



2019

AB KLAIPĖDOS NAFTA

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

FOR THE FINANCIAL YEAR ENDED  
ON 31 DECEMBER 2019

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# Independent Auditor's Report

To the Shareholders of AB Klaipėdos nafta

Report on the Audit of the Separate and the Consolidated Financial Statements

## Opinion

We have audited the separate financial statements of AB Klaipėdos nafta ("the Company") and the consolidated financial statements of AB Klaipėdos nafta and its subsidiaries ("the Group"). The separate and consolidated financial statements comprise:

- the separate and consolidated statements of financial position as at 31 December 2019,
- the separate and consolidated statements of comprehensive income for the year then ended,
- the separate and consolidated statements of changes in equity for the year then ended,
- the separate and consolidated cash flows statements for the year then ended, and
- explanatory notes to the separate and consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2019, and of their respective unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

## Basis for Opinion

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

## Key Audit Matters

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

### Impairment of the LNG reloading station

*We refer to the financial statements:*

*The carrying amount of property, plant and equipment of the LNG reloading station CGU as at 31 December 2019: EUR 26,591 thousand; related impairment losses recognized in 2019: nil.*

*Significant accounting policies – Note 2.8 “Property, plant and equipment”, Note 2.26 “Use of estimates and judgments”, Note 3 „Property, plant and equipment and right-of-use asset”*

| The key audit matter   | How the matter was addressed in our audit  |
|--|--|
| <p>As described in Note 3 of the consolidated and the separate financial statements, in the current year, the Company and the Group identified impairment indications in respect of its property, plant and equipment attributed to the LNG reloading station, whose operations were loss making in 2019.</p> <p>As at 31 December 2019, the Company and the Group tested property, plant and equipment for impairment, as part of the impairment test performed for the LNG reloading station cash-generating unit („CGU”). The Company and the Group determined the CGU’s recoverable amount based on its value in use estimated under the discounted cash flow method.</p> <p>Determining the CGU’s recoverable amount is a process which requires a number of significant judgments and estimates, especially in respect of the amounts of future cash flows, and associated discount rates and growth rates, based on management’s projections of future performance.</p> | <p>Our procedures in the area included, among other things, the following:</p> <ul style="list-style-type: none"> <li>• Evaluating, against the requirements of the relevant financial reporting standards, the Company’s and the Group’s accounting policy for identification of impairment indicators, and measurement and recognition of any impairment losses in respect of property, plant and equipment and intangible assets.</li> <li>• Assessing the appropriateness of the impairment methodology applied by the Company and the Group against methodologies commonly used for similar assets;</li> <li>• Evaluating the quality of the Company’s and the Group’s forecasting by comparing historical projections with actual outcomes.</li> <li>• Assessing the appropriateness of asset grouping into CGUs, based on our understanding of the Company’s and the Group’s operations and business units</li> </ul> |

The projected operating cash flows from the Company's activities are influenced primarily by assumptions concerning quantity of LNG loaded, prices of loading services as well as level of main related costs. These projections are exposed to significant variability due to changing market conditions.

Accordingly, this matter was considered by us to be associated with a significant judgements and estimates and required our increased attention in the audit. As such, we determined it to be a key audit matter.

- Assisted by our own valuation specialists, challenging the reasonableness of the Company's and Group's key assumptions and judgments used in estimating the recoverable amount, including:
  - Challenging reasonableness of the key macroeconomic assumptions used, such as those in respect of discount rates, by reference to publicly available external sources,
  - Tracing the key assumptions used in the discounted cash flows calculation, such as those in respect of the future demand, revenue growth, operating costs, by reference to the budgets approved by the Management Board, our understanding of the Company's and the Group's operations and trends, and publicly available industry data;
- Testing the internal consistency, underlying formulas and mathematical accuracy of the discounted cash flow model;
- Assessing susceptibility of the impairment model and the resulting impairment conclusion to management bias, by challenging the Company's and the Group's analysis of the model's sensitivity to changes in key underlying assumptions;
- Considering the adequacy of impairment-related disclosures in the Company's and the Group's financial statements.

## Impact of adopting International Financial Reporting Standard (IFRS) 16 *Leases*

We refer to the financial statements:

Significant accounting policies – “2.16 Leases”, “2.26 Use of estimates and judgments”, Note 3 „Property, plant and equipment and right-of-use asset”

The carrying amount of right-of-use assets as at 31 December 2019: EUR 370,872 thousand; the carrying amount of lease liabilities as at 31 December 2019: EUR 376,877 thousand; depreciation expense in 2019: EUR 43,906 thousand.

### The key audit matter

The Company and the Group adopted IFRS 16 *Leases* from 1 January 2019. The standard introduces a new lease accounting model, where lessees are required to recognize a right-of-use (ROU) asset and a lease liability arising from a lease in their statement of financial position.

As discussed in Note 2.16 of the separate and consolidated financial statements, the Company and the Group have several significant lease agreements, which were previously accounted as operating leases in line with IAS 17 *Leases*.

The Company and the Group applied IFRS 16 initially using the modified retrospective approach with comparative information not restated. As a result, as at 1 January 2019, the Company and the Group recognized a ROU asset of EUR 280,035 thousand and a corresponding increase in lease liabilities of EUR 280,035 thousand. In addition, as indicated in Note 2.16, certain events and conditions during 2019, triggered reassessment of lease liabilities related to the purchase option with one of the lease arrangements. As a result, as at 31 December 2019, the Company and the Group recognized an increase in ROU assets and lease liabilities by EUR 134,873 thousand.

Significant judgement is required in identifying lease arrangements and making assumptions and estimates in order to determine the amounts of ROU assets and the lease liability. The judgement is required, among other things, in the assessment of the lease term, whether or not a purchase option will be exercised, lease payments and discount rates.

### How the matter was addressed in our audit

Our procedures in the area included, among other things, the following:

- Through inquiries of the Management Board and relevant finance personnel, obtaining an understanding of the Company’s and the Group’s process for identifying leases;
- Assessing whether leases have been appropriately identified by the Company and the Group, by reference to the financial statements for prior year, through inquiries of relevant finance personnel and by inspecting relevant documentation, such as legal registry, management reports, board minutes, and lease and non-lease contracts. The procedure also involved examining the operating expenses, prepayments and accruals and evaluating whether they might be representative of a payment for the right to use of the identified asset.
- Obtaining the Company’s and the Group’s transition-date measurement of the ROU asset and lease liabilities as well as detailed schedules reconciling these opening amounts to the closing amounts at the year-end.
- For a sample of leases at transition date and a sample of new lease contracts entered into during the year, inspecting key terms and conditions (including lease term, lease payments (fixed and variable), any obligation to dismantle and restore leased asset or option to purchase within the underlying lease contracts, and also challenging the calculation of the discount rates applied by reference to our assessment of the Company’s incremental borrowing rate.

Accounting for leases, including the transition adjustments arising from initially applying IFRS 16, is therefore inherently complex and material to the Company and the Group, and satisfying ourselves in respect of the new Standard's effects on the separate and consolidated financial statements required our significant judgment and increased attention in the audit. As such we considered the area to be a key audit matter.

- For the leases selected in the preceding procedure, by reference to the contract terms and discount rates assessed in that procedure:
  - Developing an estimate of the lease liability, and examining whether it is in line with the Company's and the Group's estimate;
  - Challenging the Company's and the Group's assessment of the likelihood of exercising the purchase option within the FSRU contract by reference to applicable laws, availability of financing options, etc.
  - Developing an estimate of the cost of the ROU asset, including, where relevant, examining whether the initial measurement of the lease liability used in the calculation of the asset agrees to the lease liability recorded at lease commencement;
- For leases which required remeasurement of the related liability during the year:
  - Making inquiries of the Management Board and relevant finance personnel, legal counsel and other relevant personnel, regarding presence of conditions requiring reassessment of lease liabilities and evaluating whether the triggering events were identified in the correct period;
  - Inspecting minutes of the management board and shareholders meetings, as well as the reports of external consultants employed by the Company and the Group, for evidence supporting the adjustments;
  - Assessing whether remeasurement should have been recorded related to the new triggering events and if so, developing an independent estimate of the remeasured lease liability and, where applicable, the ROU asset.
- Examining whether the Company's and the Group's disclosures in the consolidated and separate financial statements appropriately include and describe the relevant quantitative and qualitative information required by the applicable financial reporting framework.

## Other matter

The Company's individual financial statements for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on those financial statements on 26 March 2019.

## Other Information

The other information comprises the information included in the consolidated annual report, including the Governance Report, but does not include the separate and consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the separate and consolidated financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

In addition, our responsibility is to consider whether information included in the consolidated annual report, including Governance Report, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements and whether consolidated annual report, including Governance Report, has been prepared in compliance with applicable legal requirements. Based on the work carried out in the course of audit of the separate and consolidated financial statements, in our opinion, in all material respects:

- The information given in the consolidated annual report, including Governance Report, for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- The consolidated annual report, including Governance Report, has been prepared in accordance with the requirements of the Law on Consolidated Financial Reporting by Groups of Undertakings of the Republic of Lithuania.

We also need to check that the Corporate Social Responsibility Report exists. If we identify that Corporate Social Responsibility Report does not exist, we are required to report that fact. We have nothing to report in this regard.





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

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

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

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

## Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and/or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

#### Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting, we were appointed on 30 August 2019 for the first time to audit the Company's and the Group's respective separate and consolidated financial statements. Our appointment to audit the Company's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 1 year.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and the Group and its Audit Committee on 1 April 2020.

We confirm that to the best of our knowledge and belief, we have not provided to the Company and the Group any prohibited non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

In the course of audit, we have not provided any other services except for audit of separate and consolidated financial statements.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius  
Partner  
Certified Auditor

Klaipėda, the Republic of Lithuania  
1 April 2020

## STATEMENT OF FINANCIAL POSITION

|   | Notes | Group          |                | Company        |                |
|---|-------|----------------|----------------|----------------|----------------|
|   |       | 31-12-2019     | 31-12-2018     | 31-12-2019     | 1-12-2018      |
| <b>ASSETS</b>   |       |                |                |                |                |
| <b>Non-current assets</b>                             |       |                |                |                |                |
| Intangible assets                                     | 3     | 534            | 726            | 534            | 726            |
| Property, plant and equipment                         | 4     | 207,824        | 199,211        | 207,824        | 199,211        |
| Right-of-use assets                                   | 4     | 370,872        | -              | 370,872        | -              |
| Non-current contract assets and long term receivables | 8, 11 | 974            | 2,132          | 974            | 2,132          |
| Investment in subsidiaries                            | 6     | -              | 203            | 4,553          | 203            |
| Investment in associates                              | 7     | 197            | 201            | 197            | 201            |
| Deferred tax asset                                    | 26    | 950            | -              | 950            | -              |
| <b>Total non-current assets</b>                       |       | <b>581,351</b> | <b>202,473</b> | <b>585,904</b> | <b>202,473</b> |
| <b>Current assets</b>                                 |       |                |                |                |                |
| Inventories   | 9     | 2,400          | 1,747          | 2,400          | 1,747          |
| Trade receivables and other receivables               | 10    | 13,171         | 13,072         | 13,161         | 13,072         |
| Contract assets                                       | 8, 11 | 1,156          | 926            | 1,156          | 926            |
| Prepaid income tax                                    |       | 1,080          | 1,671          | 1,080          | 1,671          |
| Short term deposits                                   | 12    | 21,000         | -              | 21,000         | -              |
| Other financial assets                                | 13    | 1,274          | -              | 1,274          | -              |
| Cash and cash equivalents                             | 14    | 41,865         | 73,238         | 37,846         | 73,238         |
| <b>Total current assets</b>                           |       | <b>81,946</b>  | <b>90,654</b>  | <b>77,917</b>  | <b>90,654</b>  |
| <b>Total assets</b>                                   |       | <b>663,297</b> | <b>293,127</b> | <b>663,821</b> | <b>293,127</b> |

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION (CONT'D)

| Notes  | Group      |                | Company        |                |                |
|--|------------|----------------|----------------|----------------|----------------|
|  | 31-12-2019 | 31-12-2018     | 31-12-2019     | 31-12-2018     |                |
| <b>EQUITY AND LIABILITIES</b>                            |            |                |                |                |                |
| <b>Equity</b>  |            |                |                |                |                |
| Share capital  | 1,15       | 110,476        | 110,376        | 110,476        | 110,376        |
| Share premium  |            | 3,993          | 3,913          | 3,993          | 3,913          |
| Own shares   | 1          | (267)          | -              | (267)          | -              |
| Legal reserve  | 15         | 11,038         | 10,750         | 11,038         | 10,750         |
| Reserve for own shares                                   | 15         | 15,929         | 15,929         | 15,929         | 15,929         |
| Other reserves   | 15         | 42,057         | 42,945         | 42,057         | 42,945         |
| Retained earnings  |            | 7,423          | 11,577         | 7,947          | 11,577         |
| <b>Total equity</b>                                      |            | <b>190,649</b> | <b>195,490</b> | <b>191,173</b> | <b>195,490</b> |
| <b>Non-current amounts payable and liabilities</b>       |            |                |                |                |                |
| Deferred tax liability                                   | 26         | -              | 623            | -              | 623            |
| Non-current employee benefits                            | 16         | 240            | 271            | 240            | 271            |
| Loans  | 17         | 69,537         | 73,474         | 69,537         | 73,474         |
| Deferred government grants                               | 2.21       | 5,988          | 4,642          | 5,988          | 4,642          |
| Lease liabilities  | 17         | 332,589        | -              | 332,589        | -              |
| <b>Total non-current amounts payable and liabilities</b> |            | <b>408,354</b> | <b>79,010</b>  | <b>408,354</b> | <b>79,010</b>  |
| <b>Current amounts payable and liabilities</b>           |            |                |                |                |                |
| Current employee benefits                                | 16         | 41             | 30             | 41             | 30             |
| Loans  | 17         | 3,836          | 2,678          | 3,836          | 2,678          |
| Lease liabilities  | 17         | 44,288         | -              | 44,288         | -              |
| Trade payables and other liabilities                     | 18         | 9,910          | 10,531         | 9,910          | 10,531         |
| Payroll related liabilities                              | 19         | 2,726          | 1,996          | 2,726          | 1,996          |
| Provisions   | 20         | 72             | 18             | 72             | 18             |
| Contract liabilities                                     | 30         | 3,421          | 3,374          | 3,421          | 3,374          |
| <b>Total current amounts payable and liabilities</b>     |            | <b>64,294</b>  | <b>18,627</b>  | <b>64,294</b>  | <b>18,627</b>  |
| <b>Total equity and liabilities</b>                      |            | <b>663,297</b> | <b>293,127</b> | <b>663,821</b> | <b>293,127</b> |

Explanatory notes are an integral part of these financial statements.

Chief Executive Officer Darius Šilenskis 1 April 2020

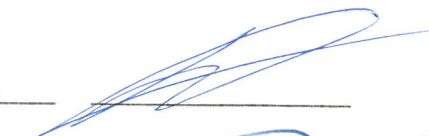

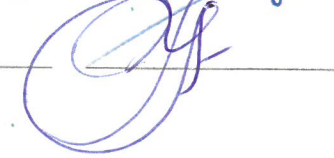
Chief Financial Officer Jonas Lenkšas 1 April 2020

Chief Accountant Rasa Tamaliūnaitė 1 April 2020

## STATEMENT OF COMPREHENSIVE INCOME

|  | Notes | Group         |               | Company       |               |
|--|-------|---------------|---------------|---------------|---------------|
|  |       | 2019          | 2018          | 2019          | 2018          |
| Revenue from contracts with customers                              | 21    | 104,363       | 99,998        | 104,138       | 99,998        |
| Cost of sales  | 22    | (83,529)      | (82,629)      | (82,897)      | (82,629)      |
| <b>Gross profit</b>  |       | <b>20,834</b> | <b>17,369</b> | <b>21,241</b> | <b>17,369</b> |
| Operating expenses   | 23    | (7,064)       | (5,780)       | (7,054)       | (5,780)       |
| Other income and (expenses)  | 24    | 546           | 276           | 546           | 276           |
| <b>Profit from operating activities</b>                            |       | <b>14,316</b> | <b>11,865</b> | <b>14,733</b> | <b>11,865</b> |
| Income from financial activities                                   | 25    | 141           | 231           | 110           | 231           |
| Expenses from financial activities                                 | 25    | (8,484)       | (283)         | (8,484)       | (283)         |
| Share of the associate's profit or (loss)                          | 7     | 29            | 44            | 29            | 44            |
| <b>Profit before tax</b>   |       | <b>6,002</b>  | <b>11,857</b> | <b>6,388</b>  | <b>11,857</b> |
| Income tax (expenses)  | 26    | 1,559         | (280)         | 1,559         | (280)         |
| <b>Profit for the year</b>   |       | <b>7,561</b>  | <b>11,577</b> | <b>7,947</b>  | <b>11,577</b> |
| <b>Other comprehensive income</b>                                  |       |               |               |               |               |
| 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, net of tax</b>                      |       | <b>7,561</b>  | <b>11,577</b> | <b>7,947</b>  | <b>11,577</b> |
| <b>Profit attributable to:</b>                                     |       |               |               |               |               |
| The shareholders of the Company                                    |       | 7,561         | 11,577        | -             | -             |
| Non-controlling interests  |       | -             | -             | -             | -             |
| <b>Total comprehensive income attributable to:</b>                 |       |               |               |               |               |
| The shareholders of the Company                                    |       | 7,561         | 11,577        | -             | -             |
| Non-controlling interests  |       | -             | -             | -             | -             |
| Basic and diluted earnings (losses) per share, in EUR              | 27    | 0.02          | 0.03          | -             | -             |

Explanatory notes are an integral part of these financial statements.

|                         |                   |              |   |
|-------------------------|-------------------|--------------|---|
| Chief Executive Officer | Darius Šilenskis  | 1 April 2020 |  |
| Chief Financial Officer | Jonas Lenkšas     | 1 April 2020 |  |
| Chief Accountant        | Rasa Tamaliūnaitė | 1 April 2020 |  |

## STATEMENT OF CHANGES IN EQUITY

### GROUP

|   | Notes | Share capital  | Share premium | Own shares (-) | Legal reserve | Reserve for own shares | Other reserves | Retained earnings | Total          |
|---|-------|----------------|---------------|----------------|---------------|------------------------|----------------|-------------------|----------------|
| <b>Balance as at 31 December 2017</b>             |       | <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 year                           |       | -              | -             | -              | -             | -                      | -              | 11,562            | 11,562         |
| Other comprehensive income                        |       | -              | -             | -              | -             | -                      | -              | 15                | 15             |
| Total comprehensive income                        |       | -              | -             | -              | -             | -                      | -              | 11,577            | 11,577         |
| Dividends declared                                | 28    | -              | -             | -              | -             | -                      | -              | (17,031)          | (17,031)       |
| Share based payments                              | 2.21  | -              | -             | -              | -             | -                      | 600            | -                 | 600            |
| Transfers between reserves                        |       | -              | -             | -              | 851           | -                      | (851)          | -                 | -              |
| <b>Balance as at 31 December 2018</b>             |       | <b>110,376</b> | <b>3,913</b>  | -              | <b>10,750</b> | <b>15,929</b>          | <b>42,945</b>  | <b>11,577</b>     | <b>195,490</b> |
| Net profit for the year                           |       | -              | -             | -              | -             | -                      | -              | 7,561             | 7,561          |
| Other comprehensive income                        |       | -              | -             | -              | -             | -                      | -              | -                 | -              |
| Total comprehensive income                        |       | -              | -             | -              | -             | -                      | -              | 7,561             | 7,561          |
| Dividends declared                                | 28    | -              | -             | -              | -             | -                      | -              | (11,577)          | (11,577)       |
| Acquisition of own shares (-)                     | 1     | -              | -             | (600)          | -             | -                      | -              | -                 | (600)          |
| Increase in share capital                         | 1     | 100            | 80            | -              | -             | -                      | -              | -                 | 180            |
| Share based payments                              | 2.21  | -              | -             | 333            | -             | -                      | (333)          | -                 | -              |
| Transfers between reserves                        |       | -              | -             | -              | 288           | -                      | (288)          | -                 | -              |
| The result of the subsidiaries from previous year |       | -              | -             | -              | -             | -                      | -              | (138)             | (138)          |
| Used reserves                                     |       | -              | -             | -              | -             | -                      | (267)          | -                 | (267)          |
| <b>Balance as at 31 December 2019</b>             |       | <b>110,476</b> | <b>3,993</b>  | <b>(267)</b>   | <b>11,038</b> | <b>15,929</b>          | <b>42,057</b>  | <b>7,423</b>      | <b>190,649</b> |

## STATEMENT OF CHANGES IN EQUITY (CONT'D)

### COMPANY

|                                       | Notes | Share capital  | Share premium | Own shares (-) | Legal reserve | Reserve for own shares | Other reserves | Retained earnings | Total          |
|---------------------------------------|-------|----------------|---------------|----------------|---------------|------------------------|----------------|-------------------|----------------|
| <b>Balance as at 31 December 2017</b> |       | <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 year               |       | -              | -             | -              | -             | -                      | -              | 11,577            | 11,577         |
| Other comprehensive income            |       | -              | -             | -              | -             | -                      | -              | -                 | -              |
| Total comprehensive income            |       | -              | -             | -              | -             | -                      | -              | 11,577            | 11,577         |
| Dividends declared                    | 28    | -              | -             | -              | -             | -                      | -              | (17,031)          | (17,031)       |
| Share based payments                  | 2.21  | -              | -             | -              | -             | -                      | 600            | -                 | 600            |
| Transfers between reserves            |       | -              | -             | -              | 851           | -                      | (851)          | -                 | -              |
| <b>Balance as at 31 December 2018</b> |       | <b>110,376</b> | <b>3,913</b>  | -              | <b>10,750</b> | <b>15,929</b>          | <b>42,945</b>  | <b>11,577</b>     | <b>195,490</b> |
| Net profit for the year               |       | -              | -             | -              | -             | -                      | -              | 7,947             | 7,947          |
| Other comprehensive income            |       | -              | -             | -              | -             | -                      | -              | -                 | -              |
| Total comprehensive income            |       | -              | -             | -              | -             | -                      | -              | 7,947             | 7,947          |
| Dividends declared                    | 28    | -              | -             | -              | -             | -                      | -              | (11,577)          | (11,577)       |
| Acquisition of own shares (-)         |       | -              | -             | (600)          | -             | -                      | -              | -                 | (600)          |
| Increase in share capital             | 1     | 100            | 80            | -              | -             | -                      | -              | -                 | 180            |
| Share based payments                  | 2.21  | -              | -             | 333            | -             | -                      | (333)          | -                 | -              |
| Transfers between reserves            |       | -              | -             | -              | 288           | -                      | (288)          | -                 | -              |
| Used reserves                         |       | -              | -             | -              | -             | -                      | (267)          | -                 | (267)          |
| <b>Balance as at 31 December 2019</b> |       | <b>110,476</b> | <b>3,993</b>  | <b>(267)</b>   | <b>11,038</b> | <b>15,929</b>          | <b>42,057</b>  | <b>7,947</b>      | <b>191,173</b> |

Explanatory notes are an integral part of these financial statements.

|                         |                   |              |
|-------------------------|-------------------|--------------|
| Chief Executive Officer | Darius Šilenskis  | 1 April 2020 |
| Chief Financial Officer | Jonas Lenkšas     | 1 April 2020 |
| Chief Accountant        | Rasa Tamaliūnaite | 1 April 2020 |

## CASH FLOW STATEMENT

|   | Notes | Group           |               | Company         |               |
|---|-------|-----------------|---------------|-----------------|---------------|
|   |       | 31-12-2019      | 31-12-2018    | 31-12-2019      | 31-12-2018    |
| <b>Cash flows from operating activities</b>                           |       |                 |               |                 |               |
| Net profit  |       | 7,561           | 11,577        | 7,947           | 11,577        |
| Adjustments for non-cash items:                                       |       |                 |               |                 |               |
| Depreciation and amortization   | 3, 4  | 57,502          | 14,887        | 57,502          | 14,887        |
| Change in vacation reserve  | 19    | 1               | (3)           | -               | (3)           |
| Impairment and write-off (reversal) of property, plant and equipment  | 3, 4  | (1)             | (38)          | (1)             | (38)          |
| Profit (loss) from write-off and sales of non-current tangible assets |       | (7)             | (125)         | (7)             | (125)         |
| Share-based payment expenses  |       | -               | 600           | -               | 600           |
| Change in provisions  |       | 54              | 18            | 54              | 18            |
| Change in non-current liabilities for employees                       | 16    | (20)            | 11            | (20)            | 11            |
| Change in allowance in inventory                                      | 9     | (1,058)         | (53)          | (1,058)         | (53)          |
| Contract assets   | 11    | (231)           | (374)         | (231)           | (374)         |
| Accrued income  | 8     | 564             | 539           | 564             | 539           |
| Income tax expenses   | 26    | (1,559)         | 280           | (1,559)         | 280           |
| Share of (profit) or loss of equity-accounted investees               | 7     | (29)            | (44)          | (29)            | (44)          |
| Change in allowance for doubtful trade and other receivables          | 10    | 221             | (251)         | 221             | (251)         |
| Interest income   | 25    | (64)            | (56)          | (64)            | (56)          |
| Interest expenses   | 25    | 2,302           | 208           | 2,302           | 208           |
| Currency impact from lease liabilities                                |       | 6,082           | -             | 6,082           | -             |
| Other non-cash adjustments  |       | 418             | 192           | 416             | 192           |
|   |       | <b>71,736</b>   | <b>27,368</b> | <b>72,119</b>   | <b>27,368</b> |
| <b>Changes in working capital</b>                                     |       |                 |               |                 |               |
| (Increase) decrease in inventories                                    | 9     | 220             | (537)         | 220             | (537)         |
| Decrease (increase) in trade and other accounts receivable            | 10    | (855)           | (1,000)       | (985)           | (1,000)       |
| Increase (decrease) in trade and other payables                       |       | (3,846)         | 803           | (3,760)         | 803           |
| (Decrease) increase in prepayments received                           |       | -               | (2,642)       | -               | (2,642)       |
| Increase (decrease) in contract liabilities                           | 30    | 46              | 3,374         | 46              | 3,374         |
| Increase (decrease) in payroll related liabilities                    | 19    | 1,310           | (561)         | 1,309           | (561)         |
|   |       | <b>68,611</b>   | <b>26,805</b> | <b>68,949</b>   | <b>26,805</b> |
| Income tax (paid)   |       | (731)           | (1,308)       | (731)           | (1,308)       |
| Interest received   |       | 64              | 56            | 64              | 56            |
| Net cash flows from (used in) operating activities                    |       | <b>67,944</b>   | <b>25,553</b> | <b>68,282</b>   | <b>25,553</b> |
| <b>Cash flows from investing activities</b>                           |       |                 |               |                 |               |
| (Acquisition) of property, plant, equipment and intangible assets     | 3, 4  | (22,920)        | (17,790)      | (22,920)        | (17,790)      |
| Income from sales of non-current assets                               |       | 10              | 250           | 10              | 250           |
| Short term deposits (placed)/received                                 | 12    | (21,000)        | 65,000        | (21,000)        | 65,000        |
| (Acquisition) of other investments                                    | 6, 7  | (3)             | (2)           | (4,353)         | (2)           |
| Dividends received  | 7     | 36              | 54            | 36              | 54            |
| Grants, subsidies received  | 2.20  | 1,763           | 893           | 1,763           | 893           |
| Net cash flows from (used in) investing activities                    |       | <b>(42,114)</b> | <b>48,405</b> | <b>(46,464)</b> | <b>48,405</b> |

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.



## CASH FLOW STATEMENT (CONT'D)

|  | Notes | Group           |                 | Company         |                 |
|--|-------|-----------------|-----------------|-----------------|-----------------|
|  |       | 31-12-2019      | 31-12-2018      | 31-12-2019      | 31-12-2018      |
| <b>Cash flows from financing activities</b>                            |       |                 |                 |                 |                 |
| Dividends (paid)   | 28    | (11,577)        | (17,031)        | (11,577)        | (17,031)        |
| Purchase of own share  |       | (600)           | -               | (600)           | -               |
| Loans received (paid)  | 17    | (2,649)         | (246)           | (2,649)         | (246)           |
| Interest and fee related to loans (paid)                               |       | (290)           | (190)           | (290)           | (190)           |
| Lease liabilities (paid)   |       | (40,126)        | -               | (40,126)        | -               |
| Interest on leasing liabilities paid                                   |       | (1,968)         | -               | (1,968)         | -               |
| Net cash flows from (used in) financing activities                     |       | <b>(57,210)</b> | <b>(17,467)</b> | <b>(57,210)</b> | <b>(17,467)</b> |
| <b>Net increase (decrease) in cash flows</b>                           |       | <b>(31,380)</b> | <b>56,491</b>   | <b>(35,392)</b> | <b>56,491</b>   |
| Cash and cash equivalents on 1 January                                 | 14    | <b>73,245</b>   | <b>16,747</b>   | <b>73,238</b>   | <b>16,747</b>   |
| Cash and cash equivalents on 31 December                               | 14    | <b>41,865</b>   | <b>73,238</b>   | <b>37,846</b>   | <b>73,238</b>   |
| <b>Other non-financial information related to cash flows:</b>          |       |                 |                 |                 |                 |
| Liability for property, plant and equipment outstanding as at year end |       | 1,191           | 2,316           | 1,191           | 2,316           |
| Accrual on construction-in-progress                                    |       | 361             | 59              | 361             | 59              |

Explanatory notes are an integral part of these financial statements.

Chief Executive Officer Darius Šilenskis 1 April 2020

Chief Financial Officer Jonas Lenkšas 1 April 2020

Chief Accountant Rasa Tamaliūnaitė 1 April 2020

## EXPLANATORY NOTES TO FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

AB Klaipėdos nafta (hereinafter “the Parent Company” or “the Company”) is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Burių str. 19, 91003 Klaipėda, Lithuania. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as “the Group”).

The subsidiaries are these:

- UAB SGD logistika, a subsidiary (hereinafter “the subsidiary UAB SGD logistika”). The address is as follows: Burių g. 19, 91003 Klaipėda, Lithuania.
- UAB SGD terminalas, a subsidiary (hereinafter “the subsidiary UAB SGD terminalas”). The address is as follows: Burių g. 19, 91003 Klaipėda, Lithuania.
- UAB SGD SPB, a subsidiary of UAB SGD logistika (hereinafter “the subsidiary UAB SGD SPB”). The address is as follows: Burių g. 19, 91003 Klaipėda, Lithuania.
- KN Acu Servicos de Terminal de GNL LTDA (hereinafter “the subsidiary KN Acu Servicos de Terminal de GNL LTDA”). The address is as follows: F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro

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 Energy Regulatory Council (hereinafter referred to as “NERC”) 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 31 December 2019, all the shares were owned by 2,646 shareholders (as of 31 December 2018 all the shares were owned by 2,191 shareholders).

On 29 March 2019 amended Articles of Association of the Company had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorized capital of the Company. Following the increase of the authorized capital of the Company, such capital is equal to EUR 110,476 thousand is divided into 380,952,393 units of shares, which grant 380,952,393 votes. All shares are paid. Nominal value per share – EUR 0.29. 72.34% of the shares (275,587,444 shares) are owned by the State of Lithuania, represented by the Ministry of Energy. The Government of Lithuania is the ultimate controlling party.

On 31 December 2018 the Company’s share capital amounting to EUR 110,375,793.36 is fully paid. It is divided into 380,606,184 ordinary shares with a par value of twenty EUR 0.29. 72.32% of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

In January 2019 the Company acquired 1,463,414 units of own shares. Total price of the transaction amounts to EUR 600 thousand. The purpose of shares’ acquisition is the provision of shares to the Company’s employees. In May 2019 the Company paid out part of annual bonuses to employees in Company’s shares - 807,606 units of shares have been granted to the employees of the Company. During the year of 2018 the Company has not acquired any own shares.

The Company’s shares are listed in the Baltic Main List on the NASDAQ Vilnius Stock Exchange (ISIN code LT0000111650, abbreviation KNF1L).

As at 31 December 2019 and 31 December 2018 the shareholders of the Company were:

|   | 31 December 2019                 |                       | 31 December 2018                 |                       |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|
|   | 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) | 275,587                          | 72.34                 | 275,241                          | 72.32                 |
| Concern UAB Achemos grupė (Jonalaukis village, Jonava district, 156673480)                        | 39,650                           | 10.41                 | 39,605                           | 10.41                 |
| Other (less than 5 per cent each)   | 65,715                           | 17.25                 | 65,760                           | 17.27                 |
| <b>Total</b>  | <b>380,952</b>                   | <b>100.00</b>         | <b>380,606</b>                   | <b>100.00</b>         |

## 1 GENERAL INFORMATION (CONT'D)

The Parent Company controls subsidiary UAB SGD logistika, which main objective until the end of 2019 was is to perform activities of operating and managing a liquefied natural gas bunkering carrier. This subsidiary also may carry out expansion of operation activities of international LNG terminals by investing and establishing other companies in Lithuania and abroad. The Company owns 100% of voting rights of this subsidiary.

