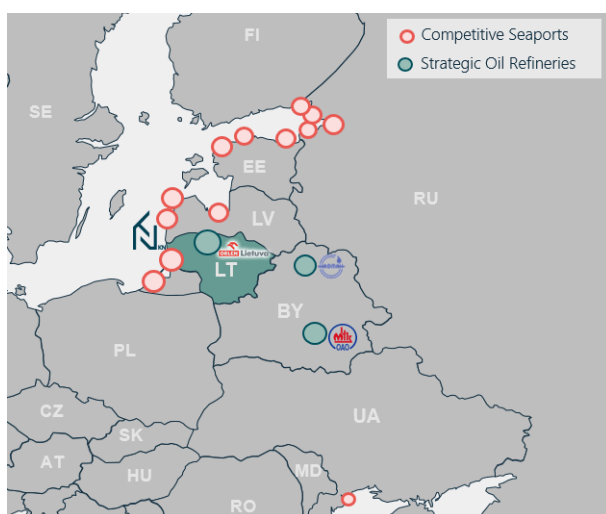
## BUSINESS ENVIRONMENT AND MARKET

### Oil terminal business environment and market

The Company's oil products' transshipment activities are mostly affected by:

- Macro-economic and geopolitical environment in regional and global oil processing and trade markets;
- Oil terminals' Economic attractiveness in the view of logistics (both transshipment tariffs and costs of the entire logistic chain);
- Oil products' reloading and storage infrastructure and level of the Company's availability to use its infrastructure.

Strategic oil processing plants (oil refineries), which potentially provide oil products for transshipment through the Company's oil terminals are located in the East and Southeast directions, those are: Mažeikiai 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.



Main 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. Russia's aim to tranship Russian origin oil products mainly through its own sea ports located on Finland Coast (St. Petersburg, Primorsk, Ust-Luga) has been highlighted recently. Inter alia, in the recent years oil products transshipment market is noticing Russian's willingness to reroute not only Russian, but also Belarussian origin oil products towards Russian ports.

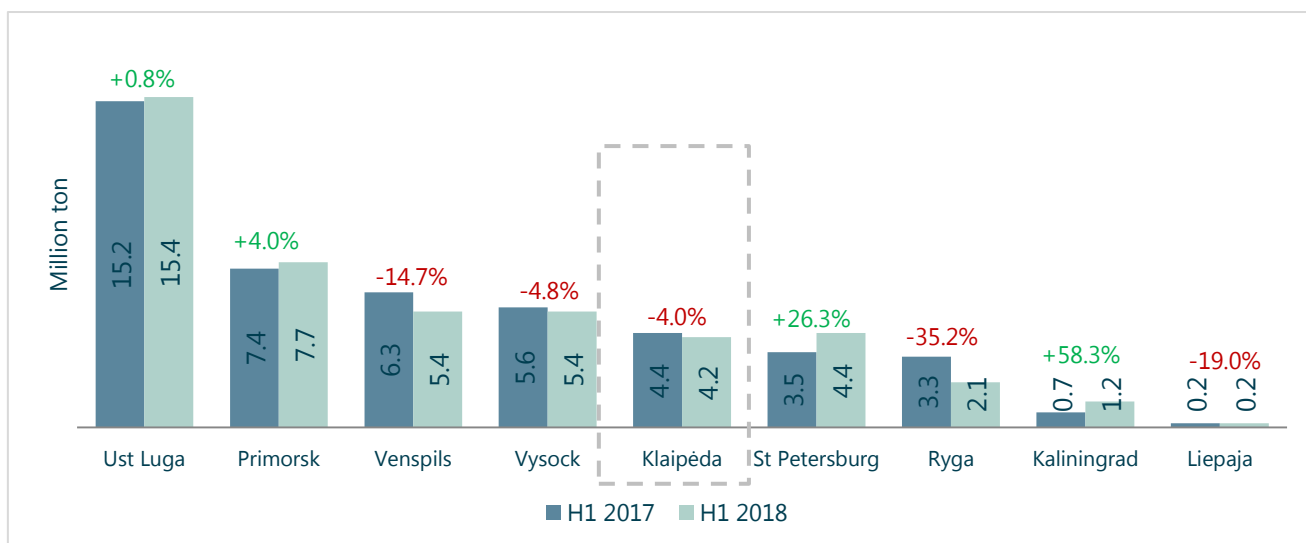
Due to this fact Estonian, and especially Latvian ports are noticeably losing Russian oil products thus potentially making them a significant competitor to Company's oil Terminal, especially for the Belarussian origin transit oil product flows.

According to statistical data, oil terminals in the eastern coast of the Baltic Sea region handled total 45.9 million t of oil products in the first half of 2018 that is by 1.7 per cent or 0.79 million t less comparing to relevant period of 2017.

During first half of 2018 Klaipėda's port handled 4.2 million t of oil products that is also by 4.0 per cent less comparing to first half of 2017. Nevertheless, it should be noted that although total oil products flows in Klaipėda port decreased during the analyzed period, however, Company managed not only to maintain, but also to increase transshipment results by 10.2 per cent.

As shown in the chart below, continuous increase of Russian ports share in Baltic region oil product transshipment market is noticeable year by year, on average 2-6 per cent annually (data from 2012).

**Comparison of the oil products' transshipment at the eastern Baltic Sea coast ports in months January – June of 2017 – 2018, million t:**



Prepared on the basis of Klaipėda Port Authority statistical data

**Transshipment of oil products**

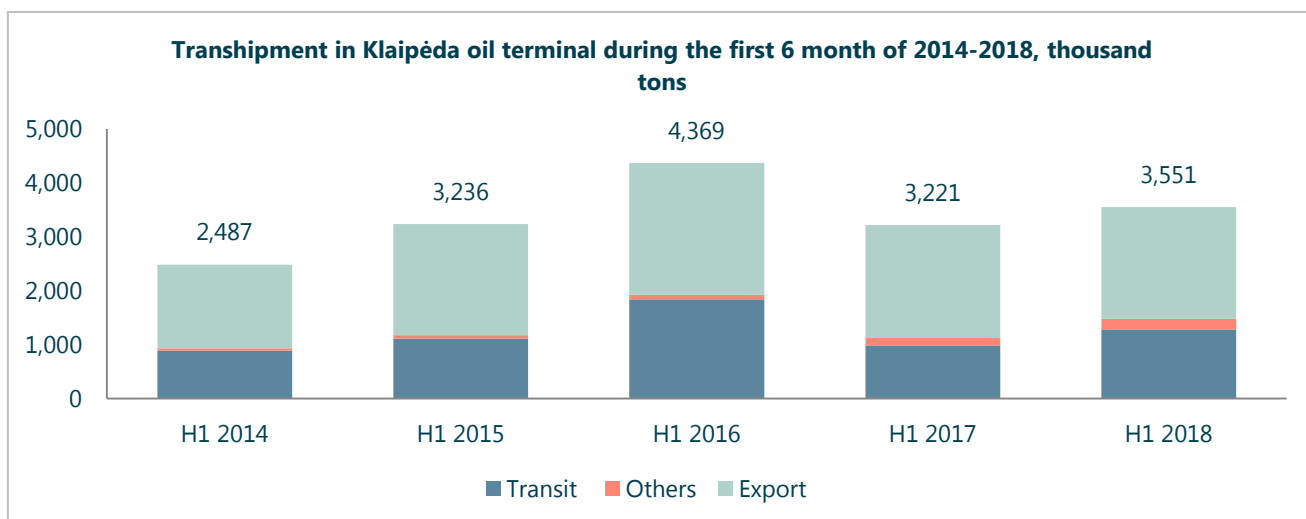
In the first half of 2018 Company's oil terminals in total handled 3,594 thousand t of oil products. Klaipėda oil terminal handled 3,551 thousand t of oil products, meanwhile Subačius oil terminal transshipment amounted to 43 thousand t. Oil products transshipment via Company's oil terminals increased by 10.2 per cent comparing to the same period of 2017. Following increase in handling volumes has been mainly determined by 30.1 per cent higher transit oil products flows.

One of the main Company's clients of transit transshipment in the first half of 2018 was BNK (UK) Limited, owned by one of the largest Belarusian oil product exporters – ZAT Belaruskaja Neftenaja Kampanija (BNK). In order to ensure constant and interrupted oil products transit volumes at terminal, Company has concluded a long-term contract with BNK

(UK) Limited on the provision of oil product transshipment services, valid until 31 October, 2019.

In the first half of 2018 AB ORLEN Lietuva transhipped by 0.5 per cent less oil products via Company's oil terminal comparing to the same period of 2017. Company has a long-term contract with AB ORLEN Lietuva on provision oil product handling services till the end of 2024.

In 2018 the Company successfully maintained cooperation with widely known wholesalers in Lithuania importing oil products through auto carrier loading unit (gasoline and diesel), which led to almost by 32.2 per cent higher oil products import volumes through Company's road tanker loading unit comparing to first half of 2017.



In the first half of 2018 there were 43.4 thousand t of oil products handled in Company's Subačius oil terminal (in respective period of 2017 – 41.1 thousand t).

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 and business environment review

**Klaipėda's LNG terminal** operations are regulated therefore the regulatory environment defines the activity's scope of operations, profitability and guidelines.

Since 1st of January 2018, when new edition of the Law on Natural Gas of the Republic of Lithuania came into effect, the activity of natural gas supply (except trading in natural gas exchange and gas stations) is considered to be regulated by permissions, instead of being licensed activity. Trading in natural gas exchange and gas stations is not regulated by permissions or licenses.

In relation to the above, Licensing Rules of the Natural Gas Transmission, Distribution, Storage, Liquefaction, Supply and the Market Operator approved by Resolution No 1246 as of 27 October 2011 of the Government of the Republic of Lithuania were amended accordingly by

the Resolution No. 65 as of 17 January 2018 of the Government of the Republic of Lithuania. During the first 6 months of 2018 in the LNG terminal:

- 5 LNG carriers (during to the first 6 months of 2017 – 6 LNG carriers) have been accepted;
- delivered 299.7 thousand tons of LNG (during to the first 6 months of 2017 – 269.8 thousand tons);
- regasified and into gas transmission system supplied 0.371 m<sup>3</sup> of natural gas during the first 6 months of 2018 ;
- 4.913 tons of LNG was reloaded to small-scale LNG carriers (total 2 LNG carriers).

LNG terminal revenues during the first 6 month of 2018 comprise EUR 32,457 thousand (during the first 6 months of 2017 – EUR 34,980 thousand).

2018 June 12 AB Klaipėdos Nafta completed the annual LNG terminal allocation procedure and signed respective agreements, allocated the capacities of the LNG terminal to these terminal users:

Allocated capacities	Terminal user	Amount of allocated capacities, kWh*	Period
LNG Regasification capacities	UAB Lietuvos dujų tiekimas	917,000,000	From 1 October 2018 till
	UAB LITGAS	3,401,105,521	30 September 2019

\* NOTE: temperature (combustion/measurement) - 25/0 °C, pressure - 1.01325 bar. Natural gas upper heating value- 11.90 kWh/nm<sup>3</sup>, LNG expansion coefficient- 1:578 (m<sup>3</sup> LNG/ nm<sup>3</sup> natural gas).

In addition to the abovementioned LNG regasification capacity UAB "Lietuvos dujų tiekimas" has also booked an additional 948,000,000 kWh of LNG regasification capacity for the ongoing Gas Year, which shall last until 30th of September, 2018.

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

- The overall need for gas in Lithuania and other Baltic countries;

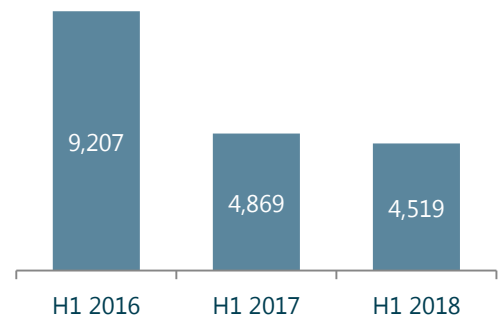
- The pricing and supplied quantity of the competing source of natural gas (gas supplied by a pipeline);
- The restrictions of Lithuania's natural gas infrastructure (capacities of the trunk gas pipelines);
- LNG supply in the world market;
- LNG prices in the region and in the world;
- Terms and period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

In 2018 the LNG purchase prices were high comparing to previous period that led to the decrease in regasification volumes in LNG terminal. LNG regasification in 2017-2018 volumes stated below in the charts:

**LNG regasification and reloading in 2017-2018, billion MWh**



**Total LNG regasification and reloading, million MWh**



**LNG terminal activity review**

The activities of **LNG Reloading Station** are commercial and non-regulated.

During the first 6 months of 2018 in the LNG Reloading Station:

- 7.0 thousand m<sup>3</sup> of LNG were reloaded to LNG trucks
- 7.000 m<sup>3</sup> of LNG was reloaded to almost 200 trucks during the first half of the year of the

operations at the Reloading Station. This LNG was distributed across 4 countries: Estonia, Latvia, Lithuania and Poland. There was four LNG deliveries by LNG carriers, where three of them sourced LNG at FSRU Independence and one delivery was made from Risavijka liquefaction plant in Norway.

There have been two Reloading Station users in 2018 year: Lithuanian LITGAS and Estonian Eesti Gaas.

**Baltic States natural gas market**

On 26 April 2018 Public Utilities Commission of the Republic of Latvia approved new Inčukalns Underground Gas Storage storage tariffs (Ref.: [Conexus website](#)).