The Parent Company also controls subsidiary UAB SGD terminalas. The purpose of is to perform activities of operating and managing a whole structure of LNG terminal in Klaipėda. The Company owns 100% of voting rights of this subsidiary.

The subsidiary UAB SGD SPB became part of the Group in October 2019. The purpose of UAB SGD SPB is to participate in the projects of liquefied natural gas. This subsidiary may carry out expansion of operation activities of international LNG terminals by investing and establishing other companies in Lithuania and abroad. UAB SGD SPB owned by 100% UAB SGD logistika.

On 13 December 2019 the subsidiary of UAB SGD logistika (90%) and UAB SGD SPB (10%) – limited liability company – KN Açu Servicos de Terminal de GNL LTDA was established in Federal Republic of Brazil. The purpose of KN Açu Servicos de Terminal de GNL LTDA is to provide operations and maintenance services for liquefied natural gas terminal at the port of Açu. KN Açu Servicos de Terminal de GNL LTDA did not perform any activities during year 2019.

This is the first set of consolidated financial statements, which comprise subsidiaries of the Company. The management of the Company concluded that the subsidiaries UAB SGD logistika and UAB SGD terminalas shall be considered as immaterial to the Group as at 31 December 2018 and the previous years, following provisions of the paragraph 2 of the article 6 of the section 3 of the Lithuanian Law No IX-576 dated 16 November 2011 in the Consolidated financial statements of the Groups of Companies, because its assets at the end of the financial year has not exceeded 5 percent of the Company's assets, and net sales for the reporting period did not exceed 5 percent of the Company's net sales for the corresponding period. Based on the above, as well as overall materiality assessment made the Company's management, it was decided not to consolidate subsidiaries as at 31 December 2018. Comparative information in the consolidated financial statements comprise of individual financial information of the Company.

The average number of employees of the Company on 31 December 2019 was 369 (391 – on 31 December 2018).  
The average number of employees of the Group on 31 December 2019 was 373 (393 – 31 on December 2018).

## 2 ACCOUNTING PRINCIPLES

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

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

The financial year of the Group and 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 differences are not material to these financial statements.

This is the first set of the Group's and Company's annual financial statements in which IFRS 16 "Leases" has been applied. The related changes to significant accounting policies are described 2.16.

### 2.1. Basis for preparation of the financial statements

#### Statement of compliance

Annual financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter the EU). They were authorized for issuance by the Management on 1 April 2020 and are subject to the approval of the shareholders. The shareholders of the Company have the power to reject these financial statements and request for the new ones to be prepared.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

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

#### Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group and the Company have not early adopted the new or amended standards in preparing these consolidated and separate financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated and the Company's separate financial statements:

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of Material (Amendments to IAS 1 and IAS 8);
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7);
- Definition of a Business (Amendments to IFRS 3) (not yet endorsed by EU);
- IFRS 17 Insurance Contracts (not yet endorsed by EU);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (not yet endorsed by EU);
- IFRS 14 Regulatory Deferral Accounts (not yet endorsed by EU).

### 2.2. Foreign currency

#### Functional currency

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

The Group and the Company have decided to use EUR as a functional currency considering the structure of revenue, costs, equity, and debt instruments. Despite the fact that lease liabilities are denominated in US dollars, the major part of revenues and cost are denominated in EUR. Most of the Group's and the Company's sales prices and costs are influenced by competitive forces, acting in Lithuania and in the Euro-zone countries. The equity of the Company is formed in EUR.

#### Transactions and balances

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

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

### 2.3. Basis for consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company or the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.3. Basis for consolidation (cont'd)

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### 2.4. Operating segments

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

Chief executive officer of the Company is responsible for making strategic decisions for distribution of the Company's resources and evaluation of activity's results of the business segments.

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

- KNF – 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 and consulting of other LNG.

### 2.5. Investment in subsidiaries

Investments in subsidiaries are carried at cost, less impairment in separate financial statements of the Company. The Company determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and recognises the amount in the profit (loss) in the statement of comprehensive income.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.6. Investment in associates

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

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

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

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

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

### 2.7. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Company did not have assets with indefinite useful lives (as of 31 December 2019 and 31 December 2018). Intangible assets with finite lives are amortized over the useful economic lives of 3-15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Calculation of amortization is discontinued as of the first day of the next month after the disposal of asset or when the whole acquisition cost is expensed or reclassified as a part of other asset.

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

### 2.8. Property, plant and equipment

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

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The useful lives, residual values and depreciation method are reviewed periodically to ensure that the period of depreciation and other estimates including borrowing costs are consistent with the expected pattern of economic benefits from items of property, plant and equipment. In case external and (or) internal impairment indications exist at the date of the statement of financial position, the Group and the Company perform detailed impairment testing in order to ensure that property, plant and equipment are accounted for at value not higher than their recoverable amount.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.8. Property, plant and equipment (cont'd)

Construction-in-progress is stated at cost. This includes the cost of construction, plant and equipment and other directly attributable costs including borrowing cost. Construction-in-progress is not depreciated until the relevant assets are completed and available for their intended use. The Group and the Company determine at each reporting date whether there is any objective evidence that the construction-in-progress is impaired. The Group and the Company calculate the amount of impairment for suspended construction-in-progress.

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

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

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

The Group and the Company has revised depreciation rates for tangible and intangible assets as at 31 December 2018. It is a change in accounting estimate therefore it was accounted for in a prospective manner.

The estimated useful life (in years) of different groups of property, plant and equipment as at 31 December 2018 and for the period starting from 1 January 2019 are as follows:

#### Group and Company

| Description                          | Applicable before 1 January 2019 | Applicable after 1 January 2019 |
|--------------------------------------|----------------------------------|---------------------------------|
| <b>Intangible assets</b>             | 3                                | 3-15                            |
| <b>Property, plant and equipment</b> |                                  |                                 |
| Land                                 | -                                | -                               |
| Buildings and structures             | 15-60                            | 10-60                           |
| Machinery, plant and equipment       | 5-55                             | 5-55                            |
| Other non-current assets             | 4-6                              | 4-15                            |

### 2.9. Financial instruments

#### Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### i) Financial assets

#### Initial recognition and measurement

The Group and the Company qualify financial assets to one of the following categories:

- measured at amortised cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss,
- hedging financial instruments.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group and the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.9. Financial instruments (cont'd)

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's and the Company's business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

A regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

#### Subsequent measurement

After initial recognition, the Group and the Company measures a financial asset at:

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Company did not have such items as at 31 December 2019 and 2018;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Company did not have such items as at 31 December 2019 and 2018;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2019 and 2018.

#### Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group and the Company. The Group and the Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired.

The Group's and the Company's financial assets at amortised cost includes trade, other current and non-current receivables and contract assets.

#### Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Trade receivables, including contract assets (Notes 8, 10 and 11).

The Group and the Company recognise an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group and the Company expect to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group and the Company applies a simplified approach in calculating ECLs. Therefore, the Group and the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group and the Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.



## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.9. Financial instruments (cont'd)

The Group and the Company considers a financial asset in default (credit impaired) when contractual payments are 90 days past due or when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. The lifetime expected credit losses of loans receivable and trade receivables is recognised in profit or loss through the contrary account of doubtful receivables. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### **Significant assumptions: Provision for expected credit losses of trade receivables**

The Group and the Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type).

The provision matrix is initially based on the Group's and the Company's historical observed default rates. The Group and the Company has calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's and the Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 29. The Group and the Company do not hold collateral from counterparties as security to mitigate credit risk.

#### **ii) Financial liabilities**

##### **Initial recognition and measurement**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings and payables. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and finance lease liabilities.

##### **Subsequent measurement**

The measurement of financial liabilities depends on their classification, as described below:

##### **Loans, borrowings and other payables**

After initial recognition, loans, borrowings and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the statement of comprehensive income, when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income. For more information, refer to Note 17.

#### **iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, i.e. to realize the assets and settle the liabilities simultaneously.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.10. Derecognition of financial instruments

#### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's and the Company's statement of financial position) when:

- i) The rights to receive cash flows from the asset have expired or
- ii) The Group and the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group/Company has transferred substantially all the risks and rewards of the asset, or (b) the Group/Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group and the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group and the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group and the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group and the Company could be required to repay (amount of the guarantee).

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

### 2.11. Employee benefits

#### Social security contributions

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

#### Non-current employee benefits

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. Any gains or losses appearing as a result of curtailment and/or settlement are recognised in the statement of comprehensive income as incurred. The past service costs are recognized in the statement of comprehensive income as incurred.

The above-mentioned employee benefit obligation is calculated based on actuarial assumptions, using the projected unit credit method. Obligation is recognized in the statement of financial position and reflects the present value of these benefits on the preparation date of the statement of financial position. Present value of the non-current obligation to employees is determined by discounting estimated future cash flows using the discount rate which reflects the interest rate of the Government bonds of the same currency and similar maturity as the employment benefits. Actuarial gains and losses are recognized in the statement of other comprehensive income as incurred.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.12. Inventories

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

In order to reflect true and fair view for obsolete and slow-moving inventories the Group and the Company revised its accounting estimate of write-off to net realisable value for obsolete and slow-moving inventories. As at 31 December 2019 the Group and the Company reviewed the accounting policy for slow-moving and obsolete stock. The Group and the Company identified reserve stock, part of which, has been classified as property, plant and equipment due to the fact that they meet the definition, including the requirement to be used over more than one period. The impairment accounted only for old, obsolete stock, that the Group and the Company are not going to use any more. As at 31 December 2018 the impairment was accounted for inventories that did not move for 6 months or longer.

### 2.13. Cash and cash equivalents

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

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

### 2.14. Short term deposits

Short term deposits include short-term bank deposits at the commercial banks with maturity of more than 3 months. Initially short-term bank deposits are recognised at cost. Subsequently short-term deposits are stated at acquisition cost less any allowance for impairment.

### 2.15. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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

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

During the year 2019 and 2018 the Group and the Company did not capitalize borrowing costs due to the reason that all outstanding borrowings were related to assets which were not qualifying for borrowing costs capitalization in accordance with IAS 23. Per management judgement made, such specific borrowings outstanding during financial year but with which related assets are already constructed (and not qualifying for borrowing costs capitalization) are not treated as part of general borrowings, and therefore, not allocated to other qualifying assets outstanding during the year.

### 2.16. Lease

The Group and the Company has applied IFRS 16 Leases using the modified retrospective approach therefore the comparative information has not been restated. For leases previously classified as operating leases, the Group and the Company measured right-of-use asset at the amount equal to the lease liability.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.16. Lease (cont'd)

#### ***Policy applicable from 1 January 2019***

At inception of contract, a Group and the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange in consideration. To assesses whether a contract conveys the right to control the use of identified asset, the Group and the Company uses the definition of a lease in IFRS 16 Leases.

The policy is applied to contracts entered into, on or after 1 January 2019.

#### **The Group and the Company as a lessee**

At commencement or on modification of a contract that contains a lease component the Group and the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

The Group and the Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group and the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Group and the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's and the Company's incremental borrowing rate. Generally, the Group and the Company uses its incremental borrowing rate as the discount rate.

The Group and the Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Group and the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Group and the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group and the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Group's and the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Group and the Company's changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group and the Company presents right-of-use assets that do not meet the definition of investment property in 'Right-of-use assets' and lease liabilities in 'lease liabilities' in the statement of financial position.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.16. Lease (cont'd)

#### *Short-term leases and lease of low-value assets*

The Group and the Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group and the Company recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

#### **The Group and the Company as a lessor**

At inception or on modification of a contract that contains a lease component, the Group and the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group and the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group and the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group and the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group and the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group and the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group and the Company applies IFRS 15 to allocate the consideration in the contract.

The Group and the Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group and the Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in lease.

Generally, the accounting policies applicable to the Group and the Company as a lessor in the comparative period were not different from IFRS 16.

#### **The Group and the Company as a lessee**

On transition to IFRS 16, the Group and the Company recognized additional right-of-use assets and lease liabilities. Lease liabilities were measured for leases previously classified as operating leases: LNG Floating Storage and Regasification Unit (FSRU) lease (non-cancellable period of lease 6 years as of 1 January 2019), land and jetty lease (non-cancellable period of lease varies from 17-46 years), other minor leases. No extension or termination options prescribed in the lease agreements, at the lease period end the Group and the Company has an option to purchase FSRU Independence (see "Floating Storage and Regasification Unite (FSRU) lease").

|  | FSRU           | Land          | Jetty        | Other      | Total          |
|--|----------------|---------------|--------------|------------|----------------|
| Operating lease commitments as at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements | 263,614        | 23,306        | 7,618        | -          | <b>294,538</b> |
| Discounted using the incremental borrowing rate 1 January 2019   | 258,088        | 16,198        | 4,979        | 770        | <b>280,035</b> |
| Finance lease liabilities recognised as at 31 December 2018  | -              | -             | -            | -          | -              |
| Recognition exemption for leases of low-value assets   | -              | -             | -            | -          | -              |
| Recognition exemption for leases with less than 12 months of lease term at transition                              | -              | -             | -            | -          | -              |
| Extension options reasonably certain to be exercised   | -              | -             | -            | -          | -              |
| <b>Lease liabilities recognised at 1 January 2019</b>  | <b>258,088</b> | <b>16,198</b> | <b>4,979</b> | <b>770</b> | <b>280035</b>  |

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.16. Lease (cont'd)

The impact on transition is summarized below:

|                                 | 01-01-2019 |
|---------------------------------|------------|
| <b>Assets:</b>                  |            |
| Right-of-use assets             | 280,035    |
| Deferred income tax asset       | -          |
| <b>Non-current liabilities:</b> |            |
| Lease liabilities               | 237,100    |
| <b>Current liabilities:</b>     |            |
| Lease liabilities               | 42,935     |
| Impact on Equity                | -          |

When measuring lease liabilities for leases that were classified as operating leases, the Group and the Company discounted lease payments using its incremental borrowing rate 1 January 2019 (0.7% for FSRU lease and 2% - for land and jetty rent).

In the case of the incremental borrowing rate for FSRU lease, the State guarantee included as well as the loan collateral (mortgage of noncurrent asset) and loan granting period (20 years) expected to be relatively similar to the new loans received if the Group and the Company should have to take it to obtain such asset. In the case of the incremental borrowing rate on the case of land and jetty rent, the Company also took into consideration to the loan collateral (mortgage of land) and loan granting period (it could be approx. 10-15 years) and no State guarantee.

#### Floating Storage and Regasification Unit (FSRU) lease

On 2nd March 2012 the Company has signed the 10 years Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) with a purchase option. FSRU has arrived to the Seaport of Klaipėda at 27th October 2014 and has been taken over by the Company on 27th November 2014. There have been no changes in the BOT lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) in the year 2019 and 2018. The terms and condition of the BOT lease contract do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent.

FSRU operating lease payments include such elements:

- Charter Hire Element
- OPEX Element (Services, spares, consumables, insurance in FSRU mode, ship radio and communication)
- Management Fee
- Crew Costs or Maritime personnel expenses

At the lease period end the Group and the Company has an option to purchase FSRU Independence. Based on decision of the Management of the Company, the exercise price of the purchase option for FSRU Independence is not included in the initial assessment of the lease payments, because the decision of the Board as well as the decision of General Meeting of Shareholders to purchase FSRU have not been made yet and the Management of the Group and Company has not initiated any actions in regards to the purchase accordingly. There are no penalties or additional costs determined in the contract in case purchase option is not exercised. There have been no significant improvements of FSRU Independence undertaken that could have a significant economic benefit to the Group and Company.

As in 2019 significant events took place, the management of the Group and the Company, as required by IFRS 16, has to reassess the probability of realizing the purchase option at the financial statements date:

- On 1 March 2019 amendments of the Republic of Lithuania Law on Liquefied Natural Gas Terminal No XI-2053 Article 5 and 9 (further – the Law) entered into force that has obliged the Company to acquire ownership of FSRU not later than 31st December 2024;
- On 19 September 2019 European Commission has approved state aid consent regarding LNG security supplement reduction;
- On 24 October 2019 the Board of the Company has adopted a decision to acquire FSRU no later than by 31st December 2024 with the conditions that 1) loan to finance the purchase is arranged and 2) Parliament approves the State guarantee for the loan;
- On 19 December 2019 a binding offer from NIB to finance the 100 % purchase price of FSRU (up to EUR 160,000 thousand ) has been received;
- On 19 December 2019 Parliament has approved granting State guarantees for NIB loans for LNG security supplement reduction and purchase of FSRU;
- On 20 December 2019 a loan agreement with NIB has been signed for the LNG security supplement reduction.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.16. Lease (cont'd)

Financing and state guarantee were ensured in December 2019. Accordingly, the management of the Group and the Company reassessed and concluded, that it is reasonably certain to exercise the purchase option. As at 31 December 2019, the management remeasures the lease liability and the right-of-use asset to include the exercise price of purchase FSRU in its lease payments. The Group and the Company discounted lease payments using revised incremental borrowing rate 31 December 2019, which is 0.5%. Lease liabilities were remeasured from EUR 222,894 thousand to EUR 355,767 thousand (see Note 17) and the related right-of-use assets from EUR 514,073 thousand to EUR 349,946 thousand (see Note 4). As at 31 December 2019, the remaining useful life of the underlying asset is reassessed to be 24 years.

Sensitivity analysis regarding discount rate impact to the result of the year 2020:

| Year 2020, tEUR     | Discount rate | Result | Impact |
|---------------------|---------------|--------|--------|
| Depreciation, tEUR* | 0,75%         | 14,108 | 123    |
|                     | 0,50%         | 14,231 | -      |
|                     | 0,25%         | 14,355 | (124)  |
| Interest, tEUR*     | 0,75%         | 2,491  | (815)  |
|                     | 0,50%         | 1,676  | -      |
|                     | 0,25%         | 846    | 830    |

|                               | Discount rate | Result | Impact |
|-------------------------------|---------------|--------|--------|
| Total impact to result, tEUR* | 0,75%         | 16.598 | (692)  |
|                               | 0,50%         | 15.906 | -      |
|                               | 0,25%         | 15.201 | 706    |

\* recalculated with applied EUR/ USD rate as at 31st December 2019

#### **Policy applicable before 1 January 2019**

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

#### **Finance leases**

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

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.16. Lease (cont'd)

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

The Group and the Company did not have any finance lease contracts as of 31 December 2019 and as of 31 December 2018.

#### **Operating leases**

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

#### **The Group and the Company as a lessee**

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

#### **The Group and the Company as a lessor**

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

### 2.17. Income tax

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

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

The standard corporate income tax rate in the Republic of Lithuania is 15% (Note 26).

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

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

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

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

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

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



## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.18. Dividends

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

### 2.19. Basic and diluted earnings per share

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

### 2.20. Provisions

#### General

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

#### Greenhouse gas (GHG) emissions

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

### 2.21. Grants

#### Asset-related grants

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

|                                  | Group        |              | Company      |              |
|----------------------------------|--------------|--------------|--------------|--------------|
|                                  | 2019         | 2018         | 2019         | 2018         |
| <b>Balance as at 1 January</b>   | <b>4,642</b> | <b>4,006</b> | <b>4,642</b> | <b>4,006</b> |
| Received during the year         | 1,763        | 893          | 1,763        | 893          |
| Reclassified                     | 1            | -            | 1            | -            |
| Amortisation                     | (400)        | (156)        | (400)        | (156)        |
| Compensation of costs            | (18)         | (54)         | (18)         | (54)         |
| Written-off                      | -            | (47)         | -            | (47)         |
| <b>Balance as at 31 December</b> | <b>5,988</b> | <b>4,642</b> | <b>5,988</b> | <b>4,642</b> |
| <b>Non-current</b>               | <b>5,988</b> | <b>4,642</b> | <b>5,988</b> | <b>4,642</b> |

Amortisation of grants related to assets of EUR 400 thousand for 2019 (EUR 156 thousand for 2018) has been included into cost of sales in the statement of comprehensive income.

The Group and the Company has no unfulfilled conditions or contingencies attached to these grants as at 31 December 2019 and as at 31 December 2018.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.21. Grants (cont'd)

#### Income-related grants

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

### 2.22 Share-based payments

Shareholders of the Company on 8 November 2018 approved a proposal of the Board to change payment form of annual bonuses and to pay employees of the Company up to 50% of the annual award for the results of 2018 in shares of the Company. Accordingly, official share buy-back was announced by the Company in January 2019, 1,463,414 shares were acquired for the total amount of EUR 600 thousand. Management of the Company has considered accounting for share-based payments under IFRS 2 *Share-based Payment*. The management has considered the following main principles:

- The classification of the share-based payment i.e. whether it is equity settled or cash settled arrangement;
- The grant date, which was set in 2018;
- Vesting conditions, if any, and whether they are market or non-market related;
- The period over which the award vests;
- The fair value at grant date.

In 2019 employees, working in the Company at the moment when audited results for financial year 2018 have been presented, have been granted Company's shares (Note 1).

### 2.23. Revenue recognition

#### Revenue from Contracts with Customers

The Group and the Company recognizes revenue at the time and to the extent that the transfer of goods or services to customers would reflect an amount that the Group and the Company expects to receive in exchange for those goods or services. In applying this Standard, the Group and the Company considers the terms of the contract and all relevant facts and circumstances. Revenue is recognized using the 5-step model:

Step 1 - Identification of the contract with the customer.

The contract acknowledges an agreement between two or more parties (subject to purchase / sale conditions) that creates enforceable rights and enforceable obligations (not applicable if a joint venture agreement is signed).

A contract that is subject to IFRS 15 is recognized only if the following criteria are met:

- the parties have approved the contract (in writing, orally or in accordance with other usual business practices) and are bound by the obligations under the contract,
- there is a possibility to identify the rights of each party in respect of the goods and / or services to be transferred,
- there is a possibility of identifying the payment terms provided for the goods and / or services to be transferred,
- the contract is of a commercial nature,
- there is a possibility of getting a reward in return for the goods and / or services that will be transferred to the customer.

Contracts with the customer may be combined or separated into several contracts, while retaining the criteria of the former contracts. Such interconnection or separation is considered a change of contract.

Step 2 - Identification of operational commitments in the contract.

The contract establishes a commitment to deliver goods and / or services to the customer. When goods and / or services can be distinguished, liabilities are recognized separately. Each commitment is identified in one of two ways:

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.23. Revenue recognition (cont'd)

#### Revenue from Contracts with Customers (cont'd)

- the product and / or service is separate, or
- a set of individual goods and / or services that are essentially the same and passed on to the customer in a uniform model.

Step 3 - Determination of a transaction price.

The Group and the Company takes into account the terms of the transaction and the usual business practices. The transaction price is the amount of consideration that the The Group and the Company expects to receive after delivering promised goods and services to the Customer, except for amounts collected on behalf of third parties. The fee provided for in a contract with a client may include fixed amounts, variable amounts, or both.

Step 4 - The transaction price is attributable to the contractual performance obligations.

The Group and the Company attributes the portion of the transaction price to each operating obligation in an amount that reflects the amount of consideration to which the Group and the Company expects to be entitled in exchange for the promised goods or services transferred to the customer. The transaction price is allocated to each operating obligation based on the relative individual selling prices of the good or service promised in the contract. If the contract does not specify the price of the service or product separately (for example, one price for two products), the Group and the Company determines it. Similar transactions are treated equally.

Step 5 - Revenue is recognised when the Group and the Company performs operating obligations.

Revenue is recognised when the operating obligation is settled by the transfer of goods or services to the customer (i. e. the customer acquires control over the mentioned goods or services). Revenue is recognized as an amount equal to the transaction price that was determined for the respective operating obligation. The recognised amount of revenue is attributed to the settled liability that can be settled at a particular point of time or over a period of time.

Revenue is recognized when the amount of revenue can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Company, and when specific criteria have been met for each type of income. The Company relies on historical results, taking into account the customer type, the transaction type and the terms of each agreement.

Revenue is recognised by classifying it as per customer contracts, other income and finance income.

Revenue from contracts with clients is only recognized when the control of goods or services is transferred to the client to the extent that reflects the remuneration which the Group and the Company expects to receive in return for these goods or services.

The Group and Company has following main revenue streams (Note 21):

- Income from LNGT services (65% from total sales revenue)

One performance obligation exists – to ensure the compensation of for all fixed operating costs of LNGT infrastructure. The Group and the Company acts as a principal in service provision. Revenues are recognized at the over the point of time on a monthly basis based on amount collected from the users of the natural gas transmission system due to the following reasons:

- ✓ The Group and the Company has a present right to payment for the rendered LNGT services;
- ✓ Significant risks and rewards of ownership have been transferred to the client;
- ✓ The client has accepted the service.

- Oil products transshipment services (29% from total sales revenue)

One performance obligation exists – to provide oil product loading service for which the loading rate is specified. Company acts as a principal in service provision. Revenues are recognized over time due to the following reasons.

- ✓ By providing the services of loading of oil products, the Group and the Company does not create an alternative use of the assets, which it could sell as goods.
- ✓ The Group and the Company shall have the unconditional refund right for the performed share of production. In the event the client does not perform or is behind the schedule in performing his obligations, the Company, having notified the client, has the right to suspend the provision of services and/or to detain the oil products within the terminal until the client's obligations are fulfilled. All the consequences and losses arising from the detention of oil products and/or suspension of the provision of services shall be borne by the client.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.23. Revenue recognition (cont'd)

- ✓ With the client's delay in dispatching the oil products from the terminal, additional storage fees shall be applied. This way the Group and the Company shall not only compensate the expenses of storage of oil products, but also obtain income.
- ✓ In the event the client terminates the agreement in a unilateral manner, he usually has to pay the take-or-pay fee, if such was specified in the contract, or the difference in the oil product quantity between the planned minimum annual amount of reload and the actually reloaded amount.

Calculation of percentage of completeness of performance obligation already satisfied at year end is calculated in the following way. The Group and the Company recognises revenues from oil transshipment taking into account the level of fulfilment of a service. The level of service provided is measured as percentage of transshipment cost expenses from the total cost of services. In the case reliable evaluation of the service agreement is impossible, the revenues are recognised only as a part of expenses incurred that can be recoverable. Service provided at certain level of completion is already received and consumed by the customer and the customer benefits from it (it would not incur the whole loading service cost in service reperformance case), therefore management believes that percentage of completion accounting method applied by the Company is in line with IFRS 15 requirements.

- Other activities

Revenues from other activities consist of sales of goods and other services rendered. Company acts as a principal in service provision. Revenues from sales of goods are recognized when the control of the goods is passed to customer (at point in time), revenues from other services – when the services are provided (at point in time).

Revenues are recorded in the statement of comprehensive income under the item "Revenues from contracts with customers", and the assets resulting from contracts with customers are accounted for as short-term assets under the item "contract assets" in the statement of financial position. Related costs are accounted for in the statement of comprehensive income under the item "Cost of sales".

Due to the Group's and the Company's business nature the management did not make any other significant accounting judgments, estimates or assumptions relating to revenue from contracts with customers recognition except those described below:

#### *Volume based tiered pricing*

The Company provides volume rebates to certain customers once the loading quantities achieved during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. Volume-based tiered pricing in the sales contract provides insignificant right that should be accounted for a separate obligation. No such rebates occurred in 2019 and 2018.

#### *Take-or-Pay*

The Company calculates monthly, quarterly or annual Take-or-Pay fees to certain customers once the loading quantities specified in the contract with customer are not achieved. Due to the fact that the most probable loading quantity is agreed with the customer in the contract and only due to certain unforeseen circumstances arisen in the market, the loading quantity cannot be reached. Take-or-Pay is calculated at the period-end however Management believes that there is no significant impact on financial statements for year ended 31 December 2019 as no significant Take-or-Pay transactions occurred in 2019 and 2018.

#### Contract assets – accrued income

Contract assets mean the right to the remuneration for goods or services, which were delivered or provided to the client, but not invoiced yet.

If the Company renders services to the Client before the Client pays for these services or before the payment term, the contractual assets are calculated by the amount equal to the earned contingent remuneration. The assets resulting from contracts with clients, i.e. the accumulated income, after all the contractual obligations are fulfilled and the invoice is issued, are recognised as a trade receivable.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.23. Revenue recognition (cont'd)

#### Contract liabilities – prepayments received

Contract liabilities include advances received from customers for services to be delivered in the future. Contract liabilities also include interest and fees paid by AB Ambergrid on behalf of AB Achema (as disclosed in Note 30).

#### Trade receivables

The trade receivable reflects the Company's right to the earned remuneration, which is unconditional (i.e. the remuneration without any exceptions must be paid upon the expiry of the agreed term). Deferred payment (6-15 days) is usually applied with regard to trade receivables. (see note 2.8 for more information about the principles of accounting of financial assets).

#### **Income from liquefied natural gas terminal services regulated by National Energy Regulatory Council**

Income from LNGT services are regulated by NERC. Based on LNG terminal law clause 5.2, all users of the natural gas transmission system, including final consumers, are obliged to pay the Additional Security supplement together with their other payments for the natural gas transmission service.

The revenue of the LNG terminal activity comprises from: i) LNG regasification tariff; ii) LNG reloading tariff and iii) liquefaction price fixed part which is collected through additional security supplement to the natural gas transmission price (hereinafter – LNG security supplement). Regasification and reloading revenue are collected directly from the clients after services are provided based on quantities. For the actual tariffs see the LNGT services in the annual report. The LNG security supplement is collected by the transmission service operator (hereinafter referred to as "TSO") either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO. The Additional Security Supplement is calculated by the NERC on an annual basis in proportion to the planned natural gas consumption capacities as set out in National legislation in relation to gas market.

Prices set for the LNGT services for the year 2019 and 2018:

- LNG regasification service price fixed part is approved by the NERC based on LNG regasification service price cap set by NERC:
  - price of variable part for the year 2019 set by the resolution No. O3E-404 on 22 November 2018, is 0,13 Eur/MWh
  - price of variable part for the year 2018 set by the resolution No. O5E-328 on 17 November 2017, is 0,10 Eur/MWh
- LNG reloading service price is set by NERC on 20 November, 2014 by the resolution No. O3-896. LNG reloading price was set for 5 years period. Since 2020 LNG reloading price will be adjusted annually.
- LNG regasification service price fixed cap is being adjusted on yearly basis.

#### Sales of goods

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

#### Interest income

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

#### Dividends income

Dividends income represents gross dividends from investment and recognised when the shareholder's rights to receive payment is established.

#### Rent income

Rent income is recognised over the lease term on a straight-line basis.

#### Income from fines and penalties

Income from fines and penalties is recognized when the Company has evidence that fines and penalties will be received and the probability that it would not be received is low or when money is already received.

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.24. Expenses recognition

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

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

### 2.25. Impairment of non-financial assets

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

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

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

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

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

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

### 2.26. Use of estimates and judgements

The preparation of the financial statements in accordance with IFRS as adopted by the EU, requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumptions and estimation uncertainties in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes: depreciation and amortization (Notes 2.7, 2.8, 3 and 4), impairment loss on property, plant and equipment and right-of-asset (Notes 4), impairment loss of subsidiaries (Note 6), impairment loss on receivable amounts (Note 10), share-based payments (note 2.22), lease term: whether the Group and the Company is reasonably certain to exercise the option to purchase FSRU (Notes 2.16, 4), employee benefits (Note 19), provision for acquisition of emission allowances (Note 20), the deferred tax (Note 26), commitments and contingencies (Note 30).

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.27. Contingent assets

A contingent asset is not recognised in the financial statements, but disclosed when an inflow of economic benefits is probable.

### 2.28. Financial guarantee contracts

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

### 2.29. Subsequent events

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

### 2.30. Offsetting

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

### 2.31. Fair value

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

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

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

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

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

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

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

## 2 ACCOUNTING PRINCIPLES (CONT'D)

### 2.31. Fair value (cont'd)

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

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

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

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

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

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

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



### 3 INTANGIBLE ASSETS

| <b>Group and Company</b>                        | <b>Software</b> |
|---|-----------------|
| <b>Acquisition:</b>                             |                 |
| Balance as of 31 December 2017                  | 1,852           |
| Acquisitions                                    | 54              |
| Sold and written-off property                   | (70)            |
| Transfers from construction in progress         | 488             |
| Balance as of 31 December 2018                  | 2,324           |
| Acquisitions                                    | 131             |
| Prepayments                                     | 1               |
| Sold and written-off property                   | (19)            |
| Transfers from construction in progress         | 13              |
| Balance as of 31 December 2019                  | 2,450           |
| <b>Accumulated amortization and impairment:</b> |                 |
| Balance as of 31 December 2017                  | 1,362           |
| Amortization for the year                       | 302             |
| Sold and written-off property                   | (66)            |
| Balance as of 31 December 2018                  | 1,598           |
| Amortization for the year                       | 337             |
| Sold and written-off property                   | (19)            |
| Balance as of 31 December 2019                  | 1,916           |
| Net book value as of 31 December 2017           | 490             |
| Net book value as of 31 December 2018           | 726             |
| Net book value as of 31 December 2019           | 534             |

The non-current intangible asset amortization amounts to EUR 337 thousand for the year 2019 (EUR 302 thousand – in 2018). EUR 279 thousand of amortization has been included into cost of sales (EUR 193 thousand - in 2018) and the remaining amount has been included into operating expenses in the Statement of comprehensive income.