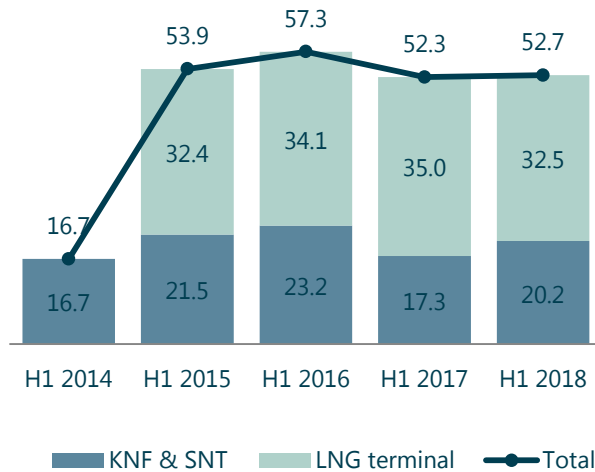
**Gas pipeline projects in the Baltic States**

On 7 June 2018 Lithuanian transmission system operator AB Amber Grid launched an international tender to carry out the construction works of the Gas Interconnection Poland-Lithuania (GIPL) in the territory of the Republic of Lithuania. (Ref.: [Ambergrid website](#)).

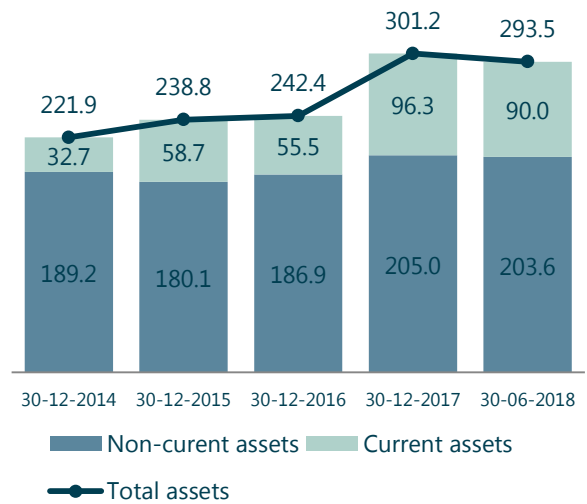


## FINANCIAL RESULTS OF ACTIVITY

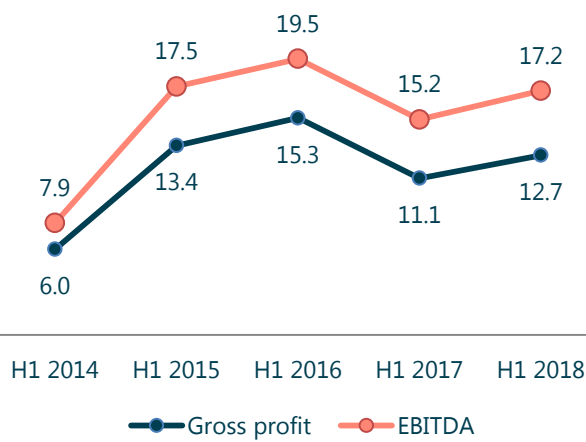
Sales revenue, MEUR



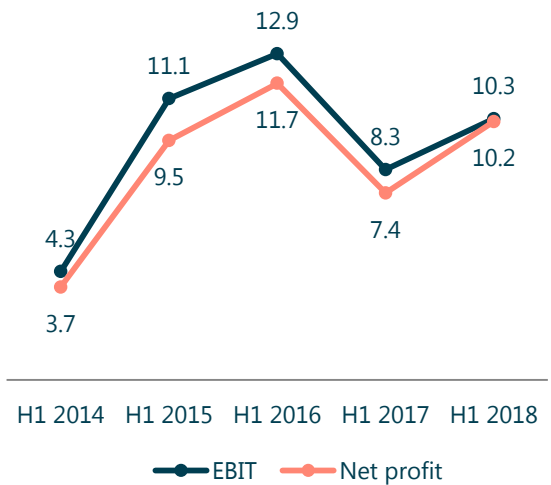
Assets, MEUR



Gross profit and EBITDA, MEUR



EBIT and Net profit, MEUR



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

	H1 2018	H1 2017	H1 2016	H1 2015	H1 2014
Transshipment of oil products (thousand t)	3,594	3,262	4,425	3,329	2,500
LNG regasification, thousand MWh	4,519	4,869	9,207	2,640	-
Investments (acquisitions of non-current assets):	6,313	10,208	8,150	2,569	13,801
<i>Klaipėda oil terminal</i>	5,432	5,901	2,361	279	865
<i>LNG terminal</i>	149	217	49	2,239	12,904
<i>LNG reloading station</i>	716	3,996	5,527	-	-
<i>Subačius oil terminal</i>	17	94	213	51	33
<b>Financial figures</b>					
Sales revenue	52,739	52,341	57,348	53,871	16,726
Gross profit	12,687	11,065	15,313	13,363	6,049
EBITDA <sup>1)</sup>	17,229	15,207	19,478	17,537	7,904
EBIT <sup>2)</sup>	10,321	8,311	12,897	11,127	4,283
Financial and investment activities result	-43	-59	-152	-579	195
Profit before taxation (EBT)	10,219	8,227	12,802	10,888	4,283
Net profit	10,210	7,389	11,722	9,458	3,670
Current assets	89,952	52,045	63,033	52,315	34,844
Non-current assets	203,564	189,957	182,499	185,818	162,168
Total assets	293,516	242,002	245,532	238,133	197,012
Shareholders' equity	193,523	190,702	190,897	184,225	169,129
<b>Profitability</b>					
Return on assets (ROA) <sup>4)</sup>	7.4%	3.9%	10.0%	6.9%	4.0%
Return on equity (ROE) <sup>3)</sup>	10.3%	5.0%	13.0%	8.5%	4.8%
Gross profit margin	24.1%	21.1%	26.7%	24.8%	36.2%
EBITDA margin	32.7%	29.1%	34.0%	32.6%	47.3%
EBIT margin	19.6%	15.9%	22.5%	20.7%	25.6%
EBT margin	19.4%	15.7%	22.3%	20.2%	25.6%
Net profit margin	19.4%	14.1%	20.4%	17.6%	21.9%
<b>Turnover</b>					
Accounts receivable, days	44	45	38	89	25
Accounts payable, days	41	37	33	34	63
<b>Financial structure</b>					
Debt to equity ratio	0.52	0.27	0.29	0.29	0.16
Capital to assets ratio	0.66	0.79	0.78	0.77	0.86
Gross liquidity ratio (current ratio) <sup>5)</sup>	3.97	3.28	2.90	2.30	3.24
Quick ratio <sup>6)</sup>	3.90	3.20	2.84	2.23	3.19
<b>Market value ratios</b>					
Price-Earnings Ratio (P/E)	9.9	18.4	8.1	9.6	14.2
Earnings per share (EPS)	0.027	0.019	0.031	0.025	0.010

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

<sup>1)</sup> EBITDA = earnings before interest, taxation, depreciation and amortization;

<sup>2)</sup> EBIT = earnings before interest and taxation;

<sup>3)</sup> Return on equity (ROE) = net profit of the last twelve months / (total average equity at the end of the period + total average equity at the beginning of the period) / 2;

<sup>4)</sup> Return on assets (ROA) = net profit of the last twelve months / (total average assets at the end of the period + total average assets at the beginning of the period) / 2;

<sup>5)</sup> Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

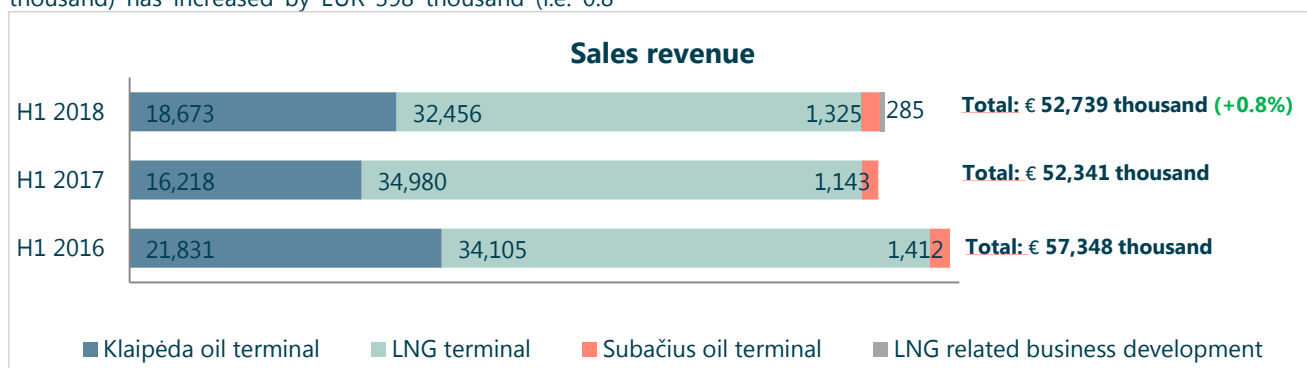
<sup>6)</sup> Quick ratio = (total current assets at the end of the period - Inventories at the end of the period) / total current liabilities at the end of the period,

P/E = The indicator describing the company's share price and earnings per share ratio.

## Revenues

The **sales revenues** of the Company for the first six months of 2018 comprise EUR 52,739 thousand and comparing with the same period of 2017 (EUR 52,341 thousand) has increased by EUR 398 thousand (i.e. 0.8

per cent). The increase is related with the positive changes in revenues of Klaipėda and Subačius Oil terminals.



**Sales revenues from the Oil terminal** operations Company for the first six months of 2018 amounted EUR 18,673 thousand and comparing to H1 2017 increased by EUR 2,455 thousand or by 15.1 per cent. Revenues have increased mainly due to increased overload of oil products (+10.2%).

**Subačius oil terminal sales revenues** of H1 2018 (EUR 1,325 thousand) increased by 15.9 per cent (or by EUR 182 thousand) because increased revenues from the long-term storage.

## Expenses

Total **cost of sales** of the Company of H1 2018 comprises EUR 40,052 thousand, comparing to H1 2017 (EUR 41,276 thousand) it has decreased by 3.0 per cent or by EUR 1,244 thousand. This decrease is mainly explained by the reduced LNG terminal FSRU leasing and related expenses affected by change of currency exchange rate (USD).

The total **revenues of the LNG terminal** activity in H1 2018 amounted to EUR 32,456 thousand, and compared to H1 2017, decreased by EUR 2,524 thousand or by 7.2 per cent. The activity of LNG terminal is regulated and with a price cap, therefore revenue and profit of LNG activity does not depend on re-gasification volume. For more information, concerning regulated revenues refer to the article below.

The Company's **operating expenses** decreased by 4.6 per cent or by EUR 130 thousand and comprised EUR 2,684 for H1 2018. The decrease is mainly related affected by the impairment reversal of trade receivables.

The listing of the major expenses is provided below:

In EUR thousand	H1 2018					H1 2017					Change, %
	KNT	SGD	SNT	GDP	Total	KNT	SGD	SNT	GDP	Total	
FSRU rent and other expenses	-	23,309	-	-	<b>23,309</b>	-	25,671	-	-	<b>25,671</b>	-9.2
Depreciation and amortization	3,654	2,803	440	12	<b>6,909</b>	3,565	2,854	466	11	<b>6,896</b>	0.2
Wages, salaries and social security	3,380	1,252	392	585	<b>5,609</b>	2,942	1,402	365	565	<b>5,274</b>	6.4
Variable costs (natural gas, electricity, railway services)	3,808	6	24	-	<b>3,838</b>	2,866	8	22	-	<b>2,896</b>	32.5
Rent of land and quays of the port	291	847	-	22	<b>1,160</b>	311	830	-	-	<b>1,141</b>	1.7
Other cost of sales and operating expenses	806	793	105	207	<b>1,911</b>	1,094	713	110	295	<b>2,212</b>	-13.6
<b>Total expenses</b>	<b>11,939</b>	<b>29,010</b>	<b>961</b>	<b>826</b>	<b>42,736</b>	<b>10,778</b>	<b>31,478</b>	<b>963</b>	<b>871</b>	<b>44,090</b>	<b>-3.1</b>

In H1 2018 the **total amount of LNG terminal's costs** was EUR 29,000 thousand, the major part of which were the costs of rent of the vessel Independence and the expenses, related with the FSRU vessel's operation totally EUR 23,309 thousand. Other LNG costs (staff remuneration, depreciation, jetty lease costs) in comprised EUR 5,695 thousand and has decreased by 1.8 per cent or by EUR 104 thousand comparing to H1 2017.

In H1 2018 the total amount of **Klaipėda oil terminal's costs** amounted to EUR 11,939 thousand (H1 2017 – EUR 10,778 thousand) and increased by EUR 1,161 thousand. Costs have increased mainly due the oil terminal's variable costs (gas, electricity and railroad costs) increase from the higher transshipment volumes.