Part of the intangible asset with the acquisition cost of EUR 719 thousand as of 31 December 2019 was completely amortized (EUR 585 thousand on 31 December 2018), however, it was still in operation.

## 4 PROPERTY, PLANT AND EQUIPMENT

| Group and Company   | Land | Buildings and structures | Machinery, plant and equipment | Other non-current assets | Construction in progress | Total   |
|---|------|--------------------------|--------------------------------|--------------------------|--------------------------|---------|
| <b>Acquisition cost</b>                                     |      |                          |                                |                          |                          |         |
| Balance as of 31 December 2017                              | 38   | 157,064                  | 149,779                        | 14,361                   | 44,041                   | 365,283 |
| Acquisitions  | -    | 221                      | 476                            | 484                      | 11,245                   | 12,426  |
| Advance payments  | -    | -                        | -                              | 26                       | 1,030                    | 1,056   |
| Retirements and disposals                                   | -    | (128)                    | (1,494)                        | (90)                     | (102)                    | (1,814) |
| Transfers from inventories                                  | -    | -                        | -                              | -                        | 43                       | 43      |
| Transfer to construction in progress                        | -    | -                        | -                              | -                        | -                        | -       |
| Transfers from construction in progress                     | -    | 6,176                    | 28,680                         | 5,546                    | (40,402)                 | -       |
| Transfer from construction in progress to intangible assets | -    | -                        | -                              | -                        | (488)                    | (488)   |
| Transfer to inventory                                       | -    | -                        | -                              | -                        | (372)                    | (372)   |
| Balance as of 31 December 2018                              | 38   | 163,333                  | 177,441                        | 20,327                   | 14,995                   | 376,134 |
| Acquisitions  | -    | 169                      | 299                            | 754                      | 20,730                   | 21,952  |
| Advance payments  | -    | -                        | -                              | 1                        | 60                       | 61      |
| Retirements and disposals                                   | -    | -                        | (634)                          | (343)                    | -                        | (977)   |
| Transfers from inventories                                  | -    | -                        | 6                              | -                        | 17                       | 23      |
| Reclassification of stock                                   | -    | -                        | -                              | 263                      | -                        | 263     |
| Transfer to construction in progress                        | -    | -                        | -                              | -                        | -                        | -       |
| Transfers from construction in progress                     | -    | -                        | 565                            | 518                      | (1,096)                  | (13)    |
| Transfer from construction in progress to intangible assets | -    | -                        | -                              | -                        | -                        | -       |
| Transfer to inventory                                       | -    | -                        | -                              | -                        | (10)                     | (10)    |
| Balance as of 31 December 2019                              | 38   | 163,502                  | 177,677                        | 21,520                   | 34,696                   | 397,433 |
| <b>Accumulated depreciation and impairment:</b>             |      |                          |                                |                          |                          |         |
| Balance as of 31 December 2017                              | -    | 70,694                   | 84,323                         | 8,616                    | 201                      | 163,834 |
| Depreciation for the year                                   | -    | 4,599                    | 7,485                          | 2,688                    | -                        | 14,772  |
| Retirements and disposals                                   | -    | (127)                    | (1,432)                        | (86)                     | -                        | (1,645) |
| Impairment for the year (reversal)                          | -    | (1)                      | (46)                           | (2)                      | 11                       | (38)    |
| Balance as of 31 December 2018                              | -    | 75,165                   | 90,330                         | 11,216                   | 212                      | 176,923 |
| Depreciation for the year                                   | -    | 4,324                    | 7,340                          | 1,996                    | -                        | 13,660  |
| Retirements and disposals                                   | -    | -                        | (632)                          | (341)                    | -                        | (973)   |
| Impairment for the year (reversal)                          | -    | (1)                      | -                              | -                        | -                        | (1)     |
| Balance as of 31 December 2019                              | -    | 79,488                   | 97,038                         | 12,871                   | 212                      | 189,609 |
| Net book value as of 31 December 2017                       | 38   | 86,370                   | 65,456                         | 5,745                    | 43,840                   | 201,449 |
| Net book value as of 31 December 2018                       | 38   | 88,168                   | 87,111                         | 9,111                    | 14,783                   | 199,211 |
| Net book value as of 31 December 2019                       | 38   | 84,014                   | 80,639                         | 8,649                    | 34,484                   | 207,824 |

In 2019 the Group and the Company reviewed property, plant and equipment and reversed impairment of EUR 1 thousand for the assets (in 2018 the Company and Group reviewed property, plant and equipment and reversed impairment of EUR 38 thousand), which were not in use due to the changed technological conditions and which was previously impaired. In the current reporting period previously impaired non-current tangible assets were started to be used or written off. The reversal of impairment of such non-current asset items was included into operating expenses in the Statement of comprehensive income during the year 2019 and 2018.

The depreciation of property, plant and equipment amounts to EUR 13,660 thousand for the year 2019 (EUR 14,722 thousand – in 2018). In 2019 the depreciation charge wasn't transferred to inventory value (EUR 31 thousand – in 2018), EUR 400 thousand was reimbursement of the costs according the grant agreement (EUR 158 thousand - in 2018), EUR 13,405 thousand of depreciation charge has been included into cost of sales (EUR 14,571 thousand - in 2018) and the remaining amount EUR 255 thousand (EUR 201 thousand – in 2018) has been included into operating expenses in the Statement of comprehensive income.

Part of the Group and the Company's property, plant and equipment with the acquisition cost of EUR 38,355 thousand as of 31 December 2019 was completely depreciated (EUR 34,583 thousand on 31 December 2018), however, it was still in operation.

## 4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group's and the Company's Liquefied natural gas terminal property, plant and equipment amounting to EUR 46,095 thousand was pledged to the Ministry of Finance of Republic of Lithuania for the state guarantee, given to European Investment Bank (hereinafter – EIB) and Nordic Investment Bank (hereinafter – NIB) as of 31 December 2019 (the Company had pledged asset amounting to EUR 50,102 thousand as of 31 December 2018).

The Company's Subačius oil terminal property, plant and equipment, amounting to EUR 5,224 thousand was pledged to the Ministry of Finance of the Republic of Lithuania for the state guarantee, given to NIB.

The management of the Group and the Company has assessed the internal and external indications of impairment as at 31 December 2019. Analysis showed, that property, plant and equipment attributed to LNG reloading station (in amount of EUR 26,591 thousand) might be impaired as at 31 December 2019. The management of the Group and the Company did not identify any additional impairment of the remaining property, plant and equipment as at 31 December 2019.

### LNG reloading station.

As at 31 December 2019, the Group and the Company performed the impairment test of property, plant and equipment attributed to LNG reloading station project by comparing discounted future cash flows forecasted for period till year 2045 (end of estimated useful life of assets) to carrying amounts of this cash generating unit (CGU). The main assumptions used to perform the test were:

- Fixed and variable income as to long-term agreement with client, signed in 2019 for the period of 2020-2024;
- Possible LNG market development from 2025, which is assumed to increase by 4 times by the year 2030, when the maximum capacity is reached;
- Capability of reaching maximum LNG reloading station technical capacity;
- Possible operating expenses recalculated and inflated by 2% p.a. and based on actual activity expenses;
- Discount rate, estimated as weighted average cost of capital (WACC) that as of 31 December 2019 was equal to 5.8 % (pre-tax, real prices).

Based on the results of the impairment test, possible changes in WACC, LNG market development and possibility to reach maximum technical capacity of the reloading station has the most significant impact to calculation. Long-term project results, e.g. after the end of the rent period were based on the Management judgement, strategic partners assumptions, available LNG market development studies and other publicly available data sources. Sensitivity analysis was performed by the Management:

| Assumption   | Change in assumption | Effect of change on Net present value of CGU | Impairment indication |
|--|----------------------|--|-----------------------|
|  | -50,00%              | (24.781)                                     | -                     |
| Change in expected reloading volume growth till maximum LNG reloading station capacity reached | -20,00%              | (9.872)                                      | -                     |
|  | -10,00%              | (5.140)                                      | -                     |
|  | 10,00%               | 869  | -                     |
|  | 40,00%               | (26.011)                                     | (1.099)               |
| Maximum LNG reloading station technical capacity reached                                       | 50,00%               | (21.213)                                     | -                     |
|  | 60,00%               | (16.627)                                     | -                     |
|  | -2,00%               | 11.671                                       | -                     |
| Change in WACC   | -1,50%               | (8.918)                                      | -                     |
|  | 1,50%                | (11.408)                                     | -                     |
|  | 2,00%                | (24.912)                                     | -                     |

Based on impairment test results no impairment recognized for property, plant and equipment attributed to LNG reloading station as at 31 December 2019. As of the date of these financial statements, the Management of the Group and Company believes that the current approach is reasonable and supportable considering market situation and knowledge at their disposition.

## 4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

During 2019 the Group and the Company continued works in the following projects:

The second stage investment in the expansion of the light oil products storage tank park. The project started in July 2017. As at 31 December 2019 the value of construction in progress amounted to EUR 30,583 thousand. During the twelve months of the year 2019 investment amounted to EUR 18,040 thousand.

Development of the railroad tracks (comprise of the acquired equipment). As of 31 December 2019, the value of construction in progress amounted to EUR 1,860 thousand. (During the twelve months of the year 2019 investment amounted to EUR 224 thousand).

Other projects under construction. As of 31 December 2019, the value of constructions in progress amounted to EUR 2,050 thousand.

### Right-of-use assets

#### Group and Company

|   | Land   | Buildings and structures | Machinery, plant and equipment | Other non-current assets | Total   |
|---|--------|--------------------------|--------------------------------|--------------------------|---------|
| <b>Acquisition cost</b>   |        |                          |                                |                          |         |
| Recognition on right-of-use asset at initial application of IFRS 16 (as at 1 January 2019)  | 21,042 | 732                      | 258,088                        | 43                       | 279,905 |
| Acquisitions / disposals  | -      | -                        | -                              | -                        | -       |
| Remeasurement related to purchase option  | -      | -                        | 134,873                        | -                        | 134,873 |
| Balance as of 31 December 2019  | 21,042 | 732                      | 392,961                        | 43                       | 414,778 |
| <b>Accumulated depreciation and impairment:</b>   |        |                          |                                |                          |         |
| Recognition of accumulated depreciation and impairment on right-of-use asset on initial application of IFRS 16 (as at 1 January 2019) | -      | -                        | -                              | -                        | -       |
| Depreciation for the year   | 556    | 315                      | 43,015                         | 20                       | 43,906  |
| Balance as of 31 December 2019  | 556    | 315                      | 43,015                         | 20                       | 43,906  |
| Net book value as of 31 December 2018   | -      | -                        | -                              | -                        | -       |
| Net book value as of 31 December 2019   | 20,486 | 417                      | 349,946                        | 23                       | 370,872 |

The depreciation of right-of-use asset amounts to EUR 43,906 thousand for the year 2019. EUR 43,577 thousand of depreciation charge has been included into cost of sales and the remaining amount - EUR 329 thousand - has been included into operating expenses in the statement of comprehensive income.

The management of the Group and the Company has assessed the internal and external indications of impairment and did not identify any impairment of the right-of-use assets as at 31 December 2019.

## 5 INFORMATION ABOUT SEGMENTS

For management purposes, the Group's and Company's activities are organised based on the following business segments:

KNF – oil terminal in Klaipėda transshipment of oil products, providing other related services.

SGD – LNG terminal in Klaipėda, which receives and stores liquefied natural gas, regasifies and supplies it to Gas National Grid.

SNT – Subačius oil terminal in Kupiškis district provides services of long-term storage of oil products and auto-tankers loading.

GDP – LNG related business development including LNG reloading station activities and development and consulting of other LNG projects.

As of 31 December 2019, there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 90,572 thousand:

Customer A – EUR 67,743 thousand (SGD – EUR 67,743 thousand);

Customer B – EUR 14,814 thousand (KNF – EUR 14,688 thousand and SNT – EUR 126 thousand);

Customer C – EUR 8,015 thousand (KNF – EUR 8,015 thousand).

## 5 INFORMATION ABOUT SEGMENTS (CONT'D)

As of 31 December 2018, there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 92,020 thousand:

- Customer A – EUR 66,563 thousand (SGD – EUR 66,563 thousand);
- Customer B – EUR 16,607 thousand (KNF – EUR 16,092 thousand and SNT – EUR 515 thousand);
- Customer C – EUR 8,850 thousand (KNF – EUR 8,850 thousand).

Main indicators of the business segments of the Company included in the statement of comprehensive income and statement of financial position for the financial year 2019 and 2018 are described below:

### Group

| <b>For the year ended 31 December 2019</b>          | SGD     | SNT   | GDP     | KNF     | Total   |
|---|---------|-------|---------|---------|---------|
| Revenues from contracts with customers              | 70,914  | 2,372 | 1,376   | 29,701  | 104,363 |
| Profit before income tax                            | 378     | 428   | (3,664) | 8,860   | 6,002   |
| Segment net profit (loss)                           | 1,037   | 506   | (3,445) | 9,463   | 7,561   |
| Interest revenue                                    | 62      | -     | -       | 2       | 64      |
| Interest expense                                    | (137)   | -     | (20)    | (9)     | (166)   |
| Interest on lease liabilities                       | (1,805) | -     | (26)    | (305)   | (2,136) |
| Depreciation and amortization                       | 4,218   | 833   | 2,139   | 6,806   | 13,996  |
| Depreciation of right-of-use asset                  | 43,123  | -     | 110     | 674     | 43,907  |
| Write-off of property, plant and equipment          | -       | -     | -       | (4)     | (4)     |
| Impairment of non-current tangible asset (reversal) | -       | -     | -       | (1)     | (1)     |
| Net profit (loss) part in the associates            | -       | -     | -       | 29      | 29      |
| Acquisitions of tangible and intangible assets      | 177     | 198   | 69      | 21,639  | 22,083  |
| Segment total assets*                               | 408,186 | 8,990 | 30,061  | 153,195 | 600,432 |
| Loan and related liabilities                        | 73,435  | -     | (42)    | (20)    | 73,373  |
| Lease liabilities                                   | 360,680 | -     | 1,265   | 14,932  | 376,877 |
| Segment total liabilities                           | 451,864 | 1,462 | 6,659   | 12,663  | 472,648 |

### For the year ended 31 December 2018

|   | SGD    | SNT    | GDP     | KNF     | Total   |
|---|--------|--------|---------|---------|---------|
| Revenues from contracts with customers              | 64,371 | 2,704  | 432     | 32,491  | 99,998  |
| Profit before income tax                            | 4,338  | 729    | (2,545) | 9,335   | 11,857  |
| Segment net profit (loss)                           | 4,215  | 715    | (2,584) | 9,231   | 11,577  |
| Interest revenue                                    | 54     | -      | -       | 3       | 57      |
| Interest expense                                    | (177)  | -      | (21)    | (10)    | (208)   |
| Depreciation and amortization                       | 5,482  | 873    | 960     | 7,759   | 15,074  |
| Write-off of property, plant and equipment          | (95)   | (10)   | (1)     | (67)    | (173)   |
| Impairment of non-current tangible asset (reversal) | -      | 8      | -       | 30      | 38      |
| Net profit (loss) part in the associates            | -      | -      | -       | 44      | 44      |
| Acquisitions of tangible and intangible assets      | 349    | 79     | 1,107   | 10,945  | 12,480  |
| Segment total assets*                               | 56,753 | 10,210 | 29,953  | 122,973 | 219,889 |
| Loan and related liabilities                        | 76,212 | -      | (46)    | (14)    | 76,152  |
| Segment total liabilities                           | 85,763 | 314    | 4,981   | 6,579   | 97,637  |

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

### Reconciliation of information on reportable segments to the amounts reported in the financial statements

#### I. Revenues

Total revenues for reportable segments

#### Consolidated revenue

|  | 2019           | 2018          |
|--|----------------|---------------|
| Total revenues for reportable segments | 104,363        | 99,998        |
| <b>Consolidated revenue</b>            | <b>104,363</b> | <b>99,998</b> |

## 5 INFORMATION ABOUT SEGMENTS (CONT'D)

|  |                |                |
|--|----------------|----------------|
| <b>II. Profit before tax</b>   | 2019           | 2018           |
| Total profit before tax for reportable segments                                  | 6,002          | 11,857         |
| <b>Consolidated profit before tax from continuing operations</b>                 | <b>6,002</b>   | <b>11,857</b>  |
| <b>III. Net profit (loss)</b>  | 2019           | 2018           |
| Total net profit (loss) for reportable segments                                  | 7,561          | 11,577         |
| <b>Consolidated net profit (loss)</b>  | <b>7,561</b>   | <b>11,577</b>  |
| <b>IV. Interest on financial lease liabilities</b>                               | 2019           | 2018           |
| Total interest on financial lease liabilities for reportable segments            | (2,136)        | -              |
| <b>Consolidated interest on financial lease liabilities</b>                      | <b>(2,136)</b> | <b>-</b>       |
| <b>V. Depreciation and amortization</b>  | 2019           | 2018           |
| Total depreciation and amortization for reportable segments                      | 13,996         | 15,074         |
| <b>Consolidated depreciation and amortization</b>                                | <b>13,996</b>  | <b>15,074</b>  |
| <b>VI. Depreciation and amortization according to IFRS 16</b>                    | 2019           | 2018           |
| Total depreciation and amortization according to IFRS 16 for reportable segments | 43,907         | -              |
| <b>Consolidated depreciation and amortization according to IFRS 16</b>           | <b>43,907</b>  | <b>-</b>       |
| <b>VII. Acquisitions of tangible and intangible assets</b>                       | 2019           | 2018           |
| Total acquisitions of tangible and intangible assets for reportable segments     | 22,083         | 12,480         |
| <b>Consolidated acquisitions of tangible and intangible assets</b>               | <b>22,083</b>  | <b>12,480</b>  |
| <b>VIII. Assets*</b>   | 2019           | 2018           |
| Total assets for reportable segments   | 600,432        | 219,889        |
| <b>Consolidated total assets</b>   | <b>600,432</b> | <b>219,889</b> |
| <b>IX. Loan and related liabilities</b>  | 2019           | 2018           |
| Total loan and related liabilities for reportable segments                       | 73,373         | 76,152         |
| <b>Consolidated loan and related liabilities</b>                                 | <b>73,373</b>  | <b>76,152</b>  |
| <b>X. Lease liabilities</b>  | 2019           | 2018           |
| Total lease liabilities for reportable segments                                  | 376,877        | -              |
| <b>Consolidated financial lease liabilities</b>                                  | <b>376,877</b> | <b>-</b>       |
| <b>XI. Liabilities</b>   | 2019           | 2018           |
| Total liabilities for reportable segments  | 472,648        | 97,637         |
| <b>Consolidated total liabilities</b>  | <b>472,648</b> | <b>97,637</b>  |

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

## 5 INFORMATION ABOUT SEGMENTS (CONT'D)

The Group's and Company's customers are both Lithuanian and foreign. Sales revenue by geography is as follows:

|                    | Group   |        | Company |        |
|--------------------|---------|--------|---------|--------|
|                    | 2019    | 2018   | 2019    | 2018   |
| Lithuanian clients | 90,797  | 85,236 | 90,572  | 85,236 |
| Foreign clients    | 13,566  | 14,762 | 13,566  | 14,762 |
|                    | 104,363 | 99,998 | 104,138 | 99,998 |

All property, plant and equipment are in Lithuania.

The Company includes its investments in subsidiaries and associates to the segments which activities these entities are involved in: UAB SGD logistika and UAB SGD SPB– GDP, UAB SGD terminalas – SGD, BALTPOOL UAB and Sarmatia Sp. z. o. o. – KNF.

## 6 INVESTMENT IN SUBSIDIARIES

### The Company

|                                      | 31-12-2019 | 31-12-2018 |
|--------------------------------------|------------|------------|
| Cost of shares of UAB SGD logistika  | 4,540      | 200        |
| Cost of shares of UAB SGD terminalas | 13         | 3          |
|                                      | 4,553      | 203        |

The Company indirectly controls subsidiaries UAB SGD SPB and KN Açú Servicos de Terminal de GNL LTDA.

### UAB SGD logistika

The authorized capital of UAB SGD logistika, is EUR 200 thousand (200 thousand ordinary registered shares), which has been formed by monetary contribution of the Company on 20 November 2015.

With the permission of Ministry of Finance of the Republic of Lithuania, obtained by AB Klaipėdos nafta on 21st March 2019, came into force Company's board decision to increase the authorised capital of Company's subsidiary UAB SGD logistika in the amount of EUR 800 thousand.

On 15 April 2019 amended Articles of Association of UAB SGD logistika had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the subsidiary. Following the increase of the authorised capital of UAB SGD logistika, such capital is equal to EUR 1,000 thousand and is divided into EUR 1,000 thousand units of shares, which grant 1,000 thousand votes. Nominal value per share – EUR 1.00.

The Ministry of Finance of the Republic of Lithuania has issued permission to AB Klaipėdos nafta to increase the authorised capital of the subsidiary UAB SGD logistika in the amount of up to EUR 3,540 thousand and to provide a guarantee to UTE GNA I GERAÇÃO DE ENERGIA S.A.

On 6 February 2020 amended Articles of Association of AB Klaipėdos nafta subsidiary UAB SGD logistika had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company.

Following the increase of the authorised capital of UAB SGD logistika, such capital is equal to EUR 4,540 thousand and is divided into 4,540 thousand units of shares, which grant 4,540 thousand votes. Nominal value per share – EUR 1.00.

As KN has been appointed as the operator of a liquefied natural gas (LNG) terminal in the Brazilian Port of Açú, on 13th of December 2019, UAB SGD logistika together with UAB SGD SPB established KN Acu Servicos de Terminal de GNL LTDA. As to the long-term contract with Gas Natural Açú (GNA), KN, through its subsidiary, assumes the responsibility for the provision of safe, reliable and efficient operations, including maintenance of the jetty and its installations, gas pipeline and gas metering stations as well as supporting the commissioning of the LNG Terminal.

## 6 INVESTMENT IN SUBSIDIARIES (CONT'D)

As at 31 December 2019, the Company performed the impairment test of investment to subsidiary UAB SGD logistika by comparing discounted future cash flows forecasted for the project, implemented by established KN Acu Servicios de Terminal de GNL LTDA to carrying value of investment. Impairment test was prepared for the period until the year 2033, as to initial 13-year agreement with GNA. The main assumptions used to perform the test were income level, which is based on different main project phases and agreed in the long-term contract, possible operating costs, which were estimated based on actual LNG terminal operation business activity expenses and adjusted as to local inflation and discount rate, estimated as weighted average cost of capital (WACC) of Brazil market that as of 31 December 2019 was assumed to be 11.8 %.

Based on the results of the impairment test, possible changes in WACC due to Brazil market risk and increase in operating costs considered to be most significant. Sensitivity analysis was performed by the Management:

| Assumption     | Change in assumption | Effect of change on Net present value of CGU | Impairment indication |
|----------------|----------------------|--|-----------------------|
| Change in OPEX | 20,00%               | (2.958)                                      | -                     |
|                | 30,00%               | (4.579)                                      | -                     |
|                | 40,00%               | (6.200)                                      | (1.359)               |
| Change in WACC | 2,00%                | (704)  | -                     |
|                | 3,00%                | (1.011)                                      | -                     |
|                | 4,00%                | (1.293)                                      | -                     |

Based on impairment test results no impairment should be recognized for investment to UAB SGD logistika as at 31 December 2019. As of the date of these financial statements, the Management of the Group and Company believes that the current approach is reasonable and supportable considering situation and knowledge at their disposition.

On 24 November 2015, UAB SGD logistika signed a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG (now - Nauticor GmbH & Co. KG) on joint performance of the activities of operating the LNG bunkering carrier, in which UAB SGD logistika held 20% of the authorised capital and Nauticor GmbH & Co. KG held 80% of the authorised capital. Under said joint venture UAB SGD logistika and Nauticor GmbH & Co. KG established two German legal entities: Blue LNG GmbH & Co. KG and Blue LNG Beteiligungsgesellschaft mbH.

This joint venture ordered construction of an LNG bunkering carrier (Kairos). The aim of the LNG bunkering carrier is to provide LNG fuel to clients of Nauticor GmbH & Co. KG both at sea and in the Klaipėda port, offer safe and flexible transportation of LNG from the Klaipėda LNG terminal to the LNG distribution station in the Klaipėda port, transport LNG to terminals in the North Sea and the Baltic Sea.

On 29 September 2016, UAB SGD logistika and Nauticor GmbH & Co. KG amended said joint venture agreement. Under amended joint venture agreement UAB SGD logistika held 10% of the authorised capital and Nauticor GmbH & Co. KG held 90% of the authorised capital in said joint venture as well as in Blue LNG GmbH & Co. KG and Blue LNG Beteiligungsgesellschaft GmbH.

Built at the "Hyundai Mipo" shipyard in South Korea, the LNG bunkering carrier has started its voyage to Europe in October 2018, reaching Klaipėda in the middle of December 2018.

As at 30 April 2019 AB Klaipėdos nafta and the German company Nauticor GmbH & Co. KG have agreed on the sale of UAB SGD logistika 10 % stake in the charter contract of Kairos, the world's largest LNG bunker supply vessel to the Nauticor. As a consequence of this transaction, until 30 September 2019 Nauticor became sole charterer of Kairos.

Financial position of UAB SGD logistika is as follows:

|                         | UAB SGD logistika |      |
|-------------------------|-------------------|------|
|                         | 2019              | 2018 |
| Non-current assets      | 25                | 3    |
| Current assets          | 3,995             | 186  |
| Non-current liabilities | -                 | -    |
| Current liabilities     | 3,540             | 128  |
| Equity                  | 480               | 61   |



## 6 INVESTMENT IN SUBSIDIARIES (CONT'D)

Comprehensive income of UAB SGD logistika is, as follows:

|               | UAB SGD logistika |       |
|---------------|-------------------|-------|
|               | 2019              | 2018  |
| Income        | 225               | -     |
| (Losses)      | (637)             | (133) |
| Profit (loss) | (382)             | (133) |

### UAB SGD terminalas

The subsidiary of AB Klaipėdos nafta - joint stock company - UAB SGD terminalas (Burių str. 19, 91003 Klaipėda, 304139242) was established and registered on 27 December 2018. UAB SGD terminalas objective is to perform activities of operating and managing a whole structure of LNG terminal in Klaipėda.

The authorized capital of UAB SGD terminalas, is EUR 2,5 thousand (2,5 thousand ordinary registered shares), which has been formed by monetary contribution of the Company on 27 December 2018.

With the permission of the Ministry of Finance of the Republic of Lithuania, obtained by AB Klaipėdos nafta, came into force the Company's board decision to increase the authorised capital of the Company's subsidiary UAB SGD terminalas in the amount of EUR 10 thousand.

On 31 October 2019 the new wording of the Articles of Association of UAB SGD terminalas was registered in the Register of Legal Entities of the Republic of Lithuania after the increase of the authorised capital of the subsidiary. Following the increase of the authorised capital of UAB SGD terminalas, such capital is equal to EUR 12.500 and is divided into 12.500 units of shares, which grant 12.500 votes. Nominal value per share – EUR 1.00.

Financial position of UAB SGD terminalas is as follows:

|                         | UAB SGD terminalas |      |
|-------------------------|--------------------|------|
|                         | 2019               | 2018 |
| Non-current assets      | -                  | -    |
| Current assets          | 9                  | 3    |
| Non-current liabilities | -                  | -    |
| Current liabilities     | 1                  | -    |
| Equity                  | 8                  | 3    |

Comprehensive income of UAB SGD terminalas is, as follows:

|               | UAB SGD terminalas |      |
|---------------|--------------------|------|
|               | 2019               | 2018 |
| Income        | -                  | -    |
| (Losses)      | (4)                | -    |
| Profit (loss) | (4)                | -    |

### UAB SGD SPB

On 9 October 2019 the subsidiary of UAB SGD logistika – joint stock company – UAB SGD SPB (Burių str. 19, 91003 Klaipėda, 305278800) was established and registered. The purpose of UAB SGD SPB is to participate in the projects of liquefied natural gas. This subsidiary may carry out expansion of operation activities of international LNG terminals by investing and establishing other companies in Lithuania and abroad.

The authorized capital of UAB SGD SPB, is EUR 25 thousand (25 thousand ordinary registered shares), which has been formed by monetary contribution of the Company on 9 October 2019. Nominal value per share – EUR 1.00.

## 6 INVESTMENT IN SUBSIDIARIES (CONT'D)

Financial position of UAB SGD SPB is as follows:

|                         | UAB SGD SPB |      |
|-------------------------|-------------|------|
|                         | 2019        | 2018 |
| Non-current assets      | -           | -    |
| Current assets          | 25          | -    |
| Non-current liabilities | -           | -    |
| Current liabilities     | -           | -    |
| Equity                  | 24          | -    |

Comprehensive income of UAB SGD SPB is, as follows:

|               | UAB SGD SPB |      |
|---------------|-------------|------|
|               | 2019        | 2018 |
| Income        | -           | -    |
| (Losses)      | (1)         | -    |
| Profit (loss) | (1)         | -    |

### KN Açu Servicos de Terminal de GNL LTDA

On 13 December 2019 the subsidiary of UAB SGD logistika (90%) and UAB SGD SPB (10%) – limited liability company – KN Açu Servicos de Terminal de GNL LTDA was established with the address of F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, Rio de Janeiro, Federal Republic of Brazil and company code NIRE 33.210.894.765; CPNJ 35.785.170/0001-03. The purpose of KN Açu Servicos de Terminal de GNL LTDA is to provide operations and maintenance services for liquefied natural gas terminal at the port of Açu.

The authorised capital of KN Açu Servicos de Terminal de GNL LTDA 642.600 Brazilian reais (BRL) (642,600 ordinary registered shares), which has been formed by monetary contribution of the Company on January 2020. Nominal value per share – BRL 1.00

As at 31 December 2019 KN Açu Servicos de Terminal de GNL LTDA did not conclude any employment contracts and had no employees.

KN Açu Servicos de Terminal de GNL LTDA did not perform any activities during year 2019.

## 7 INVESTMENT IN ASSOCIATES

### Sarmatia Sp. z o.o.

As at 31 December 2019 and 2018 the Group and the Company owns 1% of the authorised capital of the international pipeline company Sarmatia Sp. z o.o. During the year 2019 the Group and the Company purchased 28 shares with per par value of PLN 500 each (EUR 3 thousand). As a result of associate financial performance 100% impairment for investment to Sarmatia Sp. z o.o was accounted for as at 31 December 2019.

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

### BALTPOOL UAB

As at 31 December 2019 and 2018 the Group and the Company owns 33 percent of BALTPOOL UAB shares and their voting rights at the General Meeting of the Shareholders of BALTPOOL UAB. During the year 2019 and 2018 the Group and the Company did not have purchased additional shares of BALTPOOL UAB.

## 7 INVESTMENT IN ASSOCIATES (CONT'D)

BALTPPOOL UAB is the operator of the Lithuanian Energy Exchange entitled to organize trade of solid biofuel products. The Group and the Company also acts as the administrator of public service obligations (PSO) funds and is engaged in the collection, payment and administration of PSO funds.

Financial information regarding the Group's and the Company's investments into Sarmatia Sp. z o. o. and BALTPPOOL UAB is presented in tables below as of 31 December 2019 and 31 December 2018:

The associate's financial position (unaudited):

|                         | Sarmatia Sp. z o. o. |       | BALTPPOOL UAB |          | Total    |          |
|-------------------------|----------------------|-------|---------------|----------|----------|----------|
|                         | 2019                 | 2018  | 2019          | 2018     | 2019     | 2018     |
| Non-current assets      | -                    | -     | 211           | 40       | 211      | 40       |
| Current assets          | 429                  | 334   | 67,426        | 65,134   | 67,855   | 65,468   |
| Non-current liabilities | -                    | -     | (182)         | (12)     | (182)    | (12)     |
| Current liabilities     | (322)                | (323) | (66,857)      | (64,553) | (67,179) | (64,876) |
| Equity                  | 107                  | 11    | 598           | 609      | 705      | 620      |

The associate's comprehensive income (unaudited):

|               | Sarmatia Sp. z o. o. |       | BALTPPOOL UAB |       | Total   |       |
|---------------|----------------------|-------|---------------|-------|---------|-------|
|               | 2019                 | 2018  | 2019          | 2018  | 2019    | 2018  |
| Income        | 10                   | 3     | 975           | 903   | 985     | 906   |
| (Losses)      | (241)                | (255) | (878)         | (723) | (1,119) | (978) |
| Profit (loss) | (231)                | (252) | 97            | 180   | (134)   | (72)  |

Structure of the Group's and the Company's investments in the associates as at 31 December 2019 and 31 December 2018 was as follows:

|                     | Ownership interest (%) |       | Investment value |      | Comprehensive income (loss) |      |
|---------------------|------------------------|-------|------------------|------|-----------------------------|------|
|                     | 2019                   | 2018  | 2019             | 2018 | 2019                        | 2018 |
| Sarmatia Sp. z o.o. | 1.00                   | 1.00  | -                | 0    | -                           | (14) |
| BALTPPOOL UAB       | 33.00                  | 33.00 | 197              | 201  | 32                          | 59   |
| Total               | -                      | -     | 197              | 201  | 32                          | 45   |

Investments into associates, net value:

|                              | Sarmatia Sp. z o. o. |      | BALTPPOOL UAB |      | Total |      |
|------------------------------|----------------------|------|---------------|------|-------|------|
|                              | 2019                 | 2018 | 2019          | 2018 | 2019  | 2018 |
| Book value at start period   | -                    | 14   | 201           | 196  | 201   | 210  |
| Acquisition during the year  | 3                    | -    | -             | -    | 3     | -    |
| Change in value (impairment) | (3)                  | (14) | 32            | 59   | 29    | 45   |
| Dividends                    | -                    | -    | (36)          | (54) | (36)  | (54) |
| Book value at end of period  | -                    | -    | 197           | 201  | 197   | 201  |

## 8 LONG-TERM RECEIVABLES AND ACCRUED RENT INCOME

As at 31 December 2019 long-term receivable and long-term contract assets income consists of long-term rent revenue accrual arising from Subačius fuel storage reservoirs rent agreement.