### Financial results

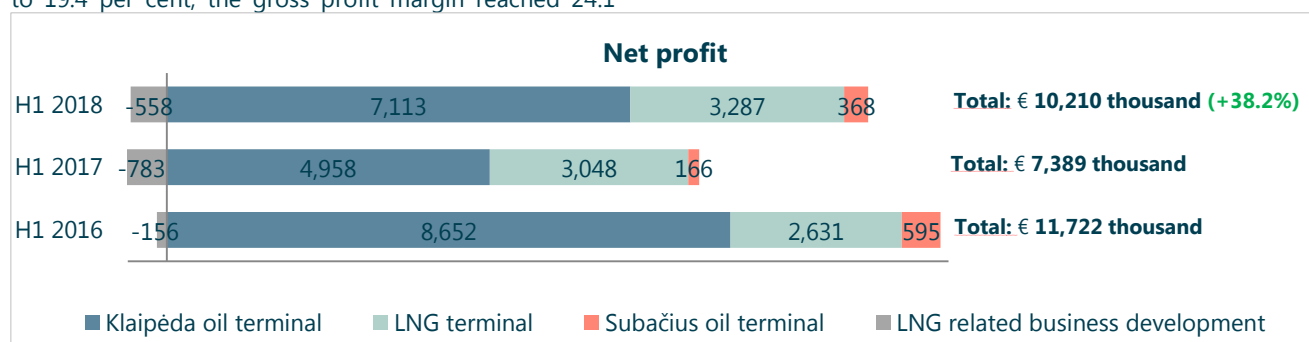
In H1 2018 the Company's **net profit** was EUR 10,210 thousand compared to H1 2017 (EUR 7,389 thousand), the net profit increased by 38.2 per cent or by EUR 2,821 thousand. The net profit margin for H1 2018 amounted to 19.4 per cent, the gross profit margin reached 24.1

Oil terminal staff costs increased by EUR 438 thousand or by 14.9 per cent comparing with H1 2017. Depreciation and amortization costs are grew up by EUR 89 thousand. Increase in depreciation is affected of the investments made for oil terminal flexibility.

In H1 2018 the total amount of costs for **Subačius oil terminal** (EUR 961 thousand) remained at the same level comparing to H1 2017.

**Employees related costs** increased by 6.4 per cent that was affected by both: increase in average salaries and increase in number of employees. Average salary per employee increased by 2.1 per cent reflecting changes in the labour market. The increase in employees (+3.2 average employee) is mainly explained by the expansion of Company's activities.

per cent (in H1 2017 respectively 14.1 per cent and 21.1 per cent). The profit per one share amounted to EUR 0.027/share (EUR 0.019/share in H1 2017).



Changes in Company's net profit are mainly effected by the revenue changes described above:

- Oil terminal net profit has increased by EUR 2,155 thousand up to EUR 7,113 thousand; increase related to oil product transshipment revenues;
- LNG terminal net profit increased by EUR 239 thousand in total due reduction of costs;
- Subačius oil terminal net profit increased twice to EUR 368 thousand in connection to increased oil products storage revenues;
- LNG related activity results are negative – loss of EUR 558 thousand.

In H1 2018 the financial activity loss is EUR 43 thousand (in H1 2017: EUR 59 thousand loss). Income from financial activities in H1 2018 mainly comprise from: EUR

133 thousand fines and delays income, EUR 27 thousand interests in bank accounts. Costs mainly comprise from EUR 103 thousand interest and EUR 100 thousand currency exchange rate fluctuation costs.

In H1 2018 **EBITDA** comprised EUR 17,229 thousand compared to H1 2017 (EUR 15,207 thousand) it increased by 13.3 per cent or by EUR 2,022 thousand. EBITDA margin was 32.7 per cent, for H1 2017 – 29.1 per cent.

The Company's annual return on equity (ROE) amounted to 10.3 per cent (5.0 per cent at 30-06-2017), the return on assets (ROA) – 7.4 per cent (3.9 per cent at 30-06-2017). The return on equity (ROE) and return on assets (ROA) are calculated by dividing the net profit (loss) of the last twelve months by the average of equity values at the beginning and the end of the corresponding periods.

## UPDATE ON THE ANNUAL FORECASTS

The Company's notice of 31 January 2018 informed of the key indicators and goals of the budget 2018 approved by the Company's Board. As mentioned in the notice, the financial plan had been based on conservative assumptions, yet the impact of negative external factors has been successfully avoided, which allowed to achieve significantly better results than planned.

Over the first half of 2018, the key results in the context of the 2018 annual plan were as follows:

- 50 per cent of the planned annual oil product throughput (7.2 million tonnes) was achieved over the first half of 2018 (3.6 million tonnes). According to the updated forecast, oil product transshipment volume will not change in 2018 – 7.2 million tonnes.
- 42.5 per cent of the planned annual LNG terminal natural gas regasification volume (10.6 million MWh) was achieved over the first half of 2018 (4.5 million MWh). The operation of the LNG terminal is regulated by setting the upper limit for prices, so the income and profit of the LNG terminal do not depend on degasification volumes. Updated annual forecast – approximately 10 million MWh.
- 51.4 per cent of the planned annual revenue (EUR 102.6 million) was achieved over the first half of 2018 (EUR 52.7 million), and the updated revenue forecast remains similar, since more non-typical income was generated in the first half of the year (LNG terminal capacity recalculation income, SNT terminal income, more consulting income), plus oil terminal income rate is usually higher in the first half due to the higher loading tariffs applicable during the cold season.
- 63.9 per cent of the planned annual EBITDA (EUR 26.9 million) was achieved over the first half of 2018 (EUR 17.2 million). Updated 2018 forecast – EUR 30.1 million.
- 100 per cent of the planned annual net profit (EUR 10.2 million) was achieved over the first half of 2018 (EUR 10.2 million). The change in the Company's net profit was largely influenced by: the result of atypical, unplanned transactions, and lower costs achieved in the first half of 2018, which were EUR 3.3 million. Taking into account the actual reasons for the change in net profit in the first half of 2018, the Company is forecasting that the annual net profit for 2018 may reach approximately EUR 15 million..

## INVESTMENTS

The most important investment projects during the first six months of 2018:

No.	Project	Investments in H1 of 2018 (incl. prepayments)	Project description
1.	The 2nd stage of expansion of LFO Park in Klaipėda oil terminal	EUR 3.8 million	The implementation of second stage investment in the expansion of the LFO storage tank park of the Klaipėda oil terminal was approved in 2016. The end of the works anticipated in Q2 of 2019. Building works, foundations also projecting of pipeline and technological part during the first half of 2018 were implemented.
1.1	LFO storage tank expansion (construction of new 6x20.000 tanks)	EUR 2.1 million	The agreement for 6x20,000 m <sup>3</sup> light oil products' tanks construction work was signed as at 12 June 2017. Amount of contract: EUR 11.5 million. During the six months of 2018 finished design works, earth works and foundations were done, started metal construction works.
1.2	LFO storage tank expansion (construction of new 2x10.000 and 4x5.000 tanks)	EUR 1.7 million	The agreement for the 2x10,000 m <sup>3</sup> and 4x5,000 m <sup>3</sup> light oil products' tanks construction work were signed as at 22 May 2017. Amount of contract: EUR 7.5 million. During the six months of 2018 finished design works, earth works and foundations were done for all 6 tanks, started metal construction works.
2.	LNG reloading station construction	EUR 0.7 million	During the first six months of 2018 AB Klaipėdos nafta continued finalizing works of LNG reloading station, which is located in a territory of oil terminal. The following works have been done: <ul style="list-style-type: none"> <li>- Testing related to usage of automatic equipment;</li> <li>- Quality control of ongoing works.</li> </ul>
3.	Expansion of LFO Park in Klaipėda oil terminal	EUR 0.7 million	Project comprise of construction of 7 new LFO tanks with a purpose to increase transshipment volumes and flexibility of services. Project was finished in the first half of 2018. Total amount of project EUR 7.3 million.