Subačius fuel storage reservoirs rent agreement signed with the Lithuanian petroleum products Agency in 2012 for the duration of 10 years is treated. The rent tariffs are different for the first 5 years and for the remaining period. Therefore, the income is recognized on a straight line basis over the term of a agreement, i.e. the incomes are calculated on average tariff of the all agreement term (10 years), balances as of 31 December 2019 and 2018 respectively amounted to 1,538 thousand EUR and 2,089 thousand EUR, part of the accrued income is presented under short-term contract assets (EUR 564 thousand for 2019 and EUR 552 thousand for 2018).

## 8 LONG-TERM RECEIVABLES AND ACCRUED RENT INCOME (CONT'D)

In 2019 income from Subačius fuel storage reservoirs rent reduced by EUR 552 thousand (for 2018 - EUR 539 thousand).

As at 31 December 2018 long-term receivable comprised also the receivable amount from Luminor bank (restricted cash) (594 thousand EUR), which is accounted for based on the Guarantee Agreement. The amount is expected to be recovered on 12 January 2020, if the Company will ensure the implementation of measures provided in the Company's waste reduction plan. As at 31 December 2019 this item disclosed under short-term other financial assets (Note 13).

## 9 INVENTORIES

|   | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Diesel fuel for the LNG Terminal purpose                                | 409        | 651        | 409        | 651        |
| Oil products for sale   | 213        | 134        | 213        | 134        |
| Liquefied natural gas   | 335        | 357        | 335        | 357        |
| Fuel for transport and other equipment                                  | 41         | 32         | 41         | 32         |
| Spare parts, construction materials and other inventories               | 1,408      | 1,636      | 1,408      | 1,636      |
| Total inventories   | 2,406      | 2,810      | 2,406      | 2,810      |
| Write-down of spare parts, construction materials and other inventories | (6)        | (1,063)    | (6)        | (1,063)    |
| Total inventories   | 2,400      | 1,747      | 2,400      | 1,747      |

As of 31 December 2019, the Group and the Company accounted for allowance of inventories in the amount of EUR 6 thousand (EUR 1,063 thousand on 31 December 2018), that have been written down to the net realizable value. Inventory allowance has been accounted mostly for construction materials and spare parts, which were not used during the reconstruction (1996 – 2005). Inventory accounting policy including principles of inventory allowance calculations is described in Note 2.12.

The Group and the Company revised its accounting estimate of write-down to net realisable value for obsolete and slow-moving inventories. As at 31 December 2019 the Group and the Company reviewed the accounting policy for slow-moving and obsolete stock. The Group and the Company identified reserve stock, part of which, has been classified as property, plant and equipment due to the fact that they meet the definition, including the requirement to be used over more than one period. The write-down to net realizable value accounted only for old, obsolete stock, that the Group and the Company are not going to use any more. As at 31 December 2018 the write-down to net realizable value was accounted for inventories that did not move for 6 months or longer. The reversal of write-down of inventories to the net realizable value of EUR 1,057 thousand for the twelve months ended of 31 December 2019 (reversal of write-off of inventories to the net realizable value amounts to EUR 53 thousand as of 31 December 2018) are included under cost of sales in the profit (loss).

Oil products for sale are energy products collected in the Wastewater Treatment Facilities. On 31 December 2019 the Company had 1.1 thousand tons of oil products for sale (2.4 thousand tons of oil products as of 31 December 2018). On 31 December 2019 the Company also had 2.4 thousand tons of heavy oil products for sale (no such products as of 31 December 2018).

As of 31 December 2019, the Company stored 172 thousand tons of oil products delivered for transshipment in its storage tanks (198 thousand tons as on 31 December 2018 (the quantities are unaudited)). Such oil products are not recognized in the Company's financial statements. They are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products. 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 31 December 2019, the Company stored 1.4 thousand MWh (as of 31 December 2018 – 1.4 thousand MWh) (the quantities are unaudited) natural gas in the connecting pipeline for the Liquefied natural gas terminal activities. As of 31 December 2019, in the Liquefied natural gas reloading station the Company owned 13.7 thousand MWh natural gas (as of 31 December 2018 – 9.8 thousand MWh), (the quantities are unaudited).

As of 31 December 2019, the Company stored 661 thousand MWh (as of 31 December 2018 – 679 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 recognized 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 31 December 2019, in the Liquefied natural gas reloading station the Company stored 6.3 MWh natural gas products that, belonged to the third parties (As of 31 December 2018 – 8.5 thousand MWh) (the quantities are unaudited). Such natural gas products are not recognized in the Company's financial statements. They are accounted for in the off-balance sheet accounts as the Company has no ownership rights for these products.

## 10 TRADE RECEIVABLES AND OTHER RECEIVABLES

|                  | Group         |               | Company       |               |
|------------------|---------------|---------------|---------------|---------------|
|                  | 31-12-2019    | 31-12-2018    | 31-12-2019    | 31-12-2018    |
| Trade receivable | 12,559        | 12,452        | 12,559        | 12,452        |
| Prepayments      | 568           | 534           | 558           | 534           |
| Other receivable | 44            | 86            | 44            | 86            |
| <b>Total</b>     | <b>13,171</b> | <b>13,072</b> | <b>13,161</b> | <b>13,072</b> |

Trade receivable disclosed below:

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Receivables from LNG terminal activities                                 | 10,546     | 9,805      | 10,546     | 9,805      |
| Receivables for transshipment of oil products and other related services | 2,741      | 3,157      | 2,741      | 3,157      |
| Less: impairment allowance   | (728)      | (510)      | (728)      | (510)      |
|  | 12,559     | 12,452     | 12,559     | 12,452     |

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 31-12-2019    | 31-12-2018    | 31-12-2019    | 31-12-2018    |
| Receivables from third-party customers     | 2,232         | 2,527         | 2,232         | 2,527         |
| Receivables from related parties (Note 31) | 10,327        | 9,925         | 10,327        | 9,925         |
| <b>Total</b>                               | <b>12,559</b> | <b>12,452</b> | <b>12,559</b> | <b>12,452</b> |

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

The Group and the Company has recognized impairment allowance in the amount of EUR 728 thousand on 31 December 2019 (EUR 510 thousand on 31 December 2018).

Change in allowance for trade receivables for 2019, amounting to EUR 221 thousand (for 2018 – EUR 251 thousand (reversal)) has been included into operating expenses in the statement of the comprehensive income.

The age analysis of trade receivables of Group and the Companies as of 31 December 2019 and 2018 is as follows:

| Trade neither past due nor impaired | Trade receivables past due but not impaired |              |              |               |                    | Total  |
|-------------------------------------|---|--------------|--------------|---------------|--------------------|--------|
|                                     | Less than 30 days                           | 30 – 59 days | 60 – 89 days | 90 – 359 days | More than 360 days |        |
| 2019                                | 8,911                                       | 3,641        | -            | -             | 7                  | 12,559 |
| 2018                                | 8,729                                       | 3,514        | -            | 5             | 127                | 12,452 |

Credit quality of financial assets neither past due nor impaired: with respect to trade receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations since the Group and the Company trades only with recognized, creditworthy third parties. The Group and the Company did not recognize additional impairment on the trade receivables and contract assets, as in accordance to the management estimate considering the Company's clients creditworthiness and amounts repayment, estimated expected credit losses are not material.

## 10 TRADE RECEIVABLES AND OTHER RECEIVABLES (CONT'D)

As described in accounting policy, ECL provision matrix model defined in IFRS 9 is used for trade receivables, but in addition the Group and the Company is making allowances on individual assessment basis for certain debtors. The Group and the Company has identified that the loss rates are less than 0.2% from total receivables, after considering forward looking estimates it was decided that these do not have impact on loss rates. For majority of its trade receivables, the Group and the Company has used the provision matrix, while for few isolated and not homogenous cases, an individual assessment, as described further, was made. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Group and the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables as well as if the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with the group of receivables.

Accounts receivable impairment losses are usually recognized after the delay of payment in according to payment terms for 90 days or more. Management estimates future cash flows from the debtors based on historical loss experience of debtors with similar credit risk. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Other receivable disclosed below:

|                        | The Group  |            | The Company |            |
|------------------------|------------|------------|-------------|------------|
|                        | 31-12-2019 | 31-12-2018 | 31-12-2019  | 31-12-2018 |
| VAT receivable         | 18         | 35         | 18          | 35         |
| Receivable grant       | 14         | 20         | 14          | 20         |
| Excise duty receivable | 5          | -          | 5           | -          |
| Other receivables      | 7          | 31         | 7           | 31         |
| Total                  | 44         | 86         | 44          | 86         |

## 11 CONTRACT ASSETS

### The Group and the Company

|                                       | 31-12-2019 | 31-12-2018 |
|---------------------------------------|------------|------------|
| Accrued income (1)                    | 592        | 374        |
| Short-term of accrued income (Note 8) | 564        | 552        |
|                                       | 1,156      | 926        |

(1) Accrued income for storage of oil products as of 31 December 2019 and 31 December 2018 calculated as percentage of completion based on expenses incurred from the total estimated cost of contracted services. Upon completion of transshipment of oil products and acceptance by the customer, the amounts initially recognized as contract assets are reclassified as trade receivables.

## 12 SHORT TERM DEPOSITS

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Short-term bank deposits at the commercial banks | 21,000     | -          | 21,000     | -          |

As of 31 December 2019, the Group and the Company had 2 term deposits at banks, amounted to EUR 21,000 thousand, with maturity of more than 3 months. Annual interest rate ranges from 0.16 to 0.25 per cent

As of 31 December 2018, the Group and the Company did not have any deposits at the commercial banks.

## 13 OTHER FINANCIAL ASSETS

|                                  | Group      |            | Company    |            |
|----------------------------------|------------|------------|------------|------------|
|                                  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Receivable from Luminor          | 594        | -          | 594        | -          |
| Receivable from SEB bank         | 500        | -          | 500        | -          |
| Derivative financial instruments | 180        | -          | 180        | -          |
| Total                            | 1,274      | -          | 1,274      | -          |

The receivable amount from Luminor bank (EUR 594 thousand) is accounted for based on the Guarantee Agreement. The amount is expected to be recovered on 12 January 2020, if the Company will ensure the implementation of measures provided in the Company's waste reduction plan.

The Company and the Group issued a bid guarantee for an amount of EUR 500 thousand according to on the trilateral agreement on Cyprus LNG terminal project. Accordingly, EUR 500 thousand presented as receivable from SEB bank, under Other financial assets. Maturity of the guarantee is 8 January 2020.

Derivative financial instruments related to trade of oil products are stated at their market value, amounting to EUR 180 thousand, as at 31 December 2019.

The Company and the Group has not recognized any impairment losses for other financial assets as at 31 December 2019.

## 14 CASH AND CASH EQUIVALENTS

|              | Group      |            | Company    |            |
|--------------|------------|------------|------------|------------|
|              | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Cash at bank | 41,865     | 73,238     | 37,846     | 73,238     |

As at 31 December 2019 Group's and Company's cash at bank includes restricted cash in SEB bank (EUR 20,000 thousand) according to the Guarantee agreement. This bank guarantee was issued to support collateralization of the financing structure of EUR 134,145 thousand loan for restructuring of the lease payments of the FSRU with NIB in December 2019. The amount is expected to be recovered on 20 February 2020. The guarantee was issued with equivalent amount of deposit which is planned to be substituted to long-term guarantee limit.

Cash and cash equivalents are not pledged as at 31 December 2019 and 31 December 2018.

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

| Currency | Group      |            | Company    |            |
|----------|------------|------------|------------|------------|
|          | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| EUR      | 36,583     | 68,656     | 32,564     | 68,656     |
| USD      | 5,282      | 4,582      | 5,282      | 4,582      |
|          | 41,865     | 73,238     | 37,846     | 73,238     |

Management of the Group and the Company considered potential impairment losses on cash held in banks as per IFRS 9 requirements. Assessment is based on official Standard & Poor's long-term credit ratings:

|      | Group      |            | Company    |            |
|------|------------|------------|------------|------------|
|      | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| A +  | 25,104     | 1,828      | 21,085     | 1,828      |
| AA - | 8,282      | 39,616     | 8,282      | 39,616     |
| BBB+ | 8,479      | 31,794     | 8,479      | 31,794     |
|      | 41,865     | 73,238     | 37,846     | 73,238     |

Based on management's assessment performed and best estimate cash and its equivalents are presented at fair value and no indications of cash impairment exist as of 31 December 2019 and 31 December 2018.

## 15 ISSUED CAPITAL AND RESERVES

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5 percent of net profit, calculated in accordance with International Financial Reporting Standards, are compulsory until the reserve reaches 10 per cent of the share capital. The legal reserve is not fully formed as at 31 December 2019 and 31 December 2020.

Reserve to purchase own shares is concluded for acquisition of own shares. Reserve to purchase own shares is made providing the possibility to buy up own shares.

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

## 16 NON-CURRENT EMPLOYEE BENEFITS

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

As of 31 December 2019, the Company and the Group reclassified a portion of non-current employee benefits under short term liabilities.

On 31 December 2019 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were EUR 301 thousand (EUR 291 thousand – in 2018) as follows:

|                     | The Group |      | The Company |      |
|---------------------|-----------|------|-------------|------|
|                     | 2019      | 2018 | 2019        | 2018 |
| Start of period     | 301       | 291  | 301         | 291  |
| Calculated per year | 78        | 18   | 78          | 18   |
| Paid per year       | (98)      | (8)  | (98)        | (8)  |
| End of period       | 281       | 301  | 281         | 301  |
| Current             | 41        | 30   | 41          | 30   |
| Non-current         | 240       | 271  | 240         | 271  |

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

|                         | The Group  |            | The Company |            |
|-------------------------|------------|------------|-------------|------------|
|                         | 31-12-2019 | 31-12-2018 | 31-12-2019  | 31-12-2018 |
| Discount rate           | 0.344%     | 1.41%      | 0.344%      | 1.41%      |
| Staff turnover rate     | 5.81%      | 6.64%      | 5.81%       | 6.64%      |
| Future salary increases | 2%         | 2.3%       | 2%          | 2.3%       |



## 17 LOANS AND LEASE LIABILITIES

### Loans

#### The Group and the Company

|   | 31-12-2019 | 31-12-2018 |
|---|------------|------------|
| European Investment Bank's loan   | 53,091     | 54,312     |
| Nordic Investment Bank's loan   | 20,398     | 21,811     |
| Guarantee payment to the Ministry of Finance to the Republic of Lithuania | (134)      | -          |
| Payable loan interest   | 18         | 29         |
|   | 73,373     | 76,152     |

A credit contract dated as at 9 July 2013 was concluded by the Company with European Investment Bank (EIB) to grant a credit up to EUR 87,000 thousand to implement LNGT project. According to the contract, EIB financed up to 50% of necessary funds for the project implementation. According to the contract, credit tenor is up to 20 years (5 years grace period, 15 years linear repayment scheme applied), interest rate is variable comprising bank margin with inclusion of 3 months EURIBOR rate, and whose margin was submitted by the EIB in payment offers. The contract also provided that minimum credit tranche was EUR 15,000 thousand, and the whole credit sum had to be paid out to the Company over no more than 6 tranches.

The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee and aligned with EU commission. The Finance ministry of the Republic of Lithuania being issuer of the state aid guarantee has pledge on all material assets created during LNGT project (Note 4).

Above credit was facilitated in several tranches:

- i. On 20 December 2013, the 1st tranche amounting to EUR 15,000 thousand was received with full principal amortization till 20 December 2033. The principal repaid by EUR 1, 230 thousand as of 31 December 2019.
- ii. On 28 November 2014, the 2nd tranche amounting to EUR 15,000 thousand was received with full principal amortization till 28 November 2034.
- iii. On 15 December 2017, the 3rd tranche amounting to EUR 24,700 thousand was received with full principal amortization till 20 December 2034.

The Company shall ensure that the ratio of EBITDA to Interest in respect of the period of twelve months ending on the last day of each of the Company's financial years shall not fall below 4.0:1.0. The Company complied with financial covenant as of 31 December 2019 and as of 31 December 2018.

On 27 November 2014, the Company has concluded the Credit Agreement with the Nordic Investment Bank (NIB) regarding granting a credit of up to EUR 34,754 thousand for the implementation of the LNGT project (the same). According to the contract, credit tenor was up to 20 years (5 years grace period, 15 years linear repayment scheme applied, interest: floating, which particular rate was provided in the NIB disbursement offer (a fixed margin + 6 months EURIBOR). The Loan contract also provided that the minimal payable amount of credit was EUR 7,000 thousand, and all the credit amount had to be paid out to the Company in no more than 5 tranches.

On 10 November 2015 there was signed NIB loan agreement amendment to reduce the loan principle to EUR 22,000 thousand.

On 31 August 2017, the Company withdraw the amount of EUR 22,000 thousand. Resulting in requirement of with full principal amortization till 28 December 2034. The principal repaid by EUR 1,419 thousand as of 31 December 2019.

The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee and aligned with EU commission. The Finance ministry of the Republic of Lithuania being issuer of the state aid guarantee has pledge on all material assets created during LNGT project (Note 4).

## 17 LOANS AND LEASE LIABILITIES (CONT'D)

On 19 November 2019, the Company concluded the Credit Agreement with the Nordic Investment Bank (NIB) regarding granting a credit of up to EUR 134,145 thousand for restructuring of the lease payments of the FSRU. According to the Loan contract, the term of the credit was up to 25 years (5 years grace period, 20 years linear repayment scheme), interest: floating (a fixed margin + 6 months EURIBOR). The Loan contract also provides that the minimal payable amount of credit is EUR 5,000 thousand with the annual tranche cap EUR 26,829 thousand (making total 5 annual tranches).

The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee and aligned with EU commission. The Finance ministry of the Republic of Lithuania being issuer of the state aid guarantee has following collateral structure: Subačius oil terminal and all existent and future receivables from security supplement till 2044. Pledge of receivables from security supplement is postponed till 31 Jan 2025 as performance bank guarantee of EUR 20,000 thousand is issued for 5 years tenor in favor of the Finance ministry of the Republic of Lithuania for credit support. For issuance of the state guarantee, likewise historically, a guarantee administration payment of 0,1% to the Ministry of Finance to the Republic of Lithuania was incurred.

The Company has EUR 134,145 thousand of undrawn loans as at 31 December 2019 and as at 31 December 2018 and the amount fully consists of Nordic Investment Bank (NIB) loans.

The Company complied with the set financial covenants and non-financial conditions to its creditors as of 31 December 2019 and as of 31 December 2018.

### LEASE LIABILITIES

#### Group and Company

|                   | 31-12-2019 | 31-12-2018 |
|-------------------|------------|------------|
| Lease liabilities | 376,877    | -          |

The Group and the company applied IFRS 16 at 1 January 2019, which requires the recognition of lease liabilities for lease contracts that were previously classified as operating leases (see note 2.16).

Lease liabilities as at 31 December 2019 can be specified as follows:

|                              | Land rent     | Jetty rent   | FSRU lease     | Other*     | Total          |
|------------------------------|---------------|--------------|----------------|------------|----------------|
| Long term lease liabilities  | 15,439        | 4,845        | 312,126        | 179        | <b>332,589</b> |
| Short term lease liabilities | 314           | 68           | 43,641         | 265        | <b>44,288</b>  |
|                              | <b>15,753</b> | <b>4,913</b> | <b>355,767</b> | <b>444</b> | <b>376,877</b> |

\* Other comprises lease of transport vehicles, office rent, oth.

## 17 LOANS AND LEASE LIABILITIES (CONT'D)

### RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOWS ARISING FROM FINANCING ACTIVITIES

In accordance with IAS 7 Disclosure Initiative requirements, the following table provides disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities (loans taken), including both changes arising from cash flows and non-cash changes:

|   | Group         |                   | Company       |                   |
|---|---------------|-------------------|---------------|-------------------|
|   | Loans         | Lease liabilities | Loans         | Lease liabilities |
| <b>Non-current interest-bearing loans and borrowings, including interest payable as at 1 January 2018</b>   | <b>76,379</b> | -                 | <b>76,379</b> | -                 |
| Additional loan disbursements (Cash flows)  | -             | -                 | -             | -                 |
| Loan repayments (Cash flows)  | (246)         | -                 | (246)         | -                 |
| Interest and loan administration fee charged  | 208           | -                 | 208           | -                 |
| Interest and loan administration fee paid (Cash flows)  | (190)         | -                 | (190)         | -                 |
| Other payments / reclassifications  | 1             | -                 | 1             | -                 |
| <b>Non-current interest-bearing loans and borrowings, including interest payable as at 31 December 2018</b> | <b>76,152</b> | -                 | <b>76,152</b> | -                 |
| <b>Non-current interest-bearing loans and borrowings, including interest payable as at 1 January 2019</b>   | <b>76,152</b> | <b>280,035</b>    | <b>76,152</b> | <b>280,035</b>    |
| Additional loan disbursements (Cash flows)  | -             | -                 | -             | -                 |
| Loan repayments (Cash flows)  | (2,649)       | -                 | (2,649)       | -                 |
| Remeasurement of lease liabilities (Note 2.16)  | -             | 134,873           | -             | 134,873           |
| Repayment of lease liabilities (Cash flows)   | -             | (40,125)          | -             | (40,125)          |
| Interest and loan administration fee charged  | 162           | 2,136             | 162           | 2,136             |
| Interest and loan administration fee paid (Cash flows)  | (290)         | (1,968)           | (290)         | (1,968)           |
| The effect of changes in foreign exchange rates   | -             | 6,082             | -             | 6,082             |
| Other payments / reclassifications  | (2)           | (4,156)           | (2)           | (4,156)           |
| <b>Non-current interest-bearing loans and borrowings, including interest payable as at 31 December 2019</b> | <b>73,373</b> | <b>376,877</b>    | <b>73,373</b> | <b>376,877</b>    |

## 18 TRADE PAYABLES AND OTHER LIABILITIES

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Trade payables                         | 8,322      | 9,374      | 8,322      | 9,374      |
| Other payables and current liabilities | 1,588      | 1,157      | 1,588      | 1,157      |
| Total                                  | 9,910      | 10,531     | 9,910      | 10,531     |

## 18 TRADE PAYABLES AND OTHER LIABILITIES (CONT'D)

Trade payables disclosed below:

|                              | Group        |              | Company      |              |
|------------------------------|--------------|--------------|--------------|--------------|
|                              | 31-12-2019   | 31-12-2018   | 31-12-2019   | 31-12-2018   |
| Payables for FSRU rent       | 4,620        | 3,727        | 4,620        | 3,727        |
| Payable to contractors       | 1,191        | 2,316        | 1,191        | 2,316        |
| Other payments related FSRU  | 899          | 1,390        | 899          | 1,390        |
| Payable for rent of land     | 393          | 393          | 393          | 393          |
| Payable for gas services     | 368          | 447          | 368          | 447          |
| Payable for railway services | 129          | 253          | 129          | 253          |
| Other trade payables         | 722          | 848          | 722          | 848          |
| <b>Total</b>                 | <b>8,322</b> | <b>9,374</b> | <b>8,322</b> | <b>9,374</b> |

On 31 December 2019 trade payables of EUR 5,232 thousand were denominated in USD (EUR 4,837 thousand – on 31 December 2018).

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

Other payables and current liabilities disclosed below:

|                                      | Group        |              | Company      |              |
|--------------------------------------|--------------|--------------|--------------|--------------|
|                                      | 31-12-2019   | 31-12-2018   | 31-12-2019   | 31-12-2018   |
| Accrued tax expenses and liabilities | 690          | 385          | 690          | 385          |
| Accrued expenses and liabilities     | 671          | 526          | 671          | 526          |
| Shareholders related liabilities     | -            | 180          | -            | 180          |
| Other liabilities                    | 227          | 84           | 227          | 84           |
| <b>Total</b>                         | <b>1,588</b> | <b>1,175</b> | <b>1,588</b> | <b>1,175</b> |

Accrued tax expenses and liabilities:

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Accrual of payable emission allowances (LNG) | 572        | 294        | 572        | 294        |
| Real estate tax payable                      | 112        | 83         | 112        | 83         |
| Pollution tax                                | 6          | 7          | 6          | 7          |
| Excise duty payable                          | -          | 1          | -          | 1          |
| <b>Total</b>                                 | <b>690</b> | <b>385</b> | <b>690</b> | <b>385</b> |

In relation with 8<sup>th</sup> November 2018 decision of Shareholders to increase share capital of the Company by issuing up to 478,642 new ordinary shares with par value EUR 0.29 each, the Company concluded a share subscription agreement with the Ministry of Energy of the Republic of Lithuania regarding 346,154 share subscription (proportionally to shares owned). New share emission price was set at EUR 0.52 per share. Shares subscribed by Ministry of Energy of the Republic of Lithuania were paid by a non-monetary contribution (a sports hall with other engineering constructions, i.e. yard constructions) with fair value equal to EUR 180 thousand. An independent asset valuator confirmed fair value of an asset contributed.

Ownership of the building was transferred to the Company in December 2018, however the increase in share capital was not registered yet as of 31 December 2018, therefore amount of EUR 180 thousand was recorded as liabilities to shareholders until share capital increase will be registered. The increase in share capital was registered in March 2019.

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

## 19 PAYROLL RELATED LIABILITIES

|                            | Group        |              | Company      |              |
|----------------------------|--------------|--------------|--------------|--------------|
|                            | 31-12-2019   | 31-12-2018   | 31-12-2019   | 31-12-2018   |
| Accrual of annual bonuses* | 873          | 603          | 873          | 603          |
| Accrued vacation reserve   | 1,050        | 1,049        | 1,050        | 1,049        |
| Salaries payable           | 422          | 13           | 422          | 13           |
| Social insurance payable   | 225          | 329          | 225          | 329          |
| Income tax payable         | 153          | 1            | 153          | 1            |
| Other deductions           | 3            | 1            | 3            | 1            |
| <b>Total</b>               | <b>2,726</b> | <b>1,996</b> | <b>2,726</b> | <b>1,996</b> |

\*The Group and the Company as at 31 December 2018 accounted for EUR 600 thousand reserve for share-based payments under other reserves as defined under IFRS 2. In May 2019 the Group and the Company paid out part of annual bonuses (up to 50%) to employees in Company's shares – 807,606 units of shares have been granted to the employees of the Group and the Company. Due to this the reserve related to share-based payments has been cancelled.

## 20 PROVISIONS

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

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

As of 31 December 2019, the Group and the Company has accounted for a provision of EUR 72 thousand in regard to the emission made which exceed available emission rights (as of 31 December 2018 – EUR 18 thousand).

## 21 REVENUE FROM CONTRACTS WITH CUSTOMERS

|  | Group          |               | Company        |               |
|--|----------------|---------------|----------------|---------------|
|  | 31-12-2019     | 31-12-2018    | 31-12-2019     | 31-12-2018    |
| Income from LNGT services regulated by NERC <sup>1</sup> | 67,724         | 63,008        | 67,724         | 63,008        |
| Sales of oil transshipment services                      | 30,062         | 33,935        | 30,062         | 33,935        |
| Other sales related to LNG terminals activity            | 3,384          | 1,495         | 3,384          | 1,495         |
| Other sales related to transshipment                     | 1,617          | 1,194         | 1,617          | 1,194         |
| Sales of consulting services                             | 944            | 366           | 944            | 366           |
| Sales of inventories                                     | 407            | -             | 407            | -             |
| LNG transportation revenue                               | 225            | -             | -              | -             |
| <b>Total</b>   | <b>104,363</b> | <b>99,998</b> | <b>104,138</b> | <b>99,998</b> |

The Company and BNK (UK) Limited which is an affiliate of the leading exporter of Belarusian oil products – ZAT Belaruskaja neftenaja kompanija, on 30 September 2019 extended a long-term contract on provision of oil products transshipment services through AB Klaipėdos nafta terminal (hereinafter – the Contract). The terms of the Contract are valid until 31 December 2021.

The AB Orlen Lietuva expressed interest to KN concerning possibility to import/transship the crude oil using the Terminal's services. On 27 June 2019 the Company and AB Orlen Lietuva signed a contract for provision of crude oil transshipment services. The terms of the contract are valid until 28 February 2020.

<sup>1</sup> NERC – National Energy Regulatory Council

## 21 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

On 9 May 2019 the Company and Alcodis S.A. (registered in Belgium) signed a contract for services related to denatured and undenatured ethyl alcohol transshipment. The contract was concluded for 2 (two) calendar years (for 2019 and 2020) with possibility to terminate it after the first calendar year (31-12-2019). The contract was terminated at the end of 2019.

On 30 December 2019 the Company and K2 SAGL signed a contract for provision of oil products transshipment services in AB Klaipėdos nafta oil terminal. The terms of the Contract are valid until 31 December 2020.

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

Income from LNGT services regulated by NERC contains income from LNG regasification service, LNG reloading service and Additional Security supplement (largest component). LNG regasification price cap is being adjusted on yearly basis, LNG reloading price in 2015-2019 was set for 5 years. Since 2020 LNG reloading price will be adjusted annually.

| Terminal service  | Price set                 |
|---|---------------------------|
| LNG regasification service tariff (set for year 2016-2018)                              | 0.10 Eur/MWh, excl. VAT   |
| LNG regasification service tariff set for year 2019                                     | 0.13 Eur/MWh, excl. VAT   |
| LNG regasification service tariff set for year 2020                                     | 0.35 Eur/MWh, excl. VAT   |
| LNG reloading service tariff (set for years 2015-2019)                                  | 1.14 Eur/MWh, excl. VAT   |
| LNG reloading service tariff (set for years 2020)                                       | 1.11 Eur/MWh, excl. VAT   |
| LNG terminal liquefaction price fixed part to gas transmission tariff for the year 2017 | 361.84 Eur/MWh, excl. VAT |
| LNG terminal liquefaction price fixed part to gas transmission tariff for the year 2018 | 351.83 Eur/MWh, excl. VAT |
| LNG terminal liquefaction price fixed part to gas transmission tariff for the year 2019 | 390.42 Eur/MWh, excl. VAT |
| LNG terminal liquefaction price fixed part to gas transmission tariff for the year 2020 | 194.31 Eur/MWh, excl. VAT |

LNG terminal additional security supplement tariff is applied to Terminal users, who regasify gas via LNG terminal and use gas transmission system. LNG terminal additional security supplement tariff is set by NERC by the resolutions annually and is dedicated to cover operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes regasified and submitted to gas transmission system. LNG terminal supplement tariff is calculated according to the formula and methodology set out in NERC Resolution No. O3-367 issued on 13 September, 2013 and its subsequent amendments.

During 2019 the Company continued to work with its main LNG terminal users: UAB IGNITIS (formerly UAB Lietuvos energijos tiekimas), AB Achema and new terminal users UAB Imlitex, AS Eesti Energia, AS Eesti Gaas.

## 22 COST OF SALES

|  | Group           |                 | Company         |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2019            | 2018            | 2019            | 2018            |
| Depreciation of right-of-use asset*                                | (43,577)        | -               | (43,577)        | -               |
| Depreciation and amortisation (incl. amortisation of grants)       | (13,284)        | (14,606)        | (13,284)        | (14,606)        |
| Expenses related to FSRU rent (OPEX element, management crew cost) | (8,351)         | (5,344)         | (8,351)         | (5,344)         |
| Wages, salaries and social security                                | (7,327)         | (7,784)         | (7,327)         | (7,784)         |
| Natural gas  | (2,547)         | (3,223)         | (2,547)         | (3,223)         |
| Railway services   | (2,135)         | (2,077)         | (2,135)         | (2,077)         |
| Port charges   | (1,529)         | (1,529)         | (1,529)         | (1,529)         |
| Electricity  | (1,247)         | (1,518)         | (1,247)         | (1,518)         |
| Tax on environmental pollution                                     | (916)           | (267)           | (916)           | (267)           |
| LNG transportation services  | (632)           | -               | -               | -               |
| Repair and maintenance of non-current assets                       | (508)           | (581)           | (508)           | (581)           |
| Contribution for National Energy Regulatory Council (NERC)         | (441)           | -               | (441)           | -               |
| Insurance of assets  | (426)           | (576)           | (426)           | (576)           |
| Tax on real estate   | (394)           | (338)           | (394)           | (338)           |
| Transport  | (287)           | (299)           | (287)           | (299)           |
| Services for tankers   | (217)           | (203)           | (171)           | (203)           |
| Other FSRU related expenses  | (171)           | (83)            | (217)           | (83)            |
| Work safety costs  | (140)           | (130)           | (140)           | (130)           |
| Cleaning expenses  | (140)           | (144)           | (140)           | (144)           |
| Research costs   | (88)            | (52)            | (88)            | (52)            |
| FSRU rent expenses*  | -               | (42,653)        | -               | (42,653)        |
| Rent of land and quays*  | -               | (791)           | -               | (791)           |
| Rent of facilities*  | -               | (75)            | -               | (75)            |
| Allowance of inventories (reversal)                                | 1,058           | 53              | 1,058           | 53              |
| Other  | (230)           | (409)           | (230)           | (409)           |
| <b>Total</b>   | <b>(83,529)</b> | <b>(82,629)</b> | <b>(82,897)</b> | <b>(82,629)</b> |

\*The Group and the Company applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use asset and lease liabilities for lease contracts that were previously classified as operating leases (see note 2.16).

## 23 OPERATING EXPENSES

|   | Group          |                | Company        |                |
|---|----------------|----------------|----------------|----------------|
|   | 2019           | 2018           | 2019           | 2018           |
| Salary, social security taxes                               | (3,620)        | (3,580)        | (3,614)        | (3,580)        |
| Consulting and legal costs                                  | (942)          | (322)          | (940)          | (322)          |
| Depreciation of right-of-use asset                          | (329)          | -              | (329)          | -              |
| Depreciation and amortization                               | (312)          | (310)          | (312)          | (310)          |
| Impairment of doubtful receivables                          | (221)          | 251            | (221)          | 251            |
| Communication   | (196)          | (189)          | (196)          | (189)          |
| Salaries and other related expenses to governing bodies     | (168)          | (104)          | (168)          | (104)          |
| Expenses for business trips                                 | (145)          | (150)          | (145)          | (150)          |
| Expenses for operating taxes                                | (144)          | (85)           | (144)          | (85)           |
| Administration of bank accounts                             | (141)          | (14)           | (141)          | (14)           |
| Advertising and external communication                      | (126)          | (131)          | (126)          | (131)          |
| Donations   | (90)           | (137)          | (90)           | (137)          |
| Expenses for utilities                                      | (90)           | (85)           | (90)           | (85)           |
| Expenses for refresher courses                              | (58)           | (101)          | (58)           | (101)          |
| Transportation expenses                                     | (55)           | (110)          | (55)           | (110)          |
| Representation, advertising                                 | (38)           | (51)           | (38)           | (51)           |
| Expenses related to the management of securities            | (37)           | (39)           | (37)           | (39)           |
| Rent of asset   | (17)           | (238)          | (17)           | (238)          |
| Repair and maintenance of non-current assets                | (6)            | (6)            | (6)            | (6)            |
| Property, plant and equipment impairment change, (reversal) | 1              | 38             | 1              | 38             |
| Other   | (330)          | (417)          | (328)          | (417)          |
| <b>Total</b>  | <b>(7,064)</b> | <b>(5,780)</b> | <b>(7,054)</b> | <b>(5,780)</b> |

## 24 OTHER INCOME AND (EXPENSES) - NET

|   | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Income from write-off of trade payable*               | 512        | -          | 512        | -          |
| Income from utilities rendered to contractors         | 30         | 33         | 30         | 33         |
| Income from storage and warehousing of stock          | 12         | 11         | 12         | 11         |
| Income from disposal of property, plant and equipment | 11         | 250        | 11         | 250        |
| Income from rent of premises                          | 6          | 1          | 6          | 1          |
| Income from customs brokerage services                | 6          | 2          | 6          | 2          |
| Other   | 12         | 7          | 12         | 7          |
| Other income, total                                   | 589        | 304        | 589        | 304        |
| Loss from gas lending                                 | (43)       | (17)       | (43)       | (17)       |
| Other   | -          | (11)       | -          | (11)       |
| Other expenses, total                                 | (43)       | (28)       | (43)       | (28)       |

\* On 9 December 2019, the Group and the Company has signed settlement agreement with BUAB Kauno dujotiekio statyba, as a result trade payable in amount of 512 thousand EUR was written-off.

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

|  | Group      |            | Company    |            |
|--|------------|------------|------------|------------|
|  | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Interest income  | 64         | 56         | 64         | 56         |
| Fines income   | 46         | 175        | 46         | 175        |
| Profit from disposal of shares                           | 24         | -          | -          | -          |
| Income from currency exchange                            | 7          | -          | -          | -          |
| Financial income, total                                  | 141        | 231        | 110        | 231        |
| Penalty expenses   | (4)        | (17)       | (4)        | (17)       |
| (Losses) from currency exchange                          | (17)       | (58)       | (17)       | (58)       |
| (Losses) from currency exchange on the lease liabilities | (6,082)    | -          | (6,082)    | -          |
| Interest (expenses)                                      | (166)      | (208)      | (166)      | (208)      |
| Interest on the lease liabilities                        | (2,136)    | -          | (2,136)    | -          |
| Other financial activity (expenses)                      | (79)       | -          | (78)       | -          |
| Financial activity expenses, total                       | (8,484)    | (283)      | (8,483)    | (283)      |



## 26 INCOME TAX

|   | Group      |            | Company    |            |
|---|------------|------------|------------|------------|
|   | 31-12-2019 | 31-12-2018 | 31-12-2019 | 31-12-2018 |
| Current income tax expense                                | -          | -          | -          | -          |
| Previous year income tax expense                          | 14         | 21         | 14         | 21         |
| Deferred tax expenses (income)                            | (1,573)    | 259        | (1,573)    | 259        |
| Income tax expense (income) recorded in the profit (loss) | (1,559)    | 280        | (1,559)    | 280        |

Reconciliation between income tax expense of the Company and the result of taxable income of the Company multiplied by income tax rate for the years 2019 and 2018 is as follows:

| Group and Company                           | 2019     | 2019    | 2018     | 2018    |
|---|----------|---------|----------|---------|
| Accounting profit before tax                |          | 6,388   |          | 11,857  |
| Applying 15% profit tax                     | 15.00%   | 958     | 15.00%   | 1,779   |
| Deductible expenses of income tax (charity) | (0.42%)  | (27)    | (0.35%)  | (41)    |
| Investment projects' relief                 | (43.85%) | (2,801) | (12.57%) | (1,490) |
| Non-deductible expenses of income tax       | 4.65%    | 297     | 0.09%    | 11      |
| Previous year corrections                   | 0.22%    | 14      | 0.18%    | 21      |
|   | (24.41%) | (1,559) | 2.36%    | 280     |

Movements of deferred tax balances:

| Group and Company                                  | Balance as at 31 December 2019 |                              |                   |                               |       |            | Net            | Deferred tax assets | Deferred tax liabilities |
|--|--------------------------------|------------------------------|-------------------|-------------------------------|-------|------------|----------------|---------------------|--------------------------|
|  | Net balance at 1 January       | Recognised in profit or loss | Recognised in OCI | Recognised directly in equity | Other |            |                |                     |                          |
| 2019   |                                |                              |                   |                               |       |            |                |                     |                          |
| Investment projects' relief                        | 1,240                          | 656                          | -                 | -                             | -     | 1,896      | 1,896          | -                   |                          |
| Accelerated depreciation for tax purposes          | 227                            | (10)                         | -                 | -                             | -     | 217        | 217            | -                   |                          |
| Write-offs of inventories to realizable value      | 159                            | (158)                        | -                 | -                             | -     | 1          | 1              | -                   |                          |
| Accrued annual bonuses                             | 174                            | (43)                         | -                 | -                             | -     | 131        | 131            | -                   |                          |
| Impairment of non-current assets                   | 41                             | -                            | -                 | -                             | -     | 41         | 41             | -                   |                          |
| Long-term employee benefit liability               | 53                             | (11)                         | -                 | -                             | -     | 42         | 42             | -                   |                          |
| Vacation reserve                                   | 3                              | 155                          | -                 | -                             | -     | 158        | 158            | -                   |                          |
| Other temporary differences                        | 48                             | 78                           | -                 | -                             | -     | 126        | 126            | -                   |                          |
| Associates' equity method                          | 8                              | 1                            | -                 | -                             | -     | 9          | 9              | -                   |                          |
| Non-current asset (right-of-use asset)             | -                              | 901                          | -                 | -                             | -     | 901        | 901            | -                   |                          |
| Accrued income                                     | (313)                          | 82                           | -                 | -                             | -     | (231)      | -              | (231)               |                          |
| Different depreciation rates of non-current assets | -                              | (209)                        | -                 | -                             | -     | (209)      | -              | (209)               |                          |
| Investment incentive of non-current assets         | (2,263)                        | 131                          | -                 | -                             | -     | (2,132)    | -              | (2,132)             |                          |
| <b>Tax assets (liabilities) before set-off</b>     | <b>(623)</b>                   | <b>1,573</b>                 | -                 | -                             | -     | <b>950</b> | <b>3,522</b>   | <b>(2,572)</b>      |                          |
| Set-off of tax                                     | -                              | -                            | -                 | -                             | -     | -          | <b>(3,522)</b> | <b>2,572</b>        |                          |
| <b>Net tax assets (liabilities)</b>                | <b>(623)</b>                   | <b>1,574</b>                 | -                 | -                             | -     | <b>950</b> | -              | <b>950</b>          |                          |

## 26 INCOME TAX (CONT'D)

| Group and Company                                | Balance as at 31 December 2019 |                                    |                      |                                     |       |              |                           |                                |
|--|--------------------------------|------------------------------------|----------------------|-------------------------------------|-------|--------------|---------------------------|--------------------------------|
|  | Net<br>balance at<br>1 January | Recognised<br>in profit or<br>loss | Recognised<br>in OCI | Recognised<br>directly in<br>equity | Other | Net          | Deferred<br>tax<br>assets | Deferred<br>tax<br>liabilities |
| <b>2018</b>                                      |                                |                                    |                      |                                     |       |              |                           |                                |
| Investment projects' relief                      | 1,677                          | (437)                              | -                    | -                                   | -     | 1,240        | 1,240                     | -                              |
| Accelerated depreciation for tax<br>purposes     | 239                            | (12)                               | -                    | -                                   | -     | 227          | 227                       | -                              |
| Write-offs of inventories to realizable<br>value | 168                            | (9)                                | -                    | -                                   | -     | 159          | 159                       | -                              |
| Accrued annual bonuses                           | 187                            | (13)                               | -                    | -                                   | -     | 174          | 174                       | -                              |
| Impairment of non-current assets                 | 47                             | (6)                                | -                    | -                                   | -     | 41           | 41                        | -                              |
| Long-term employee benefit liability             | 44                             | 9                                  | -                    | -                                   | -     | 53           | 53                        | -                              |
| Vacation reserve                                 | 38                             | (35)                               | -                    | -                                   | -     | 3            | 3                         | -                              |
| Other temporary differences                      | 21                             | 28                                 | -                    | -                                   | -     | 48           | 48                        | -                              |
| Associates' equity method                        | 6                              | 2                                  | -                    | -                                   | -     | 8            | 8                         | -                              |
| Accrued income                                   | (394)                          | 81                                 | -                    | -                                   | -     | (313)        | -                         | (313)                          |
| Investment incentive of non-current<br>assets    | (2,396)                        | 133                                | -                    | -                                   | -     | (2,263)      | -                         | (2,263)                        |
| <b>Tax assets (liabilities) before set-off</b>   | <b>(363)</b>                   | <b>(259)</b>                       | -                    | -                                   | -     | <b>(623)</b> | <b>1,953</b>              | <b>(2,576)</b>                 |
| Set-off of tax                                   | -                              | -                                  | -                    | -                                   | -     | -            | <b>(1,953)</b>            | <b>1,953</b>                   |
| <b>Net tax assets (liabilities)</b>              | <b>(363)</b>                   | <b>(259)</b>                       | -                    | -                                   | -     | <b>(623)</b> | <b>1,953</b>              | <b>(623)</b>                   |

As at 31 December 2019 the Group did not recognise as deferred tax asset in total amounting to EUR 188 thousand: EUR 109 thousand from allowance of trade accounts receivable and EUR 79 thousand – from tax losses carried forward.

As at 31 December the Company did not recognise as deferred tax asset amounting to EUR 109 thousand from the allowance of trade receivable.

As of 31 December 2019 the Company's Management's judgement was not to recognize as deferred tax asset amounting up to EUR 2,828 thousand from the investment incentive in the amount of up to EUR 18,850 thousand, whose expiry date is 2023, up to EUR 867 thousand from the investment incentive in the amount of up to EUR 5,778 thousand, whose expiry date is 2022, and up to EUR 4,284 thousand from the investment incentive in the amount of up to EUR 28,562 thousand, whose expiry date is 2021 (as of 31 December 2018 amounted up to EUR 867 thousand from the investment incentive in the amount of up to EUR 5,778 thousand, whose expiry date is 2022, up to EUR 4,399 thousand from the investment incentive in the amount of up to EUR 29,329 thousand, whose expiry date is 2021 and up to EUR 2,077 thousand from the investment incentive in the amount of up to EUR 13,848 thousand, whose expiry date is 2020) as the Management does not expect to use the investment incentive to decrease taxable profit in the future.

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

While assessing deferred income tax asset and liability components as of 31 December 2019 and 2018 the Company has used the income tax rate of 15%.

## 27 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

Basic earnings per share are calculated by dividing net profit of the Group by the weighted average number of ordinary shares outstanding. Diluted earnings per share equal to basic earnings per share as the Group has no instruments issued that could dilute shares issued.

Basic and diluted earnings per share are as follows:

|   | Group   |         |
|---|---------|---------|
|   | 2019    | 2018    |
| Net profit attributable to shareholders                           | 7,561   | 11,577  |
| Weighted average number of outstanding ordinary shares (thousand) | 380,134 | 380,606 |
| Earnings and reduced earnings (in EUR)                            | 0.02    | 0.03    |

## 28 DIVIDENDS

|   | 2019     | 2018     |
|---|----------|----------|
| Dividends declared  | (11,577) | (17,031) |
| Weighted average number of shares (thousand)              | 380,134  | 380,606  |
| Dividends declared per share (expressed in EUR per share) | 0.0304   | 0.0447   |

The General Meeting of the Shareholders held on 26 April 2019 approved profit appropriation for the year 2018 and allocated to the Shareholders dividends in the amount of EUR 11,577 thousand for 2018. The General Meeting of the Shareholders held on 21 April 2018 approved profit appropriation for the year 2017 and allocated to the Shareholders dividends in the amount of EUR 17,031 thousand for 2017.

The outstanding amount of declared dividends to the shareholders, who were not reached from the stated addresses, is accounted as current amounts payable and liabilities in the Statement of financial position as of 31 December 2019. As of 31 December 2019, the outstanding amount of dividends not paid during the previous financial year amounted to EUR 122 thousand (EUR 114 thousand as of 31 December 2018).

## 29 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT

### Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – AB Amber Grid on 31 December 2019 accounted for approximately 80% (about 78% as of 31 December 2018), UTE GNA I GERAÇÃO DE ENERGIA S.A. – on 31 December 2019 accounted for approximately 5% (no trade receivable from this customer as of 31 December 2018), K2SA - on 31 December 2019 accounted for approximately 5% (about 5% as of 31 December 2018), AB Orlen Lietuva – on 31 December 2019 accounted for approximately 4% (about 9% as of 31 December 2018) of the total Group's and Company's receivables from all its customers. The average payment term for AB Amber Grid is 20 calendar days, UTE GNA I GERAÇÃO DE ENERGIA S.A. – 30 calendar days after invoice received, AB Orlen Lietuva - 10 calendar days from the invoice received, for K2SA – 5 working days, whereas the usual payment terms for all other customers is 5 days. A possible credit risk for the Group's and the Company's customers is managed by a continuous monitoring of outstanding balances.

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

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

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

### Credit risk (cont'd)

The following table provides information about the exposure to credit risk for trade receivables from the customers:

#### Group and Company

| 31-12-2019                 | Gross carrying amount | Loss allowance | Credit impaired |
|----------------------------|-----------------------|----------------|-----------------|
| Current (not past due)     | 8,912                 | -              | No              |
| 1-30 days past due         | 3,678                 | (37)           | Yes             |
| 31-60 days past due        | 60                    | (60)           | Yes             |
| 61-90 days past due        | 60                    | (60)           | Yes             |
| More than 90 days past due | 577                   | (571)          | Yes             |
|                            | 13,287                | (728)          |                 |

#### Group and Company

| 31-12-2018                 | Gross carrying amount | Loss allowance | Credit impaired |
|----------------------------|-----------------------|----------------|-----------------|
| Current (not past due)     | 8,728                 | -              | No              |
| 1-30 days past due         | 3,514                 | -              | No              |
| 31-60 days past due        | -                     | -              | No              |
| 61-90 days past due        | 5                     | -              | No              |
| More than 90 days past due | 715                   | (510)          | Yes             |
|                            | 12,962                | (510)          |                 |

#### Interest rate risk

The Group's and the Company's income and operating cash flows are influenced by changes in market interest rates, which are linked to EURIBOR base. Overall loan portfolio is 100% exposed to floating interest rate risk no hedging derivative instruments were used. Thus, such standing has implications on financial results.

EIB facility with 3 tranches is exposed to 3 months EURIBOR with zero-floor applicable on EURIBOR base. In contrast, NIB facilities are exposed to 6 months EURIBOR with no zero-floor applicable on EURIBOR base.

The Group and the Company is constantly assessing its possibilities to hedge interest rate risks on its loans. Thus, the loans related with long-term LNG terminal solution with high probability in future are expected to be with partially or fully fixed interests.

The Group's and the Company's excess liquidity in forms of money and time deposits are distributed across the accounts of major Lithuanian banks, which are granted with Standard Poor's or equivalent long-term term borrowing BBB- or better external rating according to the foreign rating agencies. Partner bank's rating is assessed either on a stand-alone or applying a bank group logic into which exposure is present. Also, the Group and the Company is monitoring recommendation of the Central Bank of Lithuania.

Retrospectively, risk related to the funds security in banks was limited, because the Group and the Company carried out transactions with the banks that have high ratings provided by the foreign rating agents.

As at 31 December 2019 increase in EURIBOR interest rate by 10 basis points would increase yearly interest expenses amount by EUR 73.8 thousand (as of 31 December 2018 – EUR 76.4 thousand).

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

### Exchange rate risk

The Group and the Company is exposed to foreign currency fluctuations primarily related to the U.S. dollar. Foreign exchange risk arises from future commercial transactions as well as recognized liabilities including impact arising from IFRS 16 "Leases".

The Group's and the Company's financial accounting indicators of 2019 compared to 2018, have been negatively affected by IFRS 16 "Leases" amended as of 1 January 2019. This change has significantly affected Groups and Company's statement of financial position, statement of comprehensive income, and financial indicators. Due to the fact that the highest part of lease payments is denominated in US dollars, as a result changes in exchange rates occur in the statement of comprehensive income, the Group and the Company incurred the currency loss arising from IFRS 16 "Leases" amounting to EUR 6,082 thousand for 2019.

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

### Group

| 31-12-2019                              | EUR              | USD              | BRL        | Total            |
|---|------------------|------------------|------------|------------------|
| Cash and cash equivalents               | 36,583           | 5,282            | -          | 41,865           |
| Trade receivables and other receivables | 12,365           | 704              | 102        | 13,171           |
| Lease liabilities                       | (155,983)        | (220,894)        | -          | (376,877)        |
| Trade payables and other liabilities    | (4,660)          | (5,249)          | (1)        | (9,910)          |
| <b>Total</b>                            | <b>(111,695)</b> | <b>(220,157)</b> | <b>101</b> | <b>(331,751)</b> |

### Company

| 31-12-2019                              | EUR              | USD              | BRL        | Total            |
|---|------------------|------------------|------------|------------------|
| Cash and cash equivalents               | 32,564           | 5,282            | -          | 37,846           |
| Trade receivables and other receivables | 12,355           | 704              | 102        | 13,161           |
| Lease liabilities                       | (155,983)        | (220,894)        | -          | (376,877)        |
| Trade payables and other liabilities    | (4,660)          | (5,249)          | (1)        | (9,910)          |
| <b>Total</b>                            | <b>(115,724)</b> | <b>(220,157)</b> | <b>101</b> | <b>(335,780)</b> |

### Group and Company

| 31-12-2018                              | EUR           | USD          | BRL      | Total         |
|---|---------------|--------------|----------|---------------|
| Cash and cash equivalents               | 68,656        | 4,582        | -        | 73,238        |
| Trade receivables and other receivables | 13,072        | -            | -        | 13,072        |
| Lease liabilities                       | -             | -            | -        | -             |
| Trade payables and other liabilities    | (5,694)       | (4,837)      | -        | (10,531)      |
| <b>Total</b>                            | <b>76,034</b> | <b>(255)</b> | <b>-</b> | <b>75,779</b> |

As at 31 December 2019 increase in USD currency rate by 10 basis points would increase yearly income from currency exchange amount by EUR 22,016 thousand (as of 31 December 2018 – EUR 25.5 thousand).

As at 31 December 2019 increase in BRL currency rate by 10 basis points would increase yearly loss from currency exchange amount by EUR 26 thousand.

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

### Liquidity risk

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

The Group's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2019 were 1.27 and 1.24, respectively (4.87 and 4.77 as at 31 December 2018).

The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2019 were 1.21 and 1.17, respectively (4.87 and 4.77 as at 31 December 2018).

The Group's and Company's objective is to maintain a balance between continuity of funding and flexibility. The Groups and the Company's activities generate sufficient amount of cash, therefore, the Managements' main responsibility is to monitor that the liquidity ratio of the Company is close or higher than 1.

The table below summarizes the maturity profile of the Group's and Company's financial liabilities as of 31 December 2019 and 2018 assessed on contractual undiscounted payments:

|                                | Carrying amount | On demand | Less than 3 months | 3 to 12 Months | 1 to 5 years | More than 5 years | Total   |
|--------------------------------|-----------------|-----------|--------------------|----------------|--------------|-------------------|---------|
| Trade and other payables       | 8,322           | -         | 7,235              | 1,087          | -            | -                 | 8,322   |
| Other current liabilities      | 800             | -         | 736                | 64             | -            | -                 | 800     |
| Lease liabilities              | 376,877         | -         | 13,388             | 40,359         | 365,797      | 31,003            | 450,547 |
| Loan and interest              | 73,373          | -         | 511                | 3,434          | 20,890       | 49,914            | 74,749  |
| Balance as of 31 December 2019 | 459,372         | -         | 21,870             | 44,944         | 386,687      | 80,917            | 534,418 |

|                                | Carrying amount | On demand | Less than 3 months | 3 to 12 Months | 1 to 5 years | More than 5 years | Total  |
|--------------------------------|-----------------|-----------|--------------------|----------------|--------------|-------------------|--------|
| Trade and other payables       | 9,374           | -         | 8,060              | 1,314          | -            | -                 | 9,374  |
| Other current liabilities      | 605             | -         | 133                | 472            | -            | -                 | 605    |
| Lease liabilities              | -               | -         | -                  | -              | -            | -                 | -      |
| Loan and interest              | 76,454          | -         | 272                | 2,536          | 19,714       | 55,222            | 77,744 |
| Balance as of 31 December 2018 | 86,433          | -         | 8,465              | 4,322          | 19,714       | 55,222            | 87,723 |

EUR 1,087 thousand of the EUR 8,322 thousand trade and other payables as at 31 December 2019 (EUR 1,314 of the EUR 9,374 thousand amount as at 31 December 2018) is the retention amounts under contracts, which are paid for when all work under a contract has been completed. There is no possibility to forecast these payment terms.

### Fair value of financial assets and liabilities

EUR 73,373 thousand of EUR 459,372 thousand as at 31 December 2019 (EUR 76,454 thousand of EUR 86,433 thousand as at 31 December 2018) is repayable EIB and NIB loans.

The biggest trade and other payable amounts are to UAB Hoegh LNG Klaipėda, UAB NRG Site, AB "Montuotojas" Montavimo firma Panevėžyje, UAB Lietuvos energijos tiekimas, SE Klaipėda State Seaport Authority as at 31 December 2019.

The biggest trade and other payable amounts are to UAB Hoegh LNG Klaipėda, RAB SKH branch in Lithuania, AB "Montuotojas" Montavimo firma Panevėžyje, UAB Lietuvos energijos tiekimas, SE Klaipėda State Seaport Authority as at 31 December 2018.

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

### Fair value of financial assets and liabilities (cont'd)

The Company's and Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

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

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

| Group                        | Carrying amount |        | Fair value |        |
|------------------------------|-----------------|--------|------------|--------|
|                              | 2019            | 2018   | 2019       | 2018   |
| <b>Financial assets</b>      |                 |        |            |        |
| Trade receivables            | 12,559          | 12,452 | 12,559     | 12,452 |
| Short term deposits          | 21,000          | -      | 21,000     | -      |
| Cash                         | 41,865          | 73,238 | 41,865     | 73,238 |
| Short-term accrued income    | 1,156           | 926    | 1,156      | 926    |
| <b>Financial liabilities</b> |                 |        |            |        |
| Loan and interest            | 73,373          | 76,152 | 73,728     | 72,853 |
| Lease liabilities            | 376,877         | -      | 376,877    | -      |
| Trade payables               | 8,322           | 9,374  | 8,322      | 9,374  |
| Accrued expenses             | 1,315           | 820    | 1,315      | 820    |
| <b>Company</b>               |                 |        |            |        |
|                              | Carrying amount |        | Fair value |        |
|                              | 2019            | 2018   | 2019       | 2018   |
| <b>Financial assets</b>      |                 |        |            |        |
| Trade receivables            | 12,509          | 12,452 | 12,509     | 12,452 |
| Short term deposits          | 21,000          | -      | 21,000     | -      |
| Cash                         | 37,846          | 73,238 | 37,846     | 73,238 |
| Short-term accrued income    | 1,157           | 404    | 1,157      | 404    |
| <b>Financial liabilities</b> |                 |        |            |        |
| Loan and interest            | 73,373          | 76,152 | 73,728     | 72,853 |
| Lease liabilities            | 376,877         | -      | 376,877    | -      |
| Trade payables               | 8,322           | 9,374  | 8,322      | 9,374  |
| Accrued expenses             | 1,049           | 820    | 1,049      | 820    |

The following methods and assumptions are used to estimation the fair value of each class of financial assets and liabilities:

- The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. Loans received by the Company are secured by State guarantee (Level 3).
- For the purpose of the fair value estimation of this loan the Company applied difference in interest rate on a difference between market and contractual interest rate (Level 3).

No transfers occurred between levels in the hierarchy by re-assessing categorization as at 31 December 2019 compared to 31 December 2018.

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

### Capital management

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

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

In 2019 the increase on authorized capital of the Company was amounting to EUR 100 thousand (Note 1). There were no changes in the authorized capital during 2018.

The Company has to keep its equity at least up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania as of 31 December 2019 and as of 31 December 2018.

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

## 30 COMMITMENTS AND CONTINGENCIES

The Tax Authorities have not performed full-scope tax investigations at the Company and the Group. The Tax Authorities may inspect accounting, transaction and other documents, accounting records and tax returns for the current and previous 3 calendar years at any time, and where appropriate, for the current and previous 5 or 10 calendar years and impose additional taxes and penalties. Management of the Group and The Company is not aware of any circumstances which would cause calculation of additional significant liabilities due to unpaid taxes.

Material contractual liabilities (acquisition of property, plant and equipment) amounted to EUR 4,095 thousand as of 31 December 2019 (EUR 11,180 thousand as of 31 December 2018).

The Company has an agreement on assignment of claim rights and a maximum pledge agreement with UAB Hoegh LNG Klaipėda which maximum amount of USD 50,000 thousand per one year as at 31 December 2018 and as at 31 December 2017. The said agreements are intended to secure obligations of the Company to Hoegh LNG Klaipėda under the Time Charter Party (Lease of a Floating Storage and Regasification Unit in conjunction with maintenance and operation services) agreement concluded on 2 March 2012.

### Legal disputes

- Pursuant to ruling of 17-06-2014 of the Court of Appeal of Lithuania in the case under the claim lodged by the plaintiff, UAB Naftos grupė, against the Company with regards to alleged damages of EUR 5 million incurred by the plaintiff, return of surplus oil products, allegedly owned by the plaintiff and stored by the Company, to UAB Naftos grupė and recognition of Service Contract No. 12-12-2005 of 22-12-2004 (hereinafter referred to as "the Contract") to be terminated due to the Company's alleged fault.

The decision of 20-05-2013 of Vilnius Regional Court, which adjudicated the case at first instance, was amended by the abovementioned ruling of the Court of Appeal of Lithuania as follows:

- ✓ the provision of the Contract, conferring exclusive rights on the plaintiff, UAB Naftos grupė, for the transshipment of vacuum gas oil, was declared invalid by the court based on the request of the Company, as contrary to mandatory rules of competition law;
- ✓ the amount of incurred loss of EUR 865 thousand, with an annual interest of 6 % from the awarded amount for the period between the date of the opening of the proceedings (18-04-2011) to the full execution of the judgment, was awarded from the defendant (the Company) to the plaintiff, i.e. only about half of that amount,
- ✓ which was previously awarded by the court of 1st instance for the benefit of UAB Naftos grupė, while completely rejecting part of UAB Naftos grupė claims for damages related to loss of busses;
- ✓ and the litigation costs of the parties of the proceedings were also redistributed proportionally.



## 30 COMMITMENTS AND CONTINGENCIES (CONT'D)

### Legal disputes (cont'd)

On 25-07-2014, the Supreme Court of Lithuania ruled in favour of the cassation appeal filed by the Company concerning the review of part of the ruling of 17-06-2014 of the Court of Appeal of Lithuania, in the case under the claim lodged by the plaintiff, UAB Naftos grupė, against the Company as mentioned above and the Company's counterclaim against UAB Naftos grupė regarding the invalidation of the Contract, indemnification of losses and unjust enrichment. The Supreme Court of Lithuania found that the cassation appeal lodged by the Company complies with the requirements set forth in the Code of Civil Procedure of the Republic of Lithuania; therefore, it is admissible to hear in cassation proceedings.

By ruling of 05-08-2015, the Supreme Court of Lithuania annulled the decisions of first and appellate instances and referred the case to the court of first instance for re-examination. By ruling of 11-09-2015, the Vilnius Regional Court reopened the proceedings and included the Competition Council of the Republic of Lithuania.

In the civil case, the Competition Council has concluded that it is unable to provide a comprehensive assessment on the conformity of the provisions of the Contract with the Competition Law due to a lack of evidence. As described below, the civil case has been suspended pending criminal proceedings.

Management's opinion is that the Group and the Company is unlikely to incur any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2019 and as on 31 December 2018.

- Criminal proceedings concerning the accusations against former managers of the Company and companies UAB Naftos grupė, UAB Artilona. The Company was recognized as a civil plaintiff for the amount of EUR 20.9 million. The amount of the revised claim is EUR 20,9 million. The court proceedings were opened between September and October of 2015.

On 27 December 2017, the Klaipėda District Court of first instance rendered a verdict in the criminal case. The court has decided the following:

- ✓ to award from Artūras Urbutis, Antanas Urbutis, Svetlana Popova, Andrėjus Vaičiulis, Jurgis Aušra, Ričardas Milvydas and UAB Naftos grupė to jointly and severally pay the Company the amount of EUR 20.9 million and 5 % of annual interest on damages awarded from the effective date of criminal conviction until the full execution of the judgment on the award of damages;
- ✓ to award from Artūras Urbutis, Antanas Urbutis, Svetlana Popova, Andrėjus Vaičiulis, Jurgis Aušra and Ričardas Milvydas to pay to the Company the amount of EUR 1.7 thousand each to cover representation costs.

The executives of UAB Naftos grupė appealed against the decision of the Klaipėda District Court, which was handed to the appellate body, imposing actual imprisonment sentences.

Management's opinion is that the Company is unlikely to incur any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2019 and as on 31 December 2018.