## 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 of the Stock Exchange of AB NASDAQ Vilnius.

### Shareholders of the Company

As at 30 June 2018 all the shares of the Company were owned by 2,205 shareholders (on 30 June 2017 – 2,110). All shares of the Company are 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.

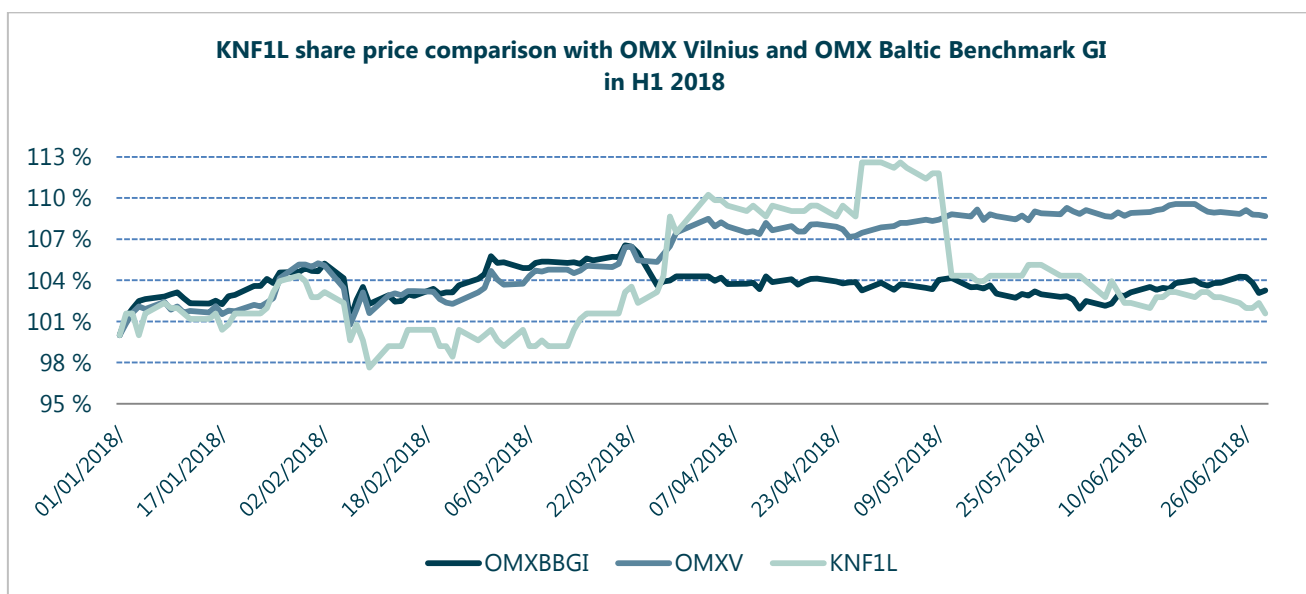
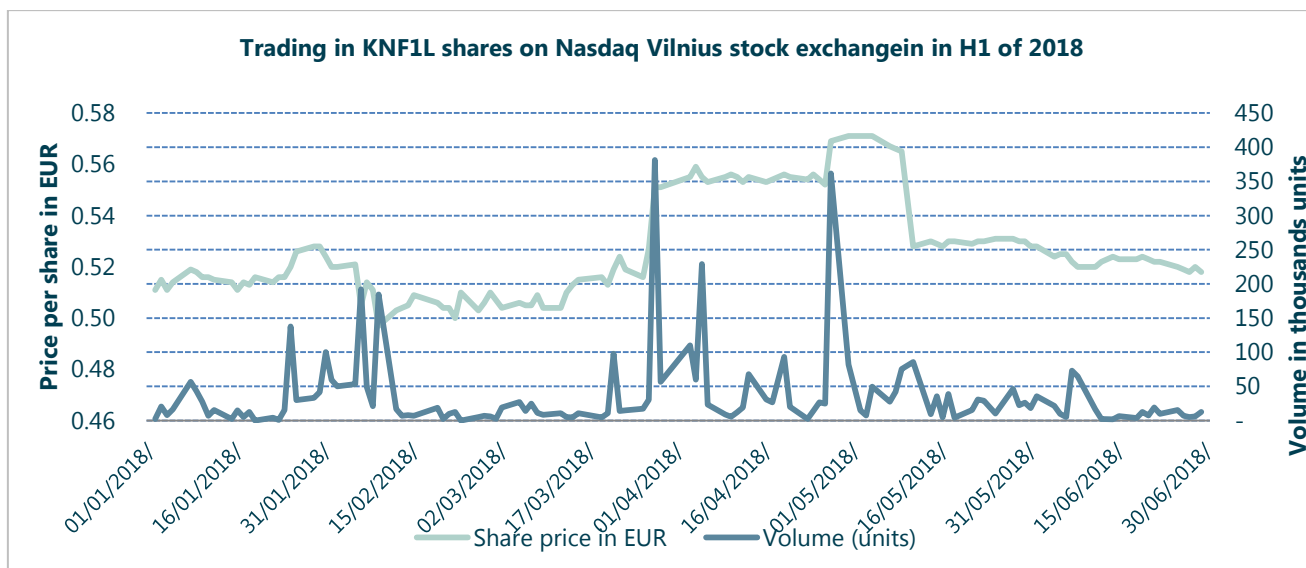
The Company has not been informed about mutual agreements of its shareholders which could limit the transfer of securities and (or) right of vote.

Major shareholders of the Company having more than 5% of shares (each) of the Company as 30 June 2018 and 2017:

Shareholder's name (company's name, address, company code of registration)	30 June 2018		30 June 2017	
	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 (Vykinto st. 14, Vilnius, 156673480)	39,148,150	10.29	38,975,150	10.24
Other (each owning less than 5%)	66,216,744	17.39	66,389,744	17.44
<b>Total</b>	<b>380,606,184</b>	<b>100.00</b>	<b>380,606,184</b>	<b>100.00</b>

Dynamics of KN share price at NASDAQ Vilnius during 2014 – 2017 and H1 2018

	H1 2018	2017	2016	2015	2014
Highest share price in EUR	0.571	0.572	0.705	0.419	0.325
Lowest share price in EUR	0.497	0.428	0.360	0.315	0.280
Price per share at the end of the period in EUR	0.518	0.508	0.538	0.369	0.311
Average share price in EUR	0.526	0.490	0.505	0.373	0.295
Traded volume, pcs.	4,216,762	10,501,664	17,879,294	5,257,607	14,454,031
Turnover in EUR thousand	2,259	5,081	8,730	1,955	4,320
Capitalisation in EUR thousand	197,154	193,348	204,766	140,444	118,369



### Dividends

AB "Klaipėdos nafta" **the Dividend Policy document** (approved in 2016) is published on the website of the Company [www.kn.lt](http://www.kn.lt) and in AB NASDAQ Vilnius ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)) Stock Exchange.