- On 28-07-2016, AB Achema lodged a complaint to the General Court of the European Union (GCEU) regarding the annulment of the European Commission decision of 20-11-2013 to harmonize state aid to the Company. Defendant in the case – European Commission. On December 2017, at the request of the Company, GCEU included the Company as an interested party. On 12 September 2019, the court ruled to reject the complaint of AB Achema. On 22 November 2019, AB Achema appealed against such a judgment. AB Klaipėdos nafta will have to submit a defence to the complaint of AB Achema.

- AB Achema has filed 11 complaints to Vilnius Regional Administrative Court against rulings of the National Commission for Energy Control and Prices. The Company in these proceedings is included as the third party concerned. With these complaints, AB Achema asks the court to repeal the rulings of the National Commission for Energy Control and Prices or parts thereof, related to the additional element of security of natural gas supply in the determination of the price of natural gas transmission.

10 of administrative cases have been suspended pending the examination of the complaint filed by AB Achema to GCEU. 1 case is pending, the Company must submit a defence by 14 February 2020.

As of 31 December 2019, AB Amber Grid has calculated for AB Achema interest and fines totaling EUR 3,235 thousand (as of 31 December 2018 amounting to EUR 2,909 thousand) for delayed payments of the security component to the upper ceiling of the natural gas transmission price. According to the contract and the law, Amber Grid AB applies payments received to fines and penalties in the first instance. The Company does not recognise such fines and penalties received as income until the court decision is rendered. Payments received are presented under Contract liabilities caption in the statement of financial position.

## 30 COMMITMENTS AND CONTINGENCIES (CONT'D)

### Legal disputes (cont'd)

Management's opinion is that the Group and the Company is unlikely to incur any material additional expenses related to the claims and therefore it is unnecessary to account for the provisions as on 31 December 2019 and as on 31 December 2018, as the Group and the Company is included in the case as an interested third party.

- On 30 November 2016, the Company received a notice from Vilnius Regional Court (hereinafter referred to as "the Court") regarding the claim for damages filed by UAB Krovinių terminalas (hereinafter referred to as "Plaintiff") against the Company and AB ORLEN Lietuva with regards to violations of competition law. The Company announced about the received claim of UAB Krovinių terminalas in the notification of the material event of 1 December 2016.

The Plaintiff, among other things, asks the Court: (i) to award from the Company damages amounting to EUR 5,995 thousand in favour of the Plaintiff; (ii) to declare null and void the contract concerning the terminal (hereinafter referred to as "the Contract") concluded on 17 November 2011 between the Company and AB ORLEN Lietuva" with subsequent additions and amendments thereto; (iii) to impose interim measures, i.e. to suspend part of the provisions of the Contract.

The application for interim measures was considered by the Court on 9 December 2016. The management of the Company considers the claim to be unfounded. The Company has lodged its defence to the claim within the prescribed deadline. On 9 December 2016, the Company received a ruling of Vilnius Regional Court (hereinafter referred to as "the Court") concerning the application of interim measures, with which the request for the application of interim measures filed by UAB Krovinių terminalas in the case regarding damages for violations of competition law was rejected. UAB Krovinių terminalas filed a separate complaint. The Court of Appeal of Lithuania left unchanged the decision of 9 December 2016.

On 5 January 2018, UAB Krovinių terminalas filed a statement on the reduction of requirement of the claim and the attachment of the evidence to the case. UAB Krovinių terminalas reduced its claim and requests the Company to be ordered to:

- ✓ pay the amount of EUR 4,823 thousand.

On 9 March 2018, the Court issued a ruling ordering the plaintiff, UAB Krovinių terminalas, to provide additional evidence. Upon its submission by UAB Krovinių terminalas, the Company provided explanations and also provided additional evidence in the case.

A hearing was appointed on 15 October 2018, but it was postponed.

The case was examined in substance during the hearings of 13 February 2019 and 15 February 2019. On 7 March 2019, Vilnius Regional Court have dismissed the claim brought by UAB Krovinių terminalas to AB Klaipėdos nafta and AB ORLEN Lietuva with regards to incurred damage as a result of an alleged violation of the competition law, and granted the right to the Company to obtain full compensation for the incurred legal costs.

On 10 April 2019, an appeal was received from UAB Krovinių terminalas. On 20 May 2019, AB Klaipėdos nafta submitted a defence. All documents were sent to the appellate body.

Management's opinion is that the Company is unlikely to incur any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2019 and as on 31 December 2018.

### Regulated profit of LNG terminal

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

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

## 30 COMMITMENTS AND CONTINGENCIES (CONT'D)

### Regulated profit of LNG terminal (cont'd)

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

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

The revenue of the LNG terminal activity comprises from 3 parts:

- LNG regasification service price fixed part that is approved every year by the resolution of the NERC . This part of the price is included into the additional Security Supplement added to the gas transmission price;
- LNG regasification service price variable part that is received for the regasified volume directly from the clients and the tariff of which is approved by the NERC on an annual basis;
- LNG reloading service revenue for reloaded LNG quantity. In 2015-2019 the tariff of the LNG reloading service was set for 5 years. Since 2020 LNG reloading price will be adjusted annually.

LNG regasification service price variable part and LNG reloading service revenue are recognized at the moment of services provision according to existing tariffs.

Meanwhile the LNG Security Supplement tariff is set annually by the NERC based on the amount required to be collected (estimated LNG terminal revenue) and proportionally allocated for the forecasted gas consumption capacities. LNG security supplement is paid by the users of natural gas transmission system, including the end users, together with the other payments for the natural gas transmissions services. The payments are collected by the transmission service operator (hereinafter - TSO) either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO.

Factual LNG Security Supplement collections and payments may differ from planned ones (calculated at the approval of Security Supplement) because of variation of consumption capacities and other differences.

As long as LNG terminal revenue in the financial accounting (under IFRS) are recognized based on the factual gas consumption capacities for the reporting period and correspondingly calculated factual LNG Security Supplement, the differences between the financial LNG terminal segment profit and regulated profit which is calculated based on the NERC methodics may arise.

LNG operating expenses are recognised in the relevant period when incurred.

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

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

| In EUR thousand                         | 2014 | 2015  | 2016  | 2017  | 2018  | 2019<br>(unaudited) |
|---|------|-------|-------|-------|-------|---------------------|
| Financial LNG terminal profit           | 600  | 6,981 | 3,518 | 6,516 | 4,212 | 6,608               |
| Regulated profit (in terms of Methodic) | 267  | 3,525 | 3,329 | 3,297 | 3,688 | 4,034               |
| Difference                              | 333  | 3,456 | 0,189 | 3,218 | 0,524 | 2,574               |
| Difference (cumulative)                 | 333  | 3,789 | 3,978 | 7,197 | 7,721 | 10,295              |

According to the regulation additionally received amount shall be dedicated for compensation of the LNG terminal necessarily exploitation expenses for the future financial periods. The increase in regulated profit is related with the reducing amount of regulated asset base.

## 31 RELATED PARTY TRANSACTIONS

A related party is a person or entity that is related to the Company and the Group:

- 1) A person or a close member of that person's family is related to the Company and the Group:
  - o has control or joint control over the Company;
  - o has significant influence over the Company; or
  - o is a member of the key management personnel of the Company and the Group.
- 2) An entity is related to the Company and the Group, if any of the following conditions applies:
  - o The entity and the Company / Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - o One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - o One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - o The entity is controlled or jointly controlled by a person identified in (1).
  - o The entity is a post-employment defined benefit plan for the benefit of employees of either the Company / Group or an entity related to the Company / Group. If the Company is itself such a plan, the sponsoring employers are also related to the reporting entity.

### Transactions with Lithuanian State controlled enterprises and institutions, and other related parties

| Group:   |      | Purchases | Sales  | Receivables | Payables |
|--|------|-----------|--------|-------------|----------|
| VĮ Klaipėdos valstybinio Jūrų uosto direkcija  | 2019 | 2,322     | -      | -           | 393      |
|  | 2018 | 2,319     | -      | -           | 393      |
| AB Lietuvos geležinkeliai, priklausanti LR valstybei, atstovaujama LR susisiekimo ministerijos | 2019 | 1,004     | -      | -           | -        |
|  | 2018 | 2,247     | -      | -           | 253      |
| UAB IGNITIS  | 2019 | 2,516     | 1,746  | 171         | 368      |
|  | 2018 | 1,813     | 484    | 38          | 447      |
| AB Amber Grid,   | 2019 | -         | 67,724 | 10,156      | -        |
|  | 2018 | -         | 63,008 | 9,707       | -        |
| VĮ Lietuvos naftos produktų agentūra   | 2019 | -         | -      | -           | -        |
|  | 2018 | -         | 2,764  | 111         | -        |
| UAB LITGAS   | 2019 | -         | -      | -           | -        |
|  | 2018 | 217       | 440    | 69          | 262      |
| AB Energijos skirstymo operatorius   | 2019 | 500       | -      | -           | 53       |
|  | 2018 | 600       | -      | -           | 78       |
| UAB Energijos tiekimas   | 2019 | -         | -      | -           | -        |
|  | 2018 | 920       | -      | -           | 140      |
| UAB Neo Group  | 2019 | -         | 78     | -           | -        |
|  | 2018 | -         | 73     | -           | -        |
| Lietuvos Respublikos Energetikos ministerija   | 2019 | -         | -      | -           | -        |
|  | 2018 | -         | -      | -           | 180      |
| VšĮ Lietuvos energetikos agentūra  | 2019 | -         | 2,798  | -           | -        |
|  | 2018 | -         | -      | -           | -        |
| AB LG CARGO  | 2019 | 1,266     | -      | -           | 129      |
|  | 2018 | -         | -      | -           | -        |
| UAB Ardega   | 2019 | 53        | -      | -           | -        |
|  | 2018 | 122       | -      | -           | -        |
| AB Lietuvos draudimas  | 2019 | 406       | -      | -           | 47       |
|  | 2018 | 271       | -      | -           | 14       |
| Blue LNG, Nauticor GmbH & Co.KG  | 2019 | -         | 27     | -           | -        |
|  | 2018 | -         | -      | -           | -        |
| Blue LNG GmbH & Co   | 2019 | 674       | -      | 10          | 129      |
|  | 2018 | 45        | -      | 136         | -        |
| Other related parties  | 2019 | 33        | (4)    | -           | 2        |
|  | 2018 | 38        | 11     | -           | 1        |
| Transactions with related parties, in total:   | 2019 | 8,774     | 72,144 | 10,337      | 992      |
|  | 2018 | 8,592     | 66,780 | 10,061      | 1,768    |

## 31 RELATED PARTY TRANSACTIONS (CONT'D)

| <b>Company:</b>                                    | Purchases  | Sales  | Receivables | Payables |
|--|------------|--------|-------------|----------|
| VĮ Klaipėdos valstybinio Jūrų uosto direkcija      | 2019 2,322 | 4      | -           | 393      |
|  | 2018 2,319 | 4      | -           | 393      |
| AB Lietuvos geležinkeliai                          | 2019 1,004 | -      | -           | -        |
|  | 2018 2,247 | -      | -           | 253      |
| UAB IGNITIS  | 2019 2,516 | 1,521  | 171         | 368      |
|  | 2018 1,813 | 484    | 38          | 447      |
| AB Amber Grid                                      | 2019 -     | 67,724 | 10,156      | -        |
|  | 2018 -     | 63,008 | 9,707       | -        |
| VĮ Lietuvos naftos produktų agentūra               | 2019 -     | -      | -           | -        |
|  | 2018 -     | 2,764  | 111         | -        |
| UAB LITGAS   | 2019 -     | -      | -           | -        |
|  | 2018 217   | 440    | 69          | 262      |
| AB Energijos skirstymo operatorius                 | 2019 500   | -      | -           | 53       |
|  | 2018 600   | -      | -           | 78       |
| UAB Energijos tiekimas                             | 2019 -     | -      | -           | -        |
|  | 2018 920   | -      | -           | 140      |
| UAB Neo Group                                      | 2019 -     | 78     | -           | -        |
|  | 2018 -     | 73     | -           | -        |
| Lietuvos Respublikos Energetikos ministerija       | 2019 -     | -      | -           | -        |
|  | 2018 -     | -      | -           | 180      |
| VšĮ Lietuvos energetikos agentūra                  | 2019 -     | 2,798  | -           | -        |
|  | 2018 -     | -      | -           | -        |
| AB LG CARGO  | 2019 1,266 | -      | -           | 129      |
|  | 2018 -     | -      | -           | -        |
| UAB Ardega   | 2019 53    | -      | -           | -        |
|  | 2018 122   | -      | -           | -        |
| AB Lietuvos draudimas                              | 2019 406   | -      | -           | 47       |
|  | 2018 271   | -      | -           | 14       |
| UAB SGD logistika (Group company)                  | 2019 -     | -      | -           | -        |
|  | 2018 -     | -      | 40          | -        |
| Other related parties (other than Group companies) | 2019 33    | (4)    | -           | 2        |
|  | 2018 38    | 11     | -           | 1        |
| Transactions with related parties, in total:       | 2019 8,100 | 72,117 | 10,327      | 992      |
|  | 2018 8,547 | 66,780 | 9,925       | 1,728    |

Other related parties are following: UAB Tetras, VĮ Registrų centras, Vilniaus metrologijos centras, AB, UAB GET Baltic, Smiltynės perkėla, AB, LR ekonomikos ir inovacijų ministerija, Lietuvos paštas, AB, Lietuvos pramoninkų konfederacija, Klaipėdos prekybos, pramonės ir amatų rūmai, UAB Projektų ekspertizė.

- Purchases from State Klaipėda State Seaport Authority include land rent, jetty usage and FSRU port fee.
- VĮ Lietuvos naftos produktų agentūra is being liquidated from 1 January 2019, therefore no transactions occurred in 2019. In 2018 sales to VĮ Lietuvos naftos produktų agentūra included income from rent of tanks.
- UAB LITGAS was merged to UAB Ignitis (former UAB Lietuvos energijos tiekimas) from 1 January 2019. In 2018 sales to UAB LITGAS include income from regasification services as well as income from LNG reloading from Reloading station to trucks.
- Sales to AB Amber Grid include income from additional security supplement to the price of natural gas' transmission. Sales to AB Amber Grid do not include interest and fines for AB Achema for delayed payments of the security component to the upper ceiling of the natural gas transmission price. These amounts are recognized and accounted for as contract liabilities (as of 31 December 2019 – EUR 3,235 thousand, as of 31 December 2018 – EUR 2,909 thousand) (note 30).

## 31 RELATED PARTY TRANSACTIONS (CONT'D)

- In 2019 there were no transactions with the subsidiary UAB SGD logistika, except of the increase in share capital, amounting to EUR 4,340 thousand. In 2018 the Company made a payment of EUR 40 thousand to the subsidiary for the purpose to cover the lack of working capital.
- Purchases from UAB Ignitis (until 6 September 2019 UAB Lietuvos energijos tiekimas) include purchases of natural gas. Sales to UAB Lietuvos energijos tiekimas include income from LNG regasification and reloading services as well as income from customs brokerage services. Sales to UAB Ignitis from UAB "SGD logistika" comprise LNG transportation services.
- In 2019 sales to UAB "Neo Group" include income from shore tak rent and cargo storage charge. In 2018 sales to this company comprise income from consulting services.
- In 2019 sales to Viešoji įstaiga Lietuvos energetikos agentūra include income from rent of tanks.
- In 2019 UAB Energijos tiekimas was merged to UAB Lietuvos energijos tiekimas (now - UAB Ignitis). In 2018 purchases from UAB Energijos tiekimas include acquisition of electricity power.
- Purchases from AB LG Cargo and AB Lietuvos geležinkeliai comprise purchase of railway services.
- Purchases from AB Energijos skirstymo operatorius include acquisition of electricity power.
- No transactions in 2019 with the Ministry of Energy of the Republic of Lithuania. As at 31 December 2018 the payable amount to the Ministry of Energy of the Republic of Lithuania comprises the debt to the shareholder concerning to increase in share capital by non-monetary contribution.
- In 2019 purchases from Ardega, UAB consist of purchases of repair and maintenance services of measuring, testing and checking equipment as well as gas pressure regulating equipment. In 2018 the Company purchased gas flow meters (non-current assets) as well as repair and maintenance services of measuring, testing and checking equipment from this company.
- Purchases from Lietuvos draudimas, AB include purchases of insurance services in 2019 and 2018.
- In 2019 sales to Blue LNG, Nauticor GmbH & Co.KG include disposal of shares of Blue LNG.

### Management salaries and other payments

The Company's management consists of the Chief Executive Officer (CEO) and Directors.

The Groups's management consists of the Chief Executive Officer (CEO), Directors and Director of subsidiaries.

|                       | Group |      | Company |       |
|-----------------------|-------|------|---------|-------|
|                       | 2019  | 2018 | 2019    | 2018* |
| Payroll related costs | 615   | 645  | 611     | 644   |
| Number of management  | 9     | 7    | 7       | 6     |

During 2019 and 2018 the Management of the Group and the Company did not receive any loans, guarantees, and no other payments or property transfers occurred.

\* For comparability reasons of data the average monthly salary of 2018 has been multiplied by 1.289

## 32 SUBSEQUENT EVENTS

- AB Klaipėdos nafta, KN Açu Serviços de Terminal de GNL Ltda. (hereinafter – the Brazilian SPV) and UTE GNA I Geração de Energia S.A. (hereinafter – GNA) signed an Operation and Maintenance Services Agreement (hereinafter – the Agreement) for the provision of operations and maintenance services in connection with GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro (hereinafter – the LNG Terminal), one of the main port complexes in Brazil, which offers a series of logistics solutions for the Brazilian oil and gas market.

KN has been appointed as an operator of the LNG Terminal, which will provide safe, reliable and efficient operations, including maintenance of the jetty and its installations, gas pipeline and gas metering stations as well as supporting the commissioning of the LNG Terminal. The initial term of the Agreement is for a 13-year operational period following the completion of the LNG Terminal and can be extended upon mutual agreement. The LNG Terminal is due to start operations in 2020. KN through its subsidiaries has established a special purpose company the Brazilian SPV on 13 December 2019, which will eventually be responsible for the provision of services.

## 32 SUBSEQUENT EVENTS (CONT'D)

- On 6 February 2020 amended Articles of Association of AB Klaipėdos nafta subsidiary UAB SGD logistika (hereinafter – the Company) had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company. Following the increase of the authorised capital of the Company, such capital is equal to EUR 4,540,000 and is divided into 4,540,000 units of shares, which grant 4,540,000 votes. Nominal value per share – EUR 1.00.
- On 9 March 2020 AB Klaipėdos nafta has concluded the Loan Agreement with the Nordic Investment Bank regarding granting a loan of up to EUR 160,000 thousand with the purpose to finance an acquisition of FSRU.

The term of the Loan – up to 25 years. Upon approval of the state aid by the European Commission, 100% of the Company's financial obligations under the Loan Agreement will be secured by a state guarantee.

- As UTE GNA I Geração de Energia S.A. has adopted remaining corporate decisions and received lenders approvals, the Operation and Maintenance Services Agreement, signed between AB Klaipėdos nafta, KN Açu Serviços de Terminal de GNL Ltda. and GNA, regarding the provision of operations and maintenance services for GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro, has become effective.
- 31 March 2020 The Court of Appeal of Lithuania has adopted a judgement in the case regarding the damages from the breach of the competition law, by which ruled to leave unchanged 7 March 2019 Vilnius Regional Court decision and to award the Company compensation of litigation expenses incurred at the Court of Appeal. The judgement of the Court may be appealed to the Supreme Court of Lithuania within 3 months from the day of its coming into effect.

### COVID-19 impact

Coronavirus COVID-19 for the first time has been officially reported on 31 December 2019 in China and from February 2020 has rapidly spread around the world bringing to unprecedented distortions of usual processes in various economic sectors and raising uncertainties globally. In the light of infection explosion, in March 2020 most of the countries one after another have entered quarantine – closed borders and at a different level introduced movement restrictions even inside the countries and cities. On 16 March 2020 the Government of Lithuania has announced quarantine in the country. The decisions made in light of the covid-19 pandemic and instruments used to stop the rapid spread of the virus, have complicated operations of the supply chains and negatively affected demand side.

The wider economic impacts of these events include:

- Disruption to business operations and economic activity in Lithuania, with a cascading impact on both upstream and downstream supply chains;
- Significant disruption to businesses in certain sectors, both within Lithuania and in markets with high dependence on a foreign supply chain as well as export-oriented businesses with high reliance on foreign markets. The affected sectors include trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance, education and the financial sector;
- Significant decrease in demand for non-essential goods and services;
- An increase in economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

The Company anticipates that COVID-19 will cause downturn in global economic growth which will lead to decrease of demand on global and regional scale and it could result in a lower transshipment volume through the Company's terminals in 2020 and correspondingly in 2021. Reacting to the changed environment, the management of the Company has activated business continuity and risk mitigation plan of the Group and the Company, the risk management team has been set up to monitor the situation of the Group and the Company and main partners on a daily basis.

As a result of COVID-19, the Company may be unable to operate the infrastructure in case of the infection of critical number of its employees. This could lead to decrease of transshipment volumes or loose of clients and subsequently lower revenues and net profit. Considering this risk, the Group and the Company have switched to work in remote mode and only employees that are essential and physically needed to operate the terminals are working on-site. Due to the declared quarantine to limit the spread of COVID-19 on the entire territory of Lithuania and protective measures and recommendations of the Lithuanian government, the Company has introduced a number of major precautionary and organizational actions to ensure safety of Group's and Company's employees, reduce the possibility to be infected and business continuity. For example, additional health safety measures and medical equipment have been provided and new health safety related practices in the terminals of the Group and the Company have been implemented. All measures are being reviewed and updated daily and respective actions taken accordingly if needed. The management of the Company has also evaluated introduced travel restrictions and border closures and expects that those measures will have no material impact to the Group's and Company's ability to operate and achieve business goals.

## 32 SUBSEQUENT EVENTS (CONT'D)

### **COVID-19 impact (cont'd)**

Another source of risk for the Group and the Company lies in the disruption of a supply chain – starting from IT/telecommunications services that are necessary to ensure proper functioning of IT systems and remote work mode and ending to goods and services that are necessary to finalize investment programs on time. The management of the Company is constantly communicating with its suppliers in order to follow their situation and possibilities to fulfill their obligations on time. To mitigate this risk of supply of the future periods, the Group and the Company creates and updates the list of alternative suppliers for critical procurements and puts its best efforts to ensure timely implementation of all Group and Company goals. As at the financial statements issue date, there have been no indications from current suppliers that could have impact to the financial statements of the Group and the Company as at 31 December 2019.

Even in the given extraordinary circumstances the Group and the Company continue their operations as usually – oil tankers and LNG cargoes are accepted at the terminals of the Company as initially planned and on a schedule basis. The Group and the Company is monitoring the situation and maintains close communication with major clients, suppliers and partners on regular basis concerning their plans and fulfilment of contractual obligations. The service provision for the clients of the Group and the Company takes place according to the agreed schedules and plans and as at the financial statements issue date, there have been no concerns regarding the clients ability to fulfill their contractual obligations.

Although the Group and the Company has not been instantly impacted economically by the quarantine inflicted repercussions, the management of the Company is carefully monitoring global economic development and possible long-term financial impact for the Group and the Company. As at 31 December 2019, the Group's and the Company's working capital amounts to EUR 17,652 thousand and EUR 13,623 thousand, the available the Nordic Investment Bank credit facilities amount to EUR 295,500 thousand.

Taking into account the high liquidity of the Group and the Company, preventive measures taken, activated business continuity and risks mitigation plans, from a cash flows point of view the Group and the Company are in a secure position to continue their business operations in front of unfavorable situation.

The Company's top management has concluded that the range of possible outcomes considered at arriving at this judgment do not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern.



## 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, Darius Šilenskis, 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 consolidated and separate Financial Statements of AB Klaipėdos nafta for the year 2019, 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

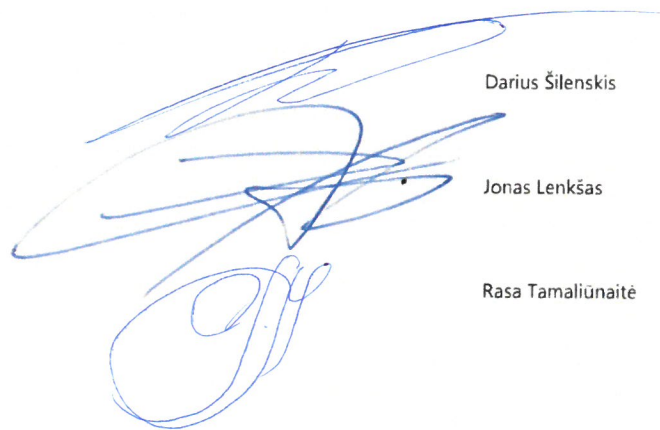
Darius Šilenskis

Chief Financial Officer

Jonas Lenkšas

Chief Accountant

Rasa Tamaliūnaitė





2019

# AB KLAIPĖDOS NAFTA CONSOLIDATED ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDING ON 31 DECEMBER 2019

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### Abbreviations:

KN – AB Klaipėdos nafta

KOT – Klaipėda oil terminal;

SOT – Subačius oil terminal;

OT – Oil terminals;

LNGT – LNG terminals;

LNG terminal -Klaipėda LNG terminal;

BDP – Segment of LNG related business development and consulting;

OP - Oil Products;

HFO – Heavy Oil Products;

LFO - Light Oil Products;

NERC - National Energy Regulatory Council.

## GENERAL INFORMATION ABOUT THE GROUP AND THE COMPANY

### 1. Reporting Period

AB Klaipėdos nafta Consolidated Annual Report for the year 2019 is prepared for the period from 1 January 2019 until 31 December 2019.

Annual Report for the year 2019 also includes Management Report for the year 2019.

### 2. Issuer Information and Contact Details

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|                                 |  |
|---------------------------------|--|
| Name of the Company:            | AB Klaipėdos nafta (hereinafter – the Company, KN or Issuer) |
| Legal status:                   | Stock Company  |
| Authorized share capital:       | 110,375,793 Eur  |
| Date and place of registration: | 27 September 1994, State Enterprise Centre of Registers      |
| Company code:                   | 110648893  |
| Address:                        | Burių Street 19, 91003 Klaipėda                              |
| Register of the Company:        | State Enterprise Centre of Registers                         |
| Telephone numbers:              | +370 46 391772   |
| Fax numbers:                    | +370 46 311399   |
| E-mail address:                 | info@kn.lt   |
| Internet site:                  | www.kn.lt  |

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### 3. Information on Subsidiaries and Contact Details:

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|                                 |  |
|---------------------------------|--|
| Name of the Company:            | UAB SGD terminalas                                     |
| Legal status:                   | Private Limited Liability Company                      |
| Authorized share capital:       | 12,500 Eur   |
| Date and place of registration: | 27 December 2018, State Enterprise Centre of Registers |
| Company code:                   | 304139242  |
| Address:                        | Burių Street 19, 91003 Klaipėda                        |
| Register of the Company:        | State Enterprise Centre of Registers                   |
| Telephone numbers:              | +370 46 391772   |
| Fax numbers:                    | +370 46 311399   |
| E-mail address:                 | info@kn.lt   |
| Internet site:                  | www.kn.lt  |

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|                                 |  |
|---------------------------------|--|
| Name of the Company:            | UAB SGD logistika                                      |
| Legal status:                   | Private Limited Liability Company                      |
| Authorized share capital:       | 4,540,000 Eur  |
| Date and place of registration: | 20 November 2015, State Enterprise Centre of Registers |
| Company code:                   | 304139242  |
| Address:                        | Burių Street 19, 91003 Klaipėda                        |
| Register of the Company:        | State Enterprise Centre of Registers                   |
| Telephone numbers:              | +370 46 391772   |
| Fax numbers:                    | +370 46 311399   |
| E-mail address:                 | info@kn.lt   |
| Internet site:                  | www.kn.lt  |

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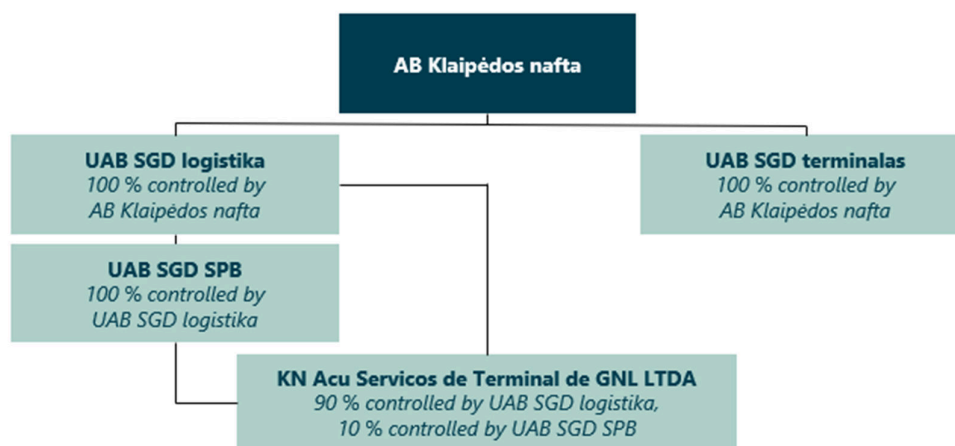
#### 4. Information on Subsidiaries of UAB SGD logistika and Contact Details:

|                                 |  |
|---------------------------------|--|
| Name of the Company:            | UAB SGD SPB  |
| Legal status:                   | Private Limited Liability Company                    |
| Authorized share capital:       | 25,000 Eur   |
| Date and place of registration: | 9 October 2019, State Enterprise Centre of Registers |
| Company code:                   | 305278800  |
| Address:                        | Burių Street 19, 91003 Klaipėda                      |
| Register of the Company:        | State Enterprise Centre of Registers                 |
| Telephone numbers:              | +370 46 391772                                       |
| Fax numbers:                    | +370 46 311399                                       |
| E-mail address:                 | info@kn.lt   |
| Internet site:                  | www.kn.lt  |

|                                 |   |
|---------------------------------|---|
| Name of the Company:            | KN Acu Servicos de Terminal de GNL LTDA   |
| Legal status:                   | Limited Liability Company   |
| Authorized share capital:       | 642.600 BRL (Brazilian reais)   |
| Date and place of registration: | 13 December 2019, State Register of Legal Entities of Rio de Janeiro  |
| Company code:                   | NIRE 33.210.894.765; CPNJ 35.785.170/0001-03  |
| Address:                        | F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro |
| Register of the Company:        | State Register of Legal Entities of Rio de Janeiro  |
| Telephone numbers:              | +370 46 391772  |
| Fax numbers:                    | +370 46 311399  |
| E-mail address:                 | info@kn.lt  |
| Internet site:                  | www.kn.lt   |

#### 5. Group Structure and Main Types of Activity

Structure of the AB Klaipėdos nafta Group (hereinafter – Group) on 31 December 2019:



The Group's Capital on 31 December 2019:

| Name of the Company                     | Type of share            | Number of shares (unit) | Share face value       | Total face value          |
|---|--------------------------|-------------------------|------------------------|---------------------------|
| AB Klaipėdos nafta                      | Common registered shares | 380,606,184             | 0.29 EUR               | 110,375,793 EUR           |
| UAB SGD terminalas                      | Common registered shares | 12,500                  | 1.00 EUR               | 12,500 EUR                |
| UAB SGD logistika                       | Common registered shares | 4,540,000               | 1.00 EUR               | 4,540,000 EUR             |
| UAB SGD SPB                             | Common registered shares | 25,000                  | 1.00 EUR               | 25,000 EUR                |
| KN Acu Servicos de Terminal de GNL LTDA | Common registered shares | 642,600                 | 1.00 BRL <sup>1)</sup> | 642,600 BRL <sup>1)</sup> |

<sup>1)</sup> BRL - Brazilian real.

The Group's operating highlights:

| Name of the Company                              | Address   | Ownership part, per cent                                  | Activities  |
|--|---|---|---|
| AB Klaipėdos nafta                               | Burių Street 19, 92276 Klaipėda   | 100   | The business activity of AB Klaipėdos nafta can be divided into two lines of activity: oil terminals and LNG terminals, and into four separate activities: oil product transshipment (Klaipėda oil terminal), long term oil product storage (Subačius oil terminal), LNG terminal operation and LNG related activities development. |
| UAB SGD terminalas                               | Burių Street 19, 92276 Klaipėda   | 100   | Operation (management) and development of the infrastructure of the liquefied natural gas terminal in Klaipėda, other economic activities.  |
| UAB SGD logistika                                | Burių Street 19, 92276 Klaipėda   | 100   | Expansion of operation of international LNG terminal activities, LNG transportation activities, other economic activities.  |
| UAB SGD SPB                                      | Burių Street 19, 92276 Klaipėda   | 100 owned by UAB SGD logistika                            | Expansion of operation of international LNG terminal activities by investing and establishing project companies in Lithuania and foreign countries (holding activities).  |
| KN Acu Servicos de Terminal de GNL LTDA (KN Acu) | F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro | 90 owned by UAB SGD logistika and 10 owned by UAB SGD SPB | LNG terminal operation services in Acu port, Brazil.  |

## 6. Agreements with Intermediaries of Public Securities Trading

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

| AB SEB bank Financial Markets Department: |  |
|---|--|
| Company code                              | 112021238  |
| Address                                   | J.Balčikonis Street 7, LT-08247 Vilnius, Lithuania |
| Telephone                                 | 1528   |
| E-mail                                    | info@seb.lt  |
| Website                                   | www.seb.lt   |

## 7. Agreements with Brokerages for Public Issue

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.