In 2018 General meeting of shareholders adopted a decision to distribute the AB Klaipėdos nafta profit and to allocate 17 million Eur to dividends.

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

	2018	2017	2016
Dividends in EUR thousand	17,031	9,656	17,629
Dividends per one share in EUR	0.0447	0.0254	0.0463
Net profit per 1 share in EUR	0.045	0.036	0.058
Dividends for net profit (of previous FY), %	100%	70%	80%



### **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	<a href="http://www.seb.lt">www.seb.lt</a>

### **RISK FACTORS AND RISK MANAGEMENT**

The Company's Board approved Risk Management Policy that regulates risk management, defines risk management principles and responsibilities, functions and responsibilities of the Chief Risk Officer as well as sets risk appetite and tolerance limits. 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 top 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.

Primary risk categories that the Company is exposed to while conducting its business:

- Business risk. It is a risk category that is generally related with environment where the Company operates and has an impact on its financial results: Company's competitiveness comparing with other players on the oil products transshipment market, economic

viability of the Company's key customers, political and economic environment in Belarus, changes in legal regulation of the LNG related activities and etc.;

- Operational risk is probably the widest risk category including such risks that the Company is exposed to as safety and reliability of internal processes and executed activities, compliance, occupational and physical safety, cybersecurity, etc.
- Reputational risk. It is a risk mostly related with the Company's decisions and behaviour of its employees.
- Project risk. The Company is engaged in a number of large investment projects, therefore, highlighting the risks of achieving the goals, especially staying within the budget and implementation deadlines, and taking appropriate risk mitigation measures enables the Company achieving strategic objectives.

There were no significant changes in risks identification and its management in H1 2018.

More information **on the risk categories of the Company** can be found in AB Klaipėdos nafta Governance report published with Company's annual report and financial statements for the year 2017 that can be found in AB Klaipėdos nafta official website ([www.kn.lt](http://www.kn.lt)) and in AB NASDAQ Vilnius website ([www.nasdaqomxbaltic.com/](http://www.nasdaqomxbaltic.com/)).

## MANAGEMENT OF THE COMPANY

### Management structure

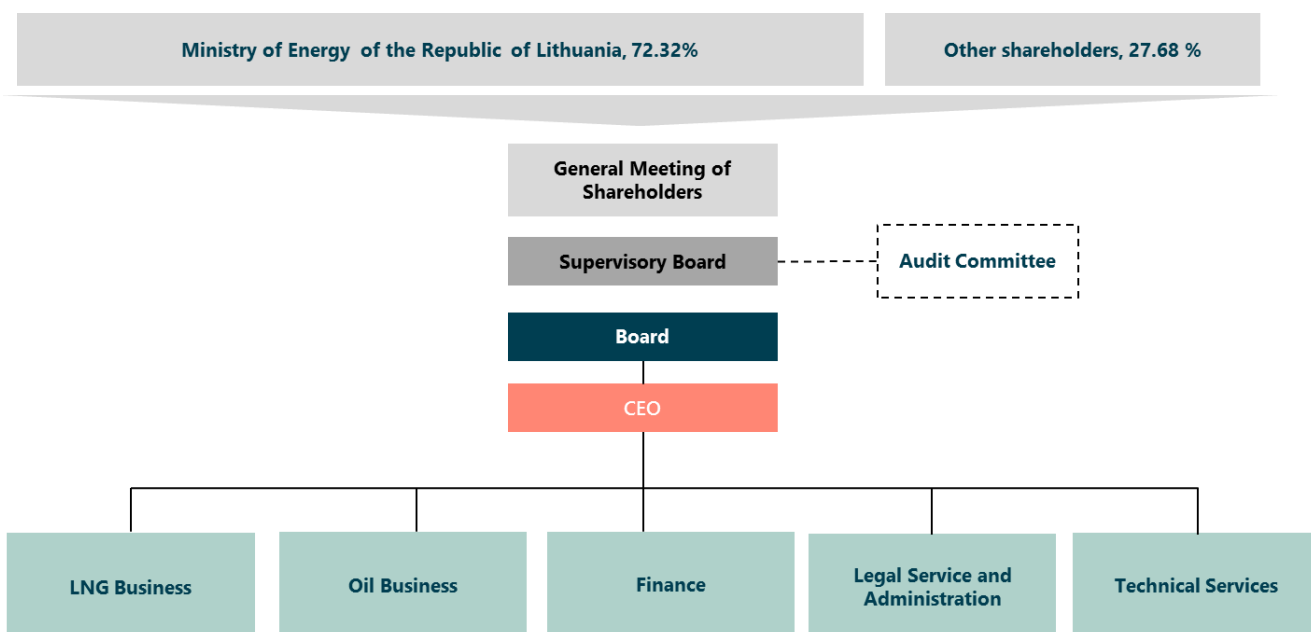
The Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company and other legal acts of the Republic of Lithuania during its operation.

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,
- Chief Executive Officer (CEO).

More information about **Management of the Company** can be found in AB Klaipėdos nafta Governance report published with Company's annual report and financial statements for the year 2017 that can be found in AB Klaipėdos nafta official website ([www.kn.lt](http://www.kn.lt)) and in AB NASDAQ Vilnius website ([www.nasdaqomxbaltic.com/](http://www.nasdaqomxbaltic.com/)).

### Organizational and management structure of the Company:



### The Supervisory Board as at 30 June 2018

**27th April 2018** ordinary General Meeting of shareholders of the Company was convened, in which the decision to elect Tomas Lukoševičius, Eimantas Kiudulas and Andrius Varanavičius for the 4 years cadence of supervisory board members of AB Klaipėdos Nafta was adopted. Also the ordinary General Meeting of Shareholders determined fixed monthly remuneration

for independent Supervisory Board members and for the chairman of the Supervisory Board.

**28th May 2018** the Supervisory Board elected independent Supervisory Board member Eimantas Kiudulas as a Chairman of Supervisory Board.

Name	Position	The independence criteria	Cadence dates
Eimantas Kiudulas	Chairman of the Supervisory Board	Independent	From the 27 April 2018 until 27 April 2022
Tomas Lukoševičius	Member of the Supervisory Board	-	From the 27 April 2018 until 27 April 2022
Andrius Varanavičius	Member of the Supervisory Board	Independent	From the 27 April 2018 until 27 April 2022

**There were no members of the Audit Committee as at 30 June 2018**

29th May 2018. AB Klaipėdos Nafta announced a selection of candidates for independent members of the Audit Committee. The selection is still continued.

**Members of the Board as at 30 June 2018**

27th April 2018. The Supervisory Board adopted the decision to extend the mandate of the Board members of AB Klaipėdos Nafta Dainius Bražiūnas, Mantas Bartuška, Giedrius Dusevičius and Bjarke Pålsson for the one year term or until the new Board is elected.

28th May 2018. The Board of AB Klaipėdos Nafta elected independent Board member Giedrius Dusevičius as a Chairman of the Board.