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

The Company's shares have been listed on the Nasdaq Vilnius Secondary List since 16<sup>th</sup> January of 1996 and since 4<sup>th</sup> April of 2016 The Company's shares are listed on the Nasdaq Vilnius Main List.

The securities of the subsidiary companies are not publicly traded.

Details of the shares and shareholders are provided in annual report's for 2019 chapter "Information about the shareholders and shares" of the Company".

#### **8. 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 Lithuania, Responsible Persons Darius Šilenskis, 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 2019 includes a fair review of the development and performance of the business and the present state of the Company together with the description of the main risks and uncertainties that are encountered.

#### **9. Persons Responsible for the Information Submitted in the Annual Report**

| Job title                                   | Full name         | Telephone number |
|---|-------------------|------------------|
| AB Klaipėdos nafta, Chief Executive Officer | Darius Šilenskis  | +370 52 127 733  |
| AB Klaipėdos nafta, Chief Financial Officer | Jonas Lenkšas     | +370 52 127 733  |
| AB Klaipėdos nafta, Chief Accountant        | Rasa Tamaliūnaitė | +370 46 391 636  |

## A FOREWORD OF THE CEO

Dear Stakeholders,

Beginning of 2020 has been marked with COVID-19 crisis, which is still developing and affecting an increasing number of countries and businesses worldwide at the time of writing this foreword. Operating in the times of energy transition and digital transformation creates enough of challenges by itself and additional uncertainty added to the list requires even more focus and mobilisation of internal resources. Hopefully, once this crisis is over, all of us will come out of it stronger and prepared to enhance our businesses in future.

At KN we are focused, conscious and ready to manage this situation. When facing threats brought by COVID – 19 pandemics, we are implementing extensive preventive mitigation actions for continuity of all business segments and for the sake of health of our people. Having said that, I'm sure that we are resilient to continue our activities successfully till COVID-19 will be finally eliminated from our list of threats.

Safety is one of the keywords, which defines our operations, not only in those turbulent times, but also working in the mode of business as usual. I am proud, that we've ended year 2019 with 0 major incidents and fatalities. We are continuously increasing amount of efforts and resources invested into safety, social responsibility and sustainability of our activities. Happy to see that those efforts are giving returns.

In 2019 we celebrated 60th anniversary of our company activities. During decades KN was constantly adopting to the changing energy markets and increasing customers' demands. However, the changes in global thinking and public consent are more prominent for our operations, as they urge energy transition or even transformation as a way to reduce negative environmental impact to our planet. This means that comfortable sense of stability is not applicable anymore and KN must change, adopt and act even faster than before. I believe we succeeded, and it is illustrated by our key achievements in 2019, which were an outstanding year in a sense, that we laid solid grounds for our future success across different segments of the Company's operations:

- Efficiency of oil business segment operations improved: despite 14% less tons transshipped, +3% higher profit earned, compared to 2018;
- KN rewarded as operator of biggest LNG to power terminal in Latin America in Brazilian Port of Açú;

- Record amount of re-gasified LNG and STS operations performed at our hometown Klaipėda LNG terminals;
- KN long term strategy 2030 developed and presented beginning of 2020.

As it comes to business results, for our clients in oil business year 2019 was like a stretch of continuous obstacles both due to various malfunctions at plants resulting in slowed down refining of petroleum products, contaminated oil in the oil pipeline Druzhba, as well as the geopolitical factors. All this also affected the volumes of petroleum products transhipped at our terminals. Nonetheless, by being flexible, providing more and more diverse services to our clients in the oil business, and focusing on better efficiency of our operations in this segment, we have been able to maintain a similar level of revenue as in 2018.

Our LNG business in Klaipėda, on the other hand, thrived and beat operational records. The favourable situation in the international gas markets and the attraction of new commercial customers led to a 120% increase of gasification and transshipment volumes. During this entire period, 51 LNG vessel arrived at the LNG terminal and not only Lithuanian but also Estonian companies began to utilise the services of the LNG terminal.

2019 were also important for the Company's goals in the international LNG market as we tried our competitiveness in the international tenders of LNG operator services. Our team's efforts were rewarded as we were appointed as the operator of an LNG terminal in the Brazilian Port of Açú. It is an important milestone, establishing new ways forward for the Company.

When looking back at 2019, it was a year of new or prolonged significant partnerships for KN in each business segment. Besides new productive cooperation with Gas Natural Açú (GNA) in Brazil, we have strengthened the existing bonds with our long-term partners in Belarus in our oil business segment.

Whereas as it comes to Klaipėda LNG terminal, not only we have doubled number of the Terminal clients, but we have also signed an agreement of cooperation with a new strategic partner PGNiG to breakthrough in the small-scale LNG market in the region. We believe that all our partnerships will highly contribute to Company's efforts to strengthen KN's competitiveness in the long run.



What we achieved as a team in 2019, is the general understanding of the urgency to think differently and act differently to reach business sustainability of the Company and that was the most significant transformation for us. It allowed us not only to think more creative, to look for new partnerships, but also to employ our new infrastructure at the oil terminal in Klaipėda efficiently and start working with new products. We also advanced with our Digitisation and Innovation strategy, which resulted in increased efficiency of various processes at the Company, like reducing operating costs of Klaipėda LNG terminal.

Last but not least, the three business lines – oil business, Klaipėda LNG and international LNG projects - were crystalized and reflected in KN business strategy 2030, which was developed in 2019 and presented at the beginning of 2020. This business strategy is already being implemented from the first day of its draft appearance and sums up nicely our achievements of the last year.

Looking into 2020, we will focus further on the targets, established in our business strategy. We will have to continue with further transformation of our business and organizational culture. It means that business and environmental sustainability, focus on safe and reliable operations, value driven approach towards all our stakeholder groups will determine our operations in the coming year. It also means that we will be focusing on development of learning and agile organizational culture, working with culturally, linguistically and geographically diverse teams.

Despite the fact, that start of 2020 is marked by extraordinary global circumstances, brought by COVID-19 pandemics, we believe that our strategic backbone will navigate us through it successfully in our attempts and promise for our stakeholders of bridging energy markets.

Darius Šilenskis  
Chief Executive Officer

## BUSINESS CONTINUITY – IMPACT OF COVID – 19

Coronavirus COVID-19 for the first time has been officially reported on 31 December 2019 in China and from February 2020 has rapidly spread around the world bringing to unprecedented distortions of usual processes in various economic sectors and raising uncertainties globally. In the light of infection explosion, in March 2020 most of the countries one after another have entered quarantine – closed borders and at a different level introduced movement restrictions even inside the countries and cities. On 16 March 2020 the Government of Lithuania has announced quarantine in the country. The decisions made in light of the COVID-19 pandemic and instruments used to stop the rapid spread of the virus, have complicated operations of the supply chains and negatively affected demand side.

The Company anticipates that COVID-19 will cause downturn in global economic growth which will lead to decrease of demand on global and regional scale and it could result in a lower transshipment volume through the Company's terminals in 2020 and correspondingly in 2021. Reacting to the changed environment, the management of the Company has activated business continuity and risk mitigation plan of the Group and the Company, the risk management team has been set up to monitor the situation of the Group and the Company and main partners on a daily basis.

As a result of COVID-19, the Company may be unable to operate the infrastructure in case of the infection of critical number of its employees. This could lead to decrease of transshipment volumes or loose of clients and subsequently lower revenues and net profit. Considering this risk, the Group and the Company have switched to work in remote mode and only employees that are essential and physically needed to operate the terminals are working on-site. Due to the declared quarantine to limit the spread of COVID-19 on the entire territory of Lithuania and protective measures and recommendations of the Lithuanian government, the Company has introduced a number of major precautionary and organizational actions to ensure safety of Group's and Company's employees, reduce the possibility to be infected and business continuity. For example, additional health safety measures and medical equipment have been provided and new health safety related practices in the terminals of the Group and the Company have been implemented. All measures are being reviewed and updated daily and respective actions taken accordingly if needed. The management of the Company has also evaluated introduced travel restrictions and border closures and expects that those measures will have no material impact to the Group's and Company's ability to operate and achieve business goals.

Another source of risk for the Group and the Company lies in the disruption of a supply chain – starting from IT/telecommunications services that are necessary to ensure proper functioning of IT systems and remote work mode and ending to goods and services that are necessary to finalize investment programs on time. The management of the Company is constantly communicating with its suppliers in order to follow their situation and possibilities to fulfill their obligations on time. To mitigate this risk of supply of the future periods, the Group and the Company creates and updates the list of alternative suppliers for critical procurements and puts its best efforts to ensure timely implementation of all Group and Company goals. As at the financial statements issue date, there have been no indications from current suppliers that could have impact to the financial statements of the Group and the Company as at 31 December 2019.

Even in the given extraordinary circumstances the Group and the Company continue their operations as usually – oil tankers and LNG cargoes are accepted at the terminals of the Company as initially planned and on a schedule basis. The Group and the Company is monitoring the situation and maintains close communication with major clients, suppliers and partners on regular basis concerning their plans and fulfilment of contractual obligations. The service provision for the clients of the Group and the Company takes place according to the agreed schedules and plans and as at the financial statements issue date, there have been no concerns regarding the clients ability to fulfill their contractual obligations.

The entity operates in the sector that has not been significantly affected by the outbreak of COVID – 19 and over the last few weeks the Company realized relatively stable or even temporarily increasing sales and its operations including supplies have not been uninterrupted. Based on the publicly available information at the date these financial statements have been authorized for issue, the management has considered a number of scenarios with respect to the potential development of the outbreak and its expected impact on the Company and economic environment, in which the entity operates, including the measures already taken by the Lithuanian government and governments in other countries, where the Company's major business partners and customers are located.

### Oil business

Based on the projections of the Company's operations, oil business is considered to be the most sensitive to the market changes and concludes major share of the total financial results of the Company. The Company analyzed various scenarios, i.e. optimistic, realistic and pessimistic,

impacting transshipment. The outcome of analysis is that although negative trend would be observed, the Company is able to cover the shortfall of profits by the retained earnings accumulated till 31 December 2019. The management of the Company considers that in the current circumstances with a lot of uncertainty for sensitivity analysis, a conservative approach should be

used. Therefore, for optimistic, realistic and pessimistic scenarios respective decrease in revenue of 15%, 30% and 45% is used for the simulation. If the transshipment of oil products is 15%, 30% and 45% lower than expected, the following impact to the net profit of the Group and the Company under different scenarios for 2020-2021 could be faced:

| Impact to net profit, tEUR      | Scenario probability | 2020    | 2021    |
|---------------------------------|----------------------|---------|---------|
| -15% oil products transshipment | Optimistic           | -3.752  | -4.339  |
| -30% oil products transshipment | Realistic            | -7.712  | -9.149  |
| -45% oil products transshipment | Pessimistic          | -11.672 | -13.704 |

**Klaipėda LNG business:**

Klaipėda LNG business consists of LNG terminal, that is a state regulated infrastructure operating under transparent and open third-party access regime earning a regulated return margin on the regulated asset base and small-scale LNG reloading terminal in Klaipėda, which carries out commercial operations.

The LNG terminal's operating costs are included in the gas transmission tariff rate as an additional supply security component and are allocated to natural gas users according to their natural gas consumption capacities.

As to the Republic of Lithuania Law on the Liquefied Natural Gas Terminal, the Government approves the minimum annual natural gas quantity for regasification required for securing the basic operations of the terminal (the quantity necessary for the LNG terminal). Compliance with the said provision is ensured by the designated supplier in accordance with the law.

As the mentioned designated supplier is currently appointed to use the terminal by the end of 2024, also, security component tariff rate is approved for the year 2020, the Company does not foresee any possible causes that could make a significant impact to regulated income of LNG terminal and as well as to Company's financial results.

Small-scale LNG reloading station capacities are 100% booked by a strategic partner for a 5 years period under valid agreement. The agreement is based on fixed annual fee set for 5 years period. As at the financial statements issue date, there have been no indications from the client that the contractual obligations could not be fulfilled. In the worst-case scenario, that is not anticipated from the current point of view, the only risk identified by the

Company would be termination of the contract. In case of the termination of the agreement, the Company would continue to develop the operation of small-scale LNG reloading station independently. In such a case, the results of LNG reloading station would be dependent on small-scale LNG market development but, in any case, not expected to be worse than in 2019.

**International LNG business development:**

By winning the tender to operate LNG terminal in Acu port, Rio de Janeiro, Brazil the Company has managed to secure long-term additional source of revenues by signing long term agreement with GNA I Geração de Energia S.A. (hereinafter – GNA). As COVID-19 has a global impact, the management of the Company has introduced all the safety measures in the subsidiary in Brazil as well as in the Company. Considering this risk, all the employees of the subsidiary in Brazil have switched to work in remote mode and only employees that are essential and physically needed to operate the terminal are working on-site under the safety requirements and with the necessary equipment. The service provision for the client of the LNG terminal in Acu port takes place according to the agreed schedules and as at the financial statements issue date, there have been no concerns regarding the clients' ability to fulfil its contractual obligations.

The Company has a long-term strategy to increase the share of revenues from international LNG projects, therefore the management has considered the possible negative COVID-19 impact for implementation of this goal. As the process of the project development is long-term rather than short-term, taking close to 24 months to start the project, from the current perspective the management of the Company considers that there should not be unfavourable to implementation of business goals of the future periods.

Considering the assumptions provided the Company does not foresee any scenarios that could significantly affect international LNG business development continuity and impact to financial results for 2020-2021.

Although the Group and the Company has not been instantly impacted economically by the quarantine inflicted repercussions, the management of the Company is carefully monitoring global economic development and possible long-term financial impact for the Group and the Company. As at 31 December 2019, the Group's and the Company's working capital amounts to EUR 17,652 thousand and EUR 13,623 thousand, the available the Nordic Investment Bank credit facilities amount to EUR 295,500 thousand.

Taking into account the high liquidity of the Group and the Company, preventive measures taken, activated business continuity and risks mitigation plans, from a cash flows point of view the Group and the Company are in a secure position to continue their business operations in front of unfavourable situation.

The Company's top management has concluded that the range of possible outcomes considered at arriving at this judgment do not give rise to material uncertainties related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

## INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES

AB Klaipėdos nafta is the company of strategic importance for the energy security of Lithuania and the surrounding region, which ensures the import of liquefied natural gas into Lithuania and neighboring countries, the storage of the obligatory oil product reserve of the Republic of Lithuania, as well as reliable and efficient transshipment of oil products in Klaipėda port. Besides the activities mentioned above, the Company has started small scale LNG activities in 2017.

Currently the Company's activities can be divided into two main areas (oil terminals and LNG terminals – see picture below) and four separate directions: oil product transshipment (Klaipėda oil terminal), long term oil product storage, LNG terminal operation and LNG related activities development. The Management of the Company assesses the financial results of each activity and sets individual strategic goals for each of them.

### Main terminals:



### Information about investment into associates

The Company has investments into the following associate companies as of 31 December 2019:

| Name of the Company | Address  | Ownership part, per cent | 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 transshipment terminals in the Baltic States. The terminal's main activity is to transship oil products delivered by rail tanks into tankers.



The Company's Oil Terminal reloads these oil products:

- Light Oil Products (hereinafter – LFO):
  - Different types of diesel fuel;
  - Different types of gasoline;
  - Jet fuel.
- Heavy Oil Products (hereinafter – HFO):
  - Different types of fuel oil;
  - Technological fuel;
  - Vacuum gas oil (VGO);
  - Crude oil.
- other products of the chemical industry:
  - Ethanol;
  - Monoethylene glycol;
  - Fatty acid methyl ester.

### Klaipėda oil terminal's characteristics

|   |  |
|---|--|
| Location  | Territory of Klaipėdos nafta oil terminal, address: Burių Street 19, Klaipėda  |
| Oil product tanks   | 45 tanks   |
| Volume of the tanks   | 575 thousand m <sup>3</sup> total volume   |
| The capacity of the oil terminal                              | 8 - 10 million. t / year   |
| Jetty berths  | 2 (in 2019 started to modernize the jetty berths and construct an additional multi-functional berth. After the reconstruction will be completed the terminal will be capable to service three oil tankers simultaneously instead of two. The total length of all three berths after reconstruction will be about 750 m)  |
| Harbor entrance depth:  | 14.5 m   |
| Max. draught at the jetty                                     | 14 m   |
| Max. length of serviced tankers                               | 275 m  |
| Railway   | Two double-track rail tank loading racks: <ul style="list-style-type: none"> <li>▪ Two tracks for petroleum products that do not require maintaining of specific temperature conditions (up to 2 x 30 tank wagons are services simultaneously);</li> <li>▪ Two tracks for oil products that require maintaining of specific temperature conditions (up to 2 x 32 tank wagons are services simultaneously);</li> <li>▪ One of the tracks is adapted to oil products of all types;</li> <li>▪ 124 tank wagons can be loaded at the same time.</li> </ul> |
| Road tanker loading   | 4 loading points at the same time  |
| Modern laboratory   | Equipped to inspect main quality parameters of oil products  |
| Own boiler station of three boilers comprising total capacity | 100 MWh  |

The processes of oil products transshipment service in the Company's oil terminal mainly include the following operations: i) reloading of oil products from rail tanks, ii)

temporary storage of oil products in the terminal's shore tanks and iii) loading oil products into tankers.

To supply the clients with imported oil products delivered to Klaipėda seaport by tankers, the Company is using trucks loading station located in its terminal.

Klaipėda oil terminal provides the following services:

- Transshipment of crude oil and oil products from rail tanks into tankers;
- Transshipment of crude oil and oil products from tankers into rail tanks;
- Reloading of crude oil and oil products into trucks;

- Accumulation and storage of crude oil and oil products;
- Collection of wastewaters from sea vessels which is contaminated with oil products;
- Mooring services;
- Inspection of quality parameters of oil products;
- Adding bio-additives and marking substances to oil products;
- Blending of heavy and light oil products;
- Supply of fuel and water to vessels.

## **SUBAČIUS OIL TERMINAL**

After the approval of the share emission agreement with the Republic of Lithuania on 11 June 2012, the Company has started to manage Subačius oil terminal (hereinafter - SOT). After the takeover of Subačius oil terminal infrastructure the Company's activity and services have been diversified and expanded including services of long-term oil product storage.



### Subačius oil terminal's characteristics

|                     |   |
|---------------------|---|
| Location            | In Kunčiai village, Kupiškis district                           |
| Volume of the tanks | Total 66 tanks  |
| Volume of the tanks | Almost 338 cub. m thousand total volume                         |
| Railway             | The rail trestle which can simultaneously handle 14 rail tanks; |
| Road trucks loading | Modern loading station of auto trucks                           |
| Modern laboratory   | Able to detect the main quality parameters of oil products      |

Subačius oil terminal provides the following services:

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

The results of activities of Subačius oil terminal for 2019 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2019.

The infrastructure of Subačius oil terminal is continuously upgraded in order to ensure proper provision of high quality services to customers, as well as safe and reliable operation of the facility.

## KLAIPĖDA LNG TERMINAL

2019 has been of particular importance in the operation of the LNG terminal. An important breakthrough has been achieved in ensuring the long-term operation of the LNG terminal. In 2019 important milestones to secure the long-term operation of the LNG import terminal have been reached: on 19<sup>th</sup> September 2019 European Commission has approved state aid consent regarding LNG security supplement reduction; in parallel, on 20<sup>th</sup> December 2019 an official agreement with Nordic Investment Bank (NIB) was signed regarding the financing of tariff reduction.

It should be noted that in 2019 LNG terminal has been used by 5 users of the Terminal, of those two companies are from Estonia (Eesti Energia AS and Elenger, known in

Estonia as Eesti Gaas) and one new company Imlitex JSC. 64 LNG carriers have arrived to the LNG Terminal and 20.237 TWh of LNG have been regasified and reloaded in 2019.

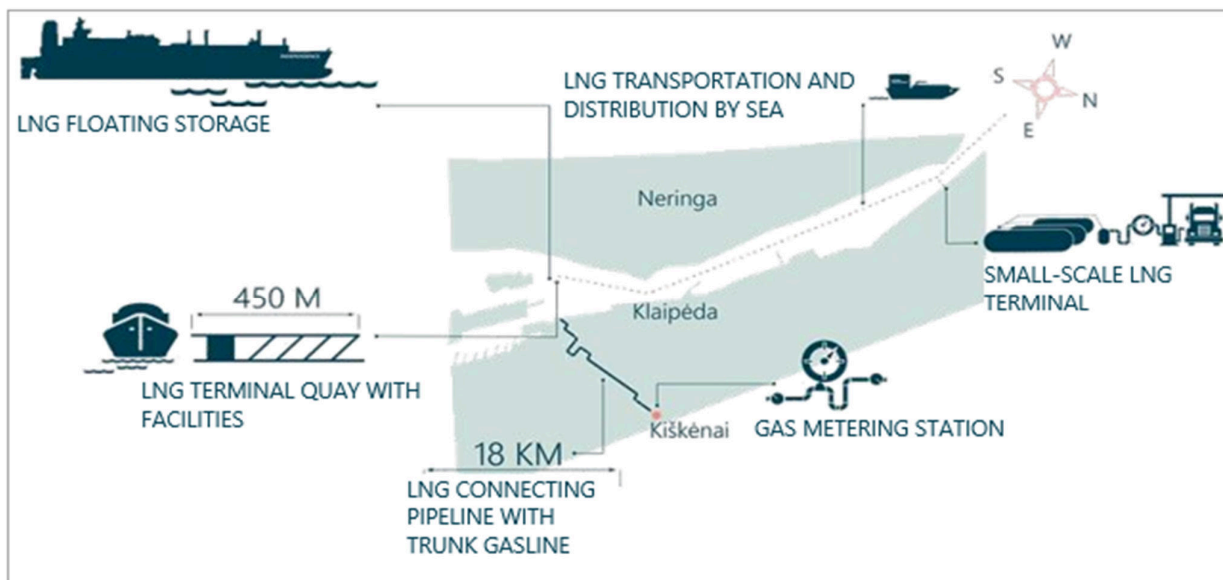
The LNG Terminal complements and extends the existing natural gas supply infrastructure of the country, creates opportunities for supply diversification, eliminates dependence on the only external natural gas supplier, ensures the security of natural gas supply and fulfils the EU Directive N-1 Infrastructure Standard, i.e. creates preconditions for Lithuania to independently supply itself with the natural gas needed to meet the demand of the first necessity.

### Infrastructure of the Liquefied Natural Gas Terminal

LNG Terminal of AB Klaipėdos nafta is based on a Floating Storage with Regasification Unit (FSRU) technology. The terminal is connected to the gas transmission network of the natural gas transmission system operator Amber Grid

AB by an 18-kilometre connecting gas pipeline. LNG Terminal functions - receive liquefied natural gas from LNG carriers, store them, regasify, and supply liquefied natural gas to transmission network or reload into other LNG carriers.

### LNG terminal infrastructure



### LNG Floating Storage with Regasification Unit

The LNG floating storage with regasification unit is an LNG tanker (Independence), which at the Klaipėda Seaport receives liquefied natural gas from the LNG vessels – LNG carriers, which are moored at the FSRU. According to the schedules of the Terminal users, LNG is passed through special equipment in order to return the LNG to a gaseous

state and supply it to the gas transmission system. In 2012 10-year lease (with purchase option) of LNG floating storage with gasification unit has been signed with Norwegian company Høegh LNG Ltd. The builder of this ship is South Korean shipyard Hyundai Heavy Industries Co. Ltd.



| Technical characteristics of the FSRU Independence* |  |
|---|--|
| Klaipeda seaport jetty                              | 157  |
| The volume of the tanks                             | 170,000 m <sup>3</sup>   |
| Maximum LNG filling level                           | 98% at 70 kPag   |
| Maximum LNG loading capacity                        | 9,000m <sup>3</sup> /h LNG   |
| Maximum LNG reloading capacity                      | 5,000 m <sup>3</sup> /h LNG when LNG regasification is performed during LNG reloading      |
| FSRU capabilities                                   | 3.75 billion m <sup>3</sup> of natural gas per year (10.24 million m <sup>3</sup> per day) |
| Minimum operative LNG heel                          | 3.500 m <sup>3</sup> LNG   |
| Maximum gas flow into the gas pipeline              | 10.24 million m <sup>3</sup> per day   |

\*Terminal's technical specifications are given according to the current normative conditions: combustion/measurement temperature - 25/0 °C, pressure - 1.01325 bar.

### Jetty and its facilities

There is a permanently moored FSRU at the jetty, which receives LNG from the LNG carriers that deliver them. Special offshore equipment includes: high pressure platform, service platform, mooring and berthing dolphins, catwalks, fire extinguishing towers, control room, fire protection equipment, service cranes and high pressure gas loading arms, and other necessary equipment and systems.



### Connecting pipeline of the LNG terminal

The terminal is connected to the gas transmission network of the natural gas transmission system operator

Amber Grid SC by an 18-kilometre-long and 700 mm diameter connecting gasline. A gas metering station is built at the point of connection to the transmission network.

### Services of the LNG terminal

The Terminal provides the following services: i) LNG regasification, ii) LNG reloading. The LNG regasification service consists of the following related services:

- Acceptance of LNG cargo from the LNG carrier that arrived, physical and virtual storage of the cargo and LNG regasification in the rate specified in the Terminal user schedule.

The LNG reloading service consists of the following related services:

- Acceptance of LNG cargo from the LNG carrier that arrived, physical and virtual storage of the



cargo and reload (re-export) of LNG to a LNG carrier of not less than 5,000 m<sup>3</sup> and not more than 65,000 m<sup>3</sup> (unless agreed otherwise).

The following prices apply to the services provided by the terminal:

- The fixed part of the price of the LNG regasification service is approved annually by the National Energy Regulatory Council. This part of the price shall be included in the additional component of the natural gas supply security to the transmission price;

- The variable part of the price of the LNG regasification service shall be paid by the users of the terminal for the regasified gas volume and shall be approved annually by the National Energy Regulatory Council (hereinafter – NERC).

| Services of the Terminal                        | Service price              | NERC decree                   |
|---|----------------------------|-------------------------------|
| LNG regasification service* price in 2019       | 0.13 EUR/MWh excluding VAT | 22 November 2018 No. O3E- 404 |
| LNG regasification service price* (set in 2020) | 0.35 EUR/MWh excluding VAT | 11 November 2019 No. O3E-724  |
| LNG reloading service price* (set in 2015-2019) | 1.14 EUR/MWh excluding VAT | 20 November 2014 No. O3- 896  |
| LNG reloading service price* (set in 2020)      | 1.11 EUR/MWh excluding VAT | 11 November 2019 No. O3E- 725 |

\* Terminal users transporting natural gas through the internal outlet of the natural gas transmission system shall also pay the additional security component of the natural gas supply price to the natural gas transmission price set by the NERC.

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 by NERC. 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**

During 2019 Klaipėda small scale LNG terminal (hereinafter - LNG reloading station or ssLNG) delivered 11 cargoes. The entire LNG cargo was loaded to LNG Trucks and distributed to consumers in Estonia, Latvia, Lithuania, and Poland. The rest of the LNG was used for the internal needs of the Company. A total of 256 LNG Trucks were loaded at the LNG reloading station in 2019.

At the end of 2019, AB Klaipėdos nafta has signed a five-year agreement with the Polish state gas company PGNiG for the booking of the capacity of the LNG reloading station. PGNiG will begin utilising LNG the capacity of the LNG reloading station in April of 2019.

The Company has opened an onshore LNG reloading station in the fall of 2017. The purpose of the LNG reloading station project is to develop small-scale LNG infrastructure in the Baltic States and Poland, which not only increases energy security for areas that are further away

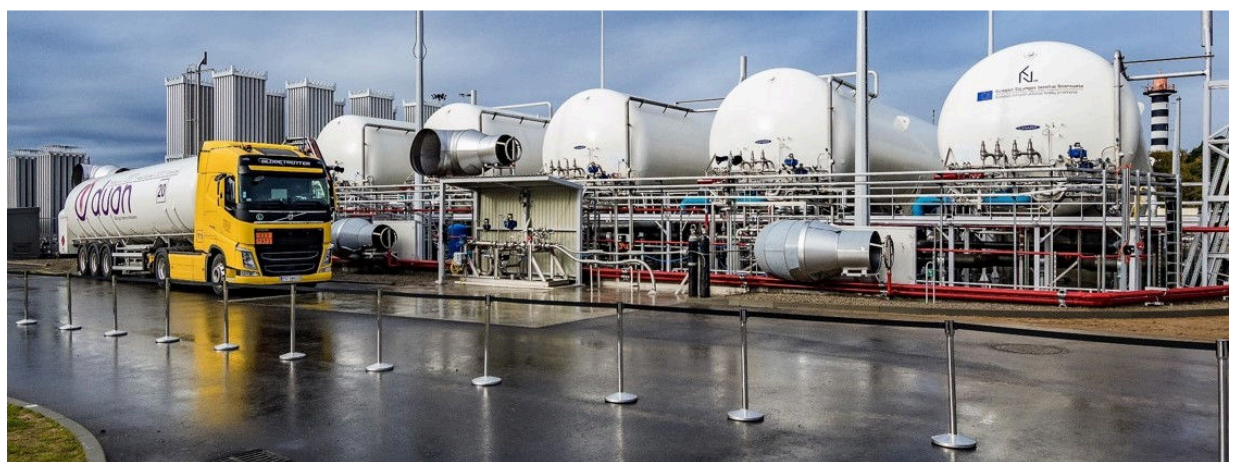
from the gas pipeline, but also provides the benefits of alternative and clean energy to a significant number of consumers. This infrastructure also contributes to ensuring the availability of LNG as a clean fuel for shipping and heavy road transport.

The LNG reloading station is designed to receive cargo from small-scale LNG carriers, store LNG, load LNG into LNG Trucks or to bunker LNG-powered vessels. LNG can also be loaded into ISO containers.

The LNG reloading station is a commercial project of the Company financed by the Company and partly by the European Union support funds under the CEF-Transport program for the implementation of the HEKLA<sup>1)</sup> and Blue Baltics<sup>2)</sup> projects.

<sup>1)</sup> Completion of the project - 30 June 2018.

<sup>2)</sup> Completion of the project - 31 December 2020.



Technical characteristics of the LNG reloading station

|                                       |  |
|---------------------------------------|--|
| Klaipeda seaport jetty                | 2  |
| Technology                            | Five pressure tanks                                      |
| Volume of the tanks                   | 5 x 1,000 m <sup>3</sup>                                 |
| Fill level                            | 86 %   |
| LNG receiving speed (from ship)       | up to 1,250 m <sup>3</sup> /h                            |
| Daily loading capacity for LNG Trucks | 24   |
| Loading of LNG Trucks                 | 2 LNG Truck loading bays (possible simultaneous loading) |
| LNG Truck loading speed               | up to 100 m <sup>3</sup> /h                              |
| Bunkering speed                       | up to 500 m <sup>3</sup> /h                              |
| Utilization of boil of gas            | Gas pipeline connection to the Company's boiler house    |

**Planned activities:**

Liquefied natural gas is the cleanest fossil fuel. LNG is odourless, colourless, non-explosive, non-toxic, and non-corrosive. At Klaipeda LNG reloading station, the same natural gas that we use for domestic or industrial purposes, but in liquid form, cooled to -161 degree Celsius and taking up to 600 times less space than in gaseous form, are loaded into LNG Trucks.

**For shipping**

With the implementation of the Clean Fuel Directives, global shipping is shifting towards cleaner and more efficient fuels. It is in shipping that LNG is a great alternative to polluting petroleum products. With the rapidly growing global fleet of LNG-powered vessels, the demand for clean fuel is also growing significantly.

**Energy**

LNG is used in areas that are not connected to the pipeline. Klaipeda LNG reloading station is in a geographically attractive location, from which it is possible to supply LNG consumers not only in Lithuania, but also in North-East Poland and consumers in the Baltic States. By installing appropriate regasification stations, LNG could be used to generate heat and electricity.

**For transport**

Same as with shipping, other fields of transportation are looking for alternatives to polluting fuels. Many countries, such as the Netherlands, already have well-developed networks of LNG filling stations. LNG as a fuel is best suited for heavy road transport.

## THE COMPANY'S STRATEGY

In the beginning of 2020, the Board of AB Klaipėdos nafta has approved the corporate strategy for the period 2020 - 2030 (hereinafter - the Strategy). The Strategy analyses the Company's environmental factors, establishes common strategic goals for the entire Company and for each individual activity, evaluates the historical financial information of the Company and establishes the strategic period's target indicators to be reached. The Strategy of the Company could be found in: [2030.kn.lt](https://www.kn.lt).