25th June 2018 the Company following decision of the Supervisory Board of the Company announced a selection of candidate for independent Board member of the Company.

Name	Position in the Company	The independence criteria	Board member from the date
Giedrius Dusevičius	Chairman of the Board	Independent	From the 30 December 2016
Dainius Bražiūnas	Member of the Board	-	From the 25 July 2014
Mantas Bartuška	Member of the Board	-	From the 25 September 2014
Bjarke Pålsson	Member of the Board	Independent	From the 24 January 2017

**The Directors of the Company as at 30 June 2018**

Mindaugas Jusius	Chief Executive Officer
Jonas Lenkšas	Chief Financial Officer (from the 4 June 2018)
Darius Šilenskis	Oil Products Business Director
Tadas Matulionis	LNG Business Director
Rytis Valūnas	Legal Service and Administration Director
Genadijus Andrejevas	Technical Director

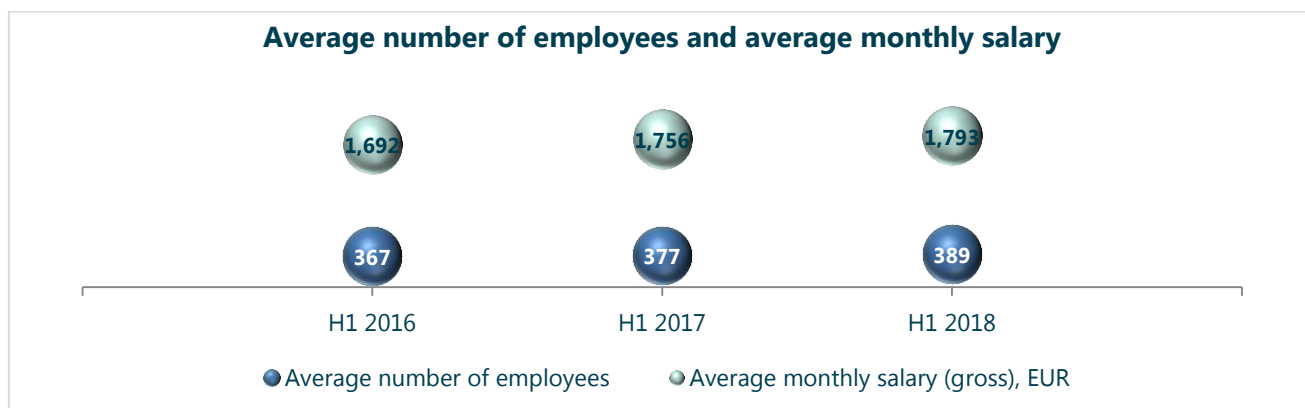
**INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY**

**Personnel**

The Company's main asset is its employees who are the most important link to the achievement of Company's goals. Company's personnel policy is focused on the development of teamwork, constant progress in professional and process development, the optimal use of work resources, training of qualified staff, and development of the Company's culture that creates additional value and improving internal communications.

As of 30 June 2018 there were 390 employees working at the Company (30 June 2017 - 383 employees).

The average number of employees in H1 2018 (total number 389) grew by 12 employees or 3.2 per cent compared with H1 2017 (377).



### Employees of the Company according to categories

Employee category	Average number of employees		Change in per cent
	H1 2018	H1 2017	
Managers <sup>1)</sup>	39	36	8.3
Specialists	195	173	12.7
Workers	155	168	-7.7
<b>Total</b>	<b>389</b>	<b>377</b>	<b>3.2</b>

1) The Company's managers include: Chief Executive Officer (CEO), Heads of Service, Functional Manager and Heads of Divisions

The number of workers decreased by 13 workers (respectively increased the number of specialists) this are related with changes in employee structure - part of the workers were changed from workers category to

specialists category. The reason for this change was related with increasing requirements for professional and qualification preparation for those positions.

### Payroll system and Remuneration Policy

The Company seeks to create motivating, an efficient, and fair, transparent and understood by everyone compensation system which aims to attract, retain and motivate employees whose skills and work results will help the Company to successfully develop implement its mission and achieve strategic business objectives. For that reason, in September 2016 there has been formed

and approved the Remuneration Policy and in September 2017 – The procedure of remuneration system formation. Starting from January 2018, the remuneration structure has been changed to increase employee engagement, linking directly the achievement of their yearly performance objectives with the Company's objectives.

### Average monthly salary according to employee groups

Employee category	Average monthly salary (gross), EUR		Change, %.
	H1 2018	H1 2017	
Managers <sup>1)</sup>	3,935	3,950	-0.4
Specialists	1,798	1,810	-0.7
Workers	1,289	1,233	4.5
<b>Average of the Company <sup>2)</sup></b>	<b>1,793</b>	<b>1,756</b>	<b>2.1</b>

<sup>1)</sup> The Company's managers include: Chief Executive Officer (CEO), Directors, Functional Managers and Heads of Divisions.

<sup>2)</sup> 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.

AB Klaipėdos nafta Remuneration Policy defines the principles of the setting and payment of remuneration and the incentive of employees. The Remuneration Policy shall apply to all employees of the Company.

The purposes of the Remuneration Policy are to:

- Establish clearly understandable, fair and transparent procedures for the setting and payment of remuneration and the incentive of employees, aiming at ensuring the Company's competitiveness in the labour market;
- Encourage the employees to achieve the objectives set in the Company's strategy, to create value added and increase the returns to shareholders 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 Methodology 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 incentivize the staff to improve their performance, the setting of pay (both fixed and variable components) relies on the 50th and 75th percentiles' interval of Lithuanian companies with 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 once a year taking

into consideration: the Company's performance results; the results of evaluation of the employees' performance; and the market supply and demand for the relevant jobs at the Company.

Details of the Company's **Management system of remuneration** are provided in chapter "System of remuneration to the Company's management" in AB Klaipėdos nafta Governance report published with Company's annual report and financial statements for the year 2017 that can be found in AB Klaipėdos nafta official website ([www.kn.lt](http://www.kn.lt)) and in AB NASDAQ Vilnius website ([www.nasdaqomxbaltic.com/](http://www.nasdaqomxbaltic.com/)).

## 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.

### Information on transactions with related parties

No transactions with related parties as provided for in art. 37(2) of the Law on Companies of the Republic of Lithuania were concluded from 1 January 2018 until 30 June 2018. The Company also did not have any transactions or agreements with the members of its Supervisory Board and the Board except those related with remuneration. More information regarding transactions with related Parties is presented in the Explanatory note to the Company's financial statements for the six months of 2018. All transactions with the related parties have been performed under market conditions (following the arm's length principle).

### Information on shareholders having special control rights

All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights.

### Information of amendments to the Company's Articles of Association

In period from 1 January 2018 until 30 June 2018, no amendments were made to the Company's Articles of Association. A new version of the articles of Association of the Company was approved

### Information on all agreements between shareholders

The Company does not have any information on agreements between shareholders.

### Participation in Associations

The Company has been acting as a member of the following associations as 30 June 2018:

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