The mission of the Company is to ensure safe, reliable and efficient access to global energy markets by sustainable development, investment and operation of multi-functional liquid energy terminals worldwide. The Company aims to assist customers on cleaner energy transition and to maintain their competitiveness.

Changing energy markets and energy transition also acquired new competencies in management of LNG floating terminal in Klaipėda has led to the major change in the Company's vision and mission. From being local and regional player, providing one type of service, the Company for 2020 - 2030 is targeting to diversify its activities, to expand provided services and be less dependent on one source of income. As a result, the Company will continue to develop four business lines: international LNG projects, oil and refined products handling services, management of Klaipėda LNG floating terminal and small-scale LNG reloading services.

The Company sees the biggest potential for growth and net profit generation in LNG business development and investments into LNG import terminals internationally. AB Klaipėdos nafta believes that floating LNG import-based solutions will underpin close to half of the new regasification capacity in the decade ahead and sees the possibility to achieve the same portion net profit from

international LNG projects as from oil products transshipment services by the year 2030.

As to Company's vision oil business segment will seek to expand the range of products that can be handled and increase operational excellence through investing in to environmentally sustainable and more efficient technologies also digitization. Increased capacities will enable to meet changing demands and improve quality of services provided.

The strategy of state-regulated Klaipėda LNG terminal activity is to maintain operation after Y 2024 ensuring long-term access to LNG import for the country and constantly increase flexibility of the usage of the terminal in order to increase the net value for gas consumers.

Anticipated emergence of demand for LNG from off-grid users, especially from vessels and trucks, in Baltic States and N. Poland and increasing pressure to reduce emissions worldwide including the fact that LNG is existing, and much cleaner alternative makes small-scale LNG reloading station an important asset in the Company's activity portfolio. activity is made as a long-term project. AB Klaipėdos nafta together with its strategic partners has an aim to ignite LNG market creation and to increase share of this - much cleaner fuel consumption in marine and heavy transport as well as off grid industry within a region.

The Strategy foresees that significant attention of the Company's management will also be dedicated to the key asset of the Company – people, focus on direct and indirect business impact on the society - social responsibility, major digitization and innovation directions of activities, carried out by the Company.

The general strategic directions and individual activities' strategic goals for the period 2020 - 2030 are provided below.

| General strategic directions               |  |   |  |  |
|--|--|---|--|--|
| Efficient and effective Company activities | To ensure long-term security of natural gas supply for Lithuania and Baltic Region market needs by providing cost-efficient operations | The leading floating LNG import terminal company globally | The main small-scale LNG import terminal in Baltic States and Poland | Region's leading and most efficient oil throughput and storage hub |

| Strategic objectives for major activities  |   |   |   |
|--|---|---|---|
| Oil terminal   | Klaipėda LNGT business  | LNG reloading station related business  | LNG business development projects   |
| <ul style="list-style-type: none"> <li>Sustain and increase volumes and profitability of oil terminals under consideration of changes to the market structure.</li> <li>Enter market for transshipment of petrochemicals and other new products.</li> <li>Ensure environmentally sustainable activities of KN oil infrastructure.</li> <li>Ensure secure, reliable and efficient operation of oil terminal.</li> </ul> | <ul style="list-style-type: none"> <li>To ensure security of supply and create value for consumers and shareholders.</li> </ul> | <ul style="list-style-type: none"> <li>Profitable small-scale terminal with a proven value in the growing regional ssLNG market.</li> </ul> | <ul style="list-style-type: none"> <li>Operator of at least 5 LNG terminals by 2030.</li> <li>Shareholder in at least 4 LNG terminals by 2030.</li> </ul> |

The Company aims to achieve the following targets within its main activities by accomplishing following objectives or actions:

**Oil terminal:**

- Sustainable implementation of investment infrastructure projects with a purpose to maintain competitiveness in changing market;
- Gaining competitive advantage from extra services capabilities after infrastructure's modernization and expansion;
- Reducing customers bargaining power by providing more attractive and complex services in one hub (extra value generation for customers within terminal);
- Increase process effectiveness by implementing process management system (LEAN or alternative);
- Reducing bargaining power of main suppliers influencing major variable costs;
- Implementing automatization and digital measures to reduce number of personnel and related costs.

**Klaipėda LNGT business:**

- Ensure safe and efficient operation of the terminal which meets current and projected regional LNG demand;
- Purchase FSRU at lowest possible price by securing financing from institutional banks.

**LNG reloading station related business:**

- Increase share of revenues received from the long-term contracts for the small-scale terminal by upstream partnering until the year 2030;
- Reliable and effective regional LNG terminal services provider by ensuring terminal availability of 98%/year and truck loading capacity of 48 trucks/day until the year 2025;
- Advocacy and promotion of positive business environment in terms of legislation, port regulations, market awareness.

**LNG business development projects:**

- Engage in early development to capture new projects;
- Monitor and respond to public and private tenders for LNG import terminal development and O&M services;
- Develop and strengthen partner network of FSRU owners, LNG traders, suppliers, and other relevant counterparties;
- Develop market facing innovative solutions and concepts;
- Actively seek and evaluate acquisition opportunities.

By acting in line with the set strategic directions and achieving strategic objectives the Company believes in a possibility to become one of the top LNG terminal operators worldwide and most competitive oil and refined products handling hub in the Baltic region in the long-term.

## SIGNIFICANT EVENTS OF THE REPORTING PERIOD

**2<sup>nd</sup> January 2019.** Mr. Ian Jonathan Bradshaw was elected as the independent Board Member of the Company to the current vacancy until the end of the acting Board's tenure (27<sup>th</sup> April of 2022).

**28<sup>th</sup> January 2019.** The Company during the period from 7<sup>th</sup> January 2019 to 25<sup>th</sup> January 2019 has acquired its own shares under the following conditions: the total number of shares acquired: 1,463,414; the total price of the transaction: EUR 600 thousand. The purpose of shares' acquisition: the provision of shares to the Company's employees.

**8<sup>th</sup> February 2019.** An Extraordinary General Meeting of Shareholders of the Company adopted decisions to determine fixed monthly remuneration for the independent member of the Supervisory Board and the chairman of Supervisory board. Remuneration shall be applicable for the Supervisory board member activity starting at 2019.

**8<sup>th</sup> March 2019.** Vilnius Regional Court has rejected the claim of UAB Kroviniu Terminalas regarding the damages from the breach of the competition law and to award the Company full compensation of litigation expenses.

**22<sup>nd</sup> March 2019.** With the permission of Ministry of Finance of the Republic of Lithuania on 21st March 2019, came into force Company's board decision to increase the authorised capital of Company's subsidiary UAB SGD logistika in the amount of EUR 800 thousand.

**29<sup>th</sup> March 2019.** The Company's amended Articles of Association had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company and the new shares of the Company are registered with the Nasdaq CSD, SE. Following the increase of the authorised capital of the Company, such capital is equal to EUR 110,476 thousand and is divided into 380,952,393 units of shares, which grant 380,952,393 votes. Nominal value per share – EUR 0.29.

**15<sup>th</sup> April 2019.** Amended Articles of Association AB Klaipėdos nafta subsidiary UAB SGD logistika had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company.

**26<sup>th</sup> April 2019.** An ordinary general meeting of shareholders of the Company have convened and:

- Approved the audited Financial Statements and Annual report of AB Klaipėdos nafta for the year 2018.
- Distributed the Company's profit for 2018, allocation of profit to dividends amounted EUR 11,577 thousand or EUR 0.03 per share.

**30<sup>th</sup> April 2019.** AB Klaipėdos nafta agreed on transferring AB Klaipėdos nafta stake in the charter

contract of the LNG Bunker Vessel Kairos to Nauticor GmbH & Co. The transfer shall become effective as of 30 September 2019.

**27<sup>th</sup> May 2019.** The Company approved the transfer of the regulated activities of the Klaipėda Liquefied Natural Gas Terminal to the subsidiary UAB SGD terminalas. The Decision will come into force when approved by the Ministry of Finance of the Republic of Lithuania and the General Meeting of Shareholders of the Company.

**7<sup>th</sup> June 2019.** On 6th June 2019 the General Manager of AB Klaipėdos nafta Mindaugas Jusius presented the Board of the Company with resignation notice, due on July 26th.

**12<sup>th</sup> June 2019.** The Company received authorization from the Ministry of Finance of the Republic of Lithuania:

- To transfer (invest) the activity of the liquefied natural gas terminal in Klaipėda as a property complex to the Company's 100% controlled subsidiary UAB SGD terminalas by increasing the authorized capital of the Subsidiary
- As a parent Company, to provide a corporate guarantee to UAB Hoegh LNG Klaipėda and HÖEGH LNG LTD for the performance of liabilities of the Subsidiary under the time charter party (lease agreement), dated 2 March 2012.

**20<sup>th</sup> June 2019.** Selection of candidates for the position of General Manager of AB Klaipėdos nafta is announced. After the selection procedures are performed, the Board of the Company will adopt a decision regarding election of General Manager.

**27<sup>th</sup> June 2019.** Taking into account that, in accordance to the Article 27, Extraordinary General Meeting of shareholders of the Companies convened on 27<sup>th</sup> June of 2019 has not met the quorum, the Meeting is considered to be invalid.

**12<sup>th</sup> July 2019.** By decision of Board Company adopted the following decisions:

- As of 23-07-2019 revoke M. Jusius, from the position of Director of subsidiaries UAB SGD logistika and UAB SGD terminalas;
- To elect Jonas Lenkšas from 24<sup>th</sup> July of 2019 as a Director subsidiaries of UAB SGD logistika and UAB SGD terminalas;
- AB Klaipėdos nafta, Darius Šilenskis has been elected as acting General Manager of the Company from 27 July 2019 till the separate decision of the Board of the Company.

**18<sup>th</sup> July 2019.** The extraordinary General Meeting of Shareholders of the Company have convened and adopted the following resolutions:

- Considering the fact that there is no legal and actual possibility to perform transfer of the liquefied natural gas terminal activities to subsidiary UAB SGD, to postpone the consideration of the issue until the required

valuation on investment in subsidiary UAB SGD terminalas is received;

- To postpone consideration of the issue of the provision of parent company guarantee of AB Klaipėdos nafta in favour of UAB Hoegh LNG Klaipėda and HÖEGH LNG LTD for performance of obligations of UAB SGD terminalas;
- To postpone the consideration of amendment Articles of Association of AB Klaipėdos nafta and the approval of the new wording.

**30<sup>th</sup> July 2019.** The Company together with the consortium partners consisted of Korean companies Samsung C&T and Posco E&C as well as Japanese companies Mitsui O.S.K. Lines and Osaka Gas have submitted a binding bid proposal in the tender for development of the Cyprus LNG terminal. The Company participated in the tender as a contractor and partner of the consortium. At **26<sup>th</sup> August 2019** The Company informed that in the tender for the development of the Cyprus LNG terminal, in which the Company participated as a contractor and partner of the consortium, another consortium was selected as winning. The efforts and work done by the Company did not go unnoticed by other existing and potential partners of the Company.

**8<sup>th</sup> August 2019.** The Company has signed trilateral construction contract on reconstruction of jetty.

**20<sup>th</sup> August 2019.** T.Lukoševičius, a member of Supervisory Board of AB Klaipėdos nafta, on 20 August 2019 has submitted a notice of resignation from members of Supervisory Board of the Company as of 3 September 2019.

**30<sup>th</sup> August 2019.** Extraordinary General Meeting of Shareholders of the Company adopted the following resolutions: UAB KPMG Baltics has been elected as an auditor for the Financial Statements and Regulated Activities Statements of the Company and assessment of its Annual Report for the years 2019 and 2020.

**1<sup>st</sup> October 2019.** The Company with BNK (UK) Limited, which belongs to the leading exporter of Belarusian oil products - ZAT Belaruskaja neftenaja kompanija, has signed an agreement on extension of a long-term contract on oil products handling.

**9<sup>th</sup> October 2019.** The Company informed that are negotiated with UTE GNA I Geração de Energia S.A., for the Operations and Maintenance Services Agreement in connection to GNA's LNG Terminal, located in Porto do Açú, one of the main port complexes in Brazil, which offers a series of logistics solutions for the Brazilian oil and gas market.

**31<sup>st</sup> October 2019.** Extraordinary General Meeting of Shareholders of the Company adopted the following resolutions: Upon establishment of Brazilian SPV, to give

a guarantee or guarantees in the name of Company to secure the fulfilment of obligations of Brazilian SPV to GNA under the Agreement.

**31<sup>st</sup> October 2019.** The Board of the Company decided to acquire the liquefied natural gas storage unit "Independence" currently leased by the Company or another floating liquefied natural gas storage unit no later than December 31, 2024.

**5<sup>th</sup> November 2019.** The Supervisory Board of the Company nafta in the accordance with the 30 October 2019 opinion of Audit Committee of the Company approved the transaction with the related party regarding the granting of the Company's guarantee to a subsidiary of UAB SGD logistika in Brazil.

**7<sup>th</sup> November 2019.** The Board of the Company adopted the decision as of 11 November 2019 to elect Darius Šilenskis as CEO of AB Klaipėdos nafta.

**27<sup>th</sup> November 2019.** Extraordinary General Meeting of Shareholders of the Company adopted the following resolutions:

- To cancel the pledge of all current and future amounts receivable pledged to UAB Hoegh LNG Klaipėda and to pledge these current and future amounts receivable by a senior pledge to the Ministry of Finance of the Republic of Lithuania for the state guarantee issued by the Republic of Lithuania;
- To make an agreement for granting of a loan with the Nordic Investment Bank (hereinafter - NIB) on behalf of the Company, borrowing from the NIB up to EUR 135.5 million for a period up to 26 years, for reduction of the LNG terminal Security Component price.

**27<sup>th</sup> November 2019.** The Company and Polish state-owned oil and gas company Polskie Górnictwo Naftowe i Gazownictwo S.A. entered into an agreement regarding booking of the capacities of LNG reloading station for a period of 5 years. It is expected that PGNiG will commence commercial operations from April 2020.

**20<sup>th</sup> December 2019.** The Company has concluded with the Ministry of Finance agreements regarding the guarantee fee and mortgage of property as well as the maximum mortgage.

**20<sup>th</sup> December 2019.** The Company has concluded the Loan Agreement with the NIB regarding granting a loan of 134 million euros with the purpose to finance the rent payable by Company, for reduction of the LNG terminal Security Component price.

**27<sup>th</sup> December 2019.** The Ministry of Finance of the Republic of Lithuania granted a state guarantee, securing obligations of the Company to the NIB regarding a loan of EUR 134 million. The Loan will be used to finance the balancing of the LNG terminal security additional component to the natural gas transmission price.

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

**3<sup>rd</sup> February 2020.** AB Klaipėdos nafta Groups company - KN Açu Serviços de Terminal de GNL Ltda. (hereinafter – the Brazilian SPV) and UTE GNA I Geração de Energia S.A. (hereinafter – GNA) signed an Operation and Maintenance Services Agreement (hereinafter – the Agreement) for the provision of operations and maintenance services in connection with GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro (hereinafter – the LNG Terminal), one of the main port complexes in Brazil, which offers a series of logistics solutions for the Brazilian oil and gas market. The Company has been appointed as an operator of the LNG Terminal, which will provide safe, reliable and efficient operations, including maintenance of the jetty and its installations, gas pipeline and gas metering stations as well as supporting the commissioning of the LNG Terminal.

GNA – a joint venture formed among Prumo Logística, BP and Siemens, which is dedicated to the development, implementation and operation of sustainable energy and gas projects. The LNG-to-power project, developed by GNA at the Port of Açu, is the largest of this kind in South America. Currently, the project includes the development of two natural gas-fired thermoelectric plants (GNA I and GNA II) with a combined capacity of 3 GW and the LNG Terminal with a regasification capacity of 21mm m<sup>3</sup>/day. The newly built floating storage regasification unit (FSRU) BW Magna of 170,000 cubic meter storage capacity is delivered and operated by BW, while the liquefied natural gas will be supplied by BP, also a shareholder of GNA.

**6<sup>th</sup> February 2020.** Amended Articles of Association of Company subsidiary UAB SGD logistika had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company. Following the increase of the authorised capital of UAB SGD logistika, such capital is equal to EUR 4,540 thousand and is divided into 4,540,000 units of shares, which grant 4,540,000 votes. Nominal value per share – EUR 1.00;

**13<sup>th</sup> February 2020** The Supervisory Board of the Company approved corporate strategy of the KN until 2030. The main directions of the strategy are international LNG projects, strengthening the competitiveness of oil terminals and developing Klaipėda as an LNG service

center in the Baltic region. The Strategy of the Company could be found in: [2030.kn.lt](http://2030.kn.lt).

**9<sup>th</sup> March 2020** AB Klaipėdos nafta has concluded the Loan Agreement with the Nordic Investment Bank regarding granting a loan of up to EUR 160 million with the purpose to finance an acquisition of the floating liquefied natural gas storage unit.

The term of the Loan – up to 25 years. Upon approval of the state aid by the European Commission, 100% of the Company's financial obligations under the Loan Agreement will be secured by a state guarantee.

**17<sup>th</sup> March 2020** As UTE GNA I Geração de Energia S.A. (hereinafter – GNA) has adopted remaining corporate decisions and received lenders approvals, the Operation and Maintenance Services Agreement, signed between AB Klaipėdos nafta, KN Açu Serviços de Terminal de GNL Ltda. and GNA, regarding the provision of operations and maintenance services for GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro, has become effective.

**20<sup>th</sup> March 2020** Notice is given that on the initiative and by the resolution of the Board, Extraordinary General Meeting of Shareholders of the Company will be held on 10 April 2020. Agenda of the meeting: regarding the increase of authorized capital by additional contribution; regarding the amendment of the Articles of Association of AB Klaipėdos nafta; regarding the reduction of authorized capital of AB Klaipėdos nafta; regarding the amendment of the Articles of Association of AB Klaipėdos nafta; regarding election of a member of the Supervisory Board of AB Klaipėdos nafta.

**31<sup>st</sup> March 2020** The Court of Appeal of Lithuania (hereinafter – the Court) has adopted a judgement in the case regarding the damages from the breach of the competition law, by which ruled to leave unchanged 7 March 2019 Vilnius Regional Court decision and to award AB Klaipėdos nafta compensation of litigation expenses incurred at the Court of Appeal.

The judgement of the Court may be appealed to the Supreme Court of Lithuania within 3 months from the day of its coming into effect.

### Information about public announcements

Following the requirements of the Law of the Republic of Lithuania, all main events concerning the Company and information about the time and venue of the General Meeting of Shareholders are published on the website of

the Company [www.kn.lt](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

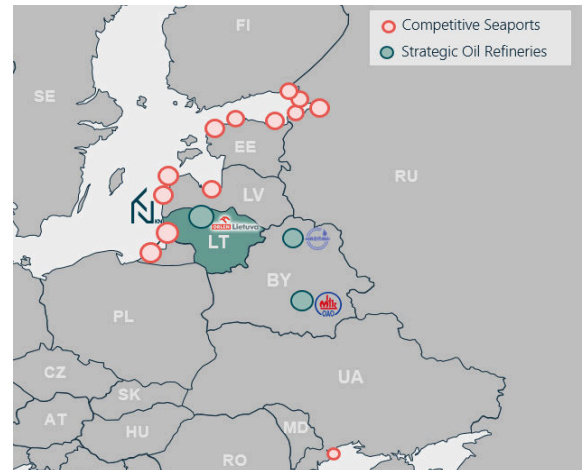
The Company's oil products' transshipment activities are mostly affected by:

- Company's suprastructure for transshipment and storage of oil products (number of tanks, pipelines, trestles, etc.) and infrastructure limitations (number of jetties, water depth at jetties);
- Oil terminals' economic attractiveness from logistical point of view (both transshipment tariffs and costs of the entire logistic chain);
- Macroeconomic and geopolitical environment in regional and global oil processing and trade markets.

Strategic oil refineries (hereinafter – Refineries), whose oil products are transshipped through Company's oil terminals, are located in east and southeast directions. Those refineries are Mažeikiai plant in Lithuania (managed by AB ORLEN Lietuva, hereinafter - Orlen), OJSC Mozyr and OJSC Naftan Refineries in Belarus (located in Mozyr and

Novopolotsk), as well as nearest located refineries in Russia.

Main Company's competitors are oil terminals operating along the eastern coast of the Baltic Sea, also in Gulf of Finland and Black Sea, located at Ust-Luga, Primorsk, St. Petersburg, Ventspils, Riga, Tallinn, Odessa ports.



It should be noted that the region's competitive environment in oil products transshipment market is getting more aggressive due to Russia aims to transship oil products of Russian origin mainly through Russian sea ports located in Gulf of Finland (St. Petersburg, Primorsk, Ust-Luga), and petrochemicals, which are currently being loaded in Finnish and Baltic ports. At the same time, over last few years, Russia is apparently interested in directing to its ports not only the oil products of Russian origin, but Belarusian ones as well.

As a result of the decline of Russian-origin oil products flow to the Baltic States, Estonian and especially Latvian ports are losing more and more major oil product flows. Consequently, due to the shortage of the cargo flows, Estonian, and especially Latvian ports, are becoming more active and strong competitors for the Company's oil terminal, especially in the field of Belarusian oil products transshipment.

According to statistical data, in 2019 ports of the eastern Baltic Sea coast transshipped approximately 90.53 million

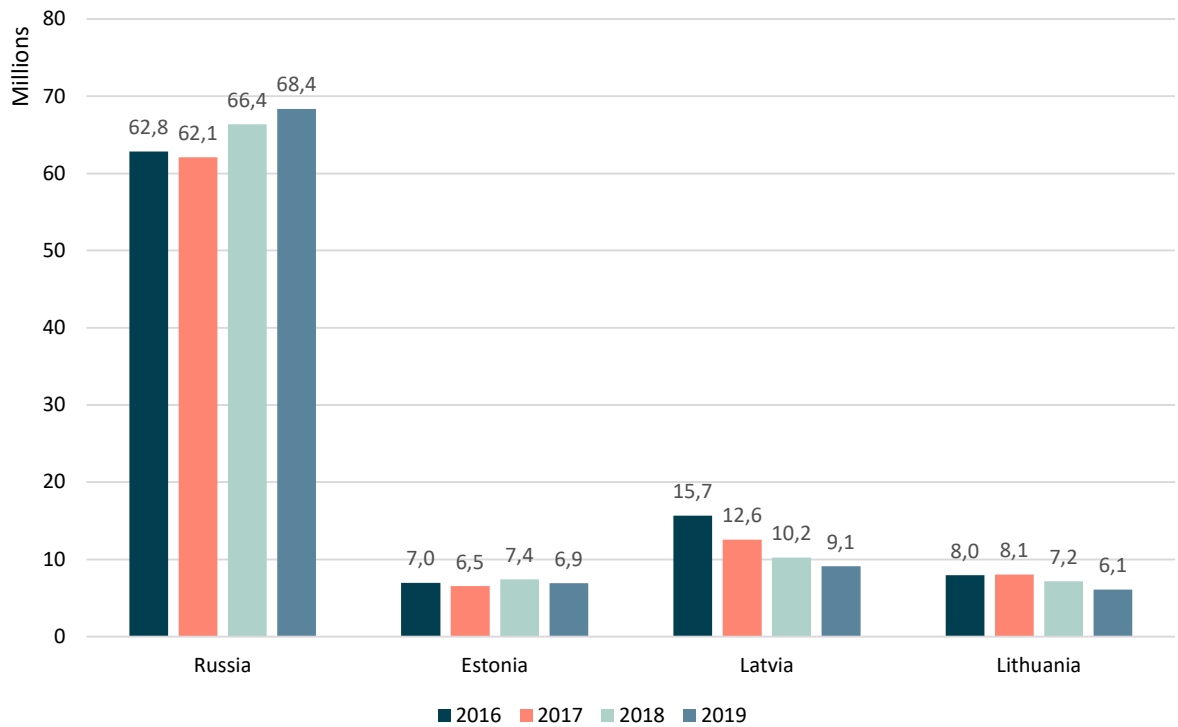
tons of oil products, i.e. 0.65 million tons or 0.71% less compared to 2018.

In 2019 port of Klaipėda handled about 6.1 million tons of oil products, i.e. 1.03 million tons or 14.4% less than in 2018.

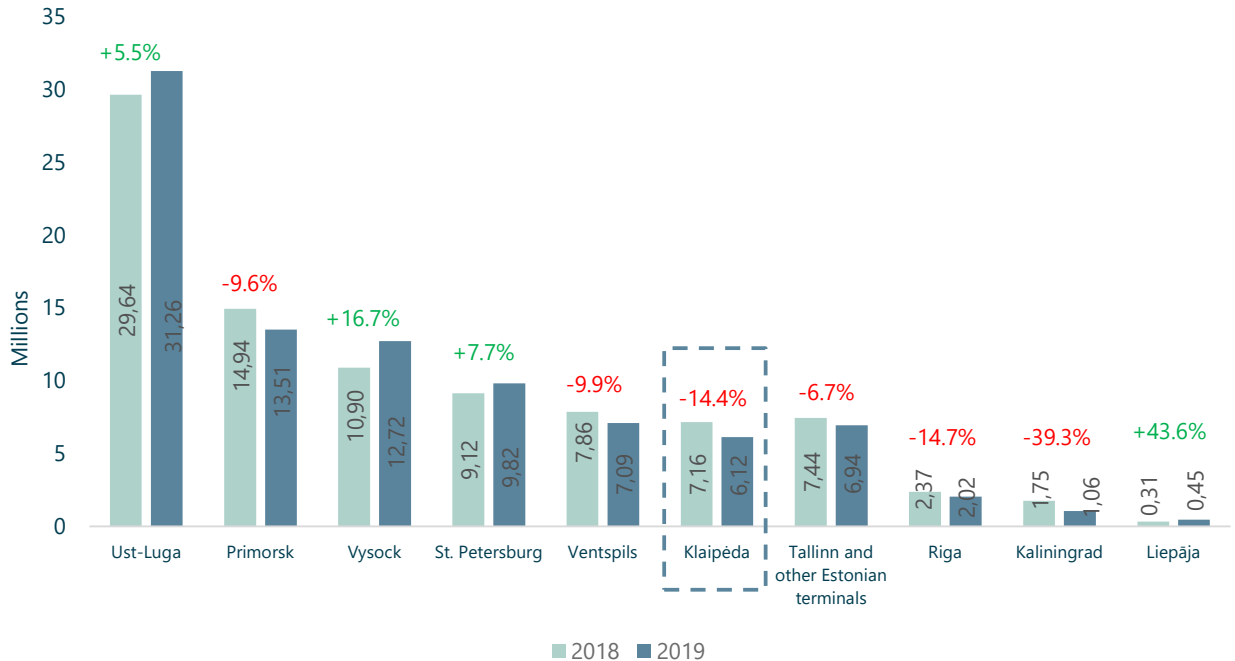
As shown in chart "Dynamics of oil products transshipment at the eastern Baltic Sea coast ports in 2016 – 2019" below, the share of Russian ports in eastern Baltic Sea coast oil products transshipment market is growing steadily. During 2017 – 2019 it increased in approx. 8.3% or 2.8% per year on average.

The overall change of oil product market share of the Baltic ports (Lithuania, Latvia, Estonia) in 2017 – 2019 respectively, decreased by 8.3%. Market share decrease in 2017 was caused due to loss of oil product flows at Latvian and Estonian ports, and during 2018 – 2019 at Klaipėda port as well. The amount of oil products transshipped at Klaipėda port in 2017 increased by 1.1%, in 2018 and 2019 - decreased by 11.2% and 14.4% respectively.

Dynamics of oil products transshipment at the eastern Baltic Sea coast ports in 2016 – 2019:



Dynamics of oil products transshipment at the eastern Baltic Sea coast ports in 2018 – 2019:



\* Figures based on Klaipėda Port Authority and Argus Media Ltd. data

**Transshipment of oil products**

In 2019 Company's Klaipėda and Subačius oil terminals, transshipped 5,749 kt of oil products in total. Klaipėda oil terminal transshipped 5,688 kt of oil products, meanwhile Subačius oil terminal transshipment amounted to 61 kt.

In 2019 the turnover at Klaipėda Oil Terminal decreased by 13.7% compared to 2018, while Subačius oil terminal performance decreased by 42%. The total result of both terminals for 2019 is 14.1% less than in 2018. The decrease of the total transshipment amount was influenced by the drop (-14.1%) of transit cargo flows.

In 2019, one of the Company's main clients in transit oil products transshipment was BNK (UK) Limited, owned by one of the largest Belarusian oil product exporters – ZAT Belaruskaja Neftenaja Kampanija (hereinafter - BNK). In 2019 BNK delivered over 1,294 kt of cargo to the Company, which is about 6.6% less than in 2018. The cargo flow from this customer was directly influenced by the incident in the Russian "Druzhba" oil pipeline in March 2019, when the oil pipeline was contaminated with unconditional oil. This incident resulted in the suspension of Mozyr Refinery for some period.

It should be mentioned that in 2019 an additional flow of BNK gasoline cargo flow was received and since it exceeded the initially planned amount, it somewhat compensated the total cargo flow losses due to the previously mentioned reasons. The transshipment of the gasoline was performed through the Company's newly built storage tanks' park dedicated to the light oil products.

The Company's goal is not only to maintain the newly attracted BNK gasoline flow, but also attract other client's oil products

flows through the Company's terminals. In September 2019 the Company prolonged cooperation agreement with BNK, till the end of 2021.

During 2019 one of the Company's main clients - AB ORLEN Lietuva for further transshipment via Company's terminal delivered approx. 3.5 million tons of its oil products, which is 15.2% less compared to 2018. The main reason for decrease was unplanned shutdown of refinery in February, as well as Orlen's decision to supply diesel fuel to Poland market by railway instead of supply by ships.

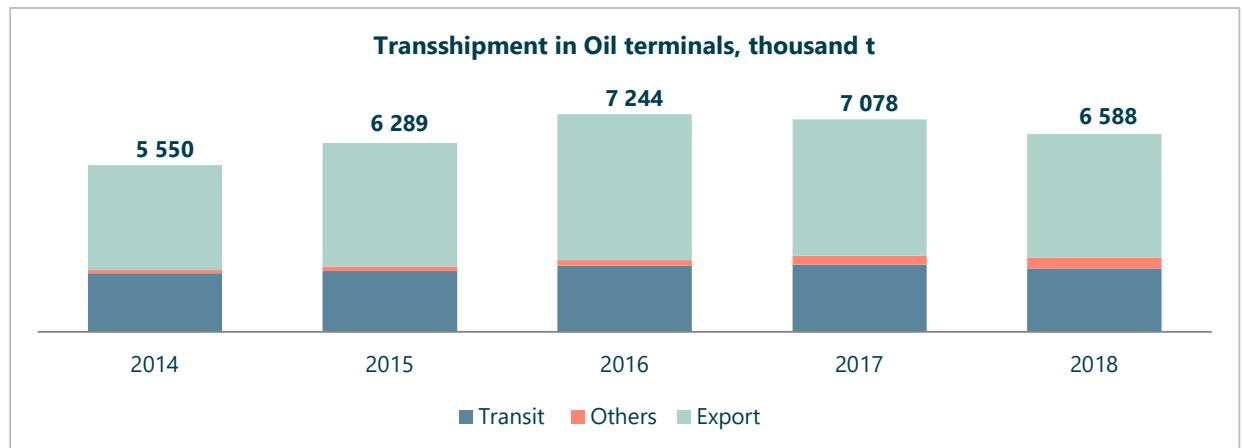
It is noteworthy that the loss of Orlen's cargo flow was slightly compensated by crude oil import through the Company's terminal for the needs of the Orlen refinery. The total amount of imported crude oil was approx. 100 thousand t.

In 2Q of 2019, the Company successfully accepted and transshipped petrochemical product - monoethylene glycol.

In 3Q, of 2019 the handling of denatured ethyl alcohol was started through the Company's terminal in Klaipėda. The product was unloaded from ships and then loaded into trucks.

Imports of light oil products for further supply to Lithuanian market via Company's trucks loading station in 2019 (401.3 thousand t) increased by 10% compared to 2018.

In order to expand the scope of activities and diversify products portfolio in Klaipėda and Subačius terminals, Company continues to develop business relationships with international and regional market player.



**Overview of LNG Terminal operating environment**

During the period 2019, NERC has adopted the following decrees related to the LNG operating environment:

- Decree No. O3E-265 of 25<sup>th</sup> July 2019 changed the calculation of the LNG regasification service revenue cap and determined how the calculation of the LNG regasification service cost calculation will change following the buyout of the LNG floating storage in 2024.
- Decree No. O3E-551 of 10<sup>th</sup> October 2019 provides an option for the LNG Terminal operator, which is required by the Law on the Liquefied Natural Gas Terminal to acquire ownership of the FSRU no later than by 31 December 2024, balancing the cash flows of this investment project through the LNG regasification revenue cap during the period of the project's ROI by setting natural gas tariffs for household consumers, the difference between actual and projected gas product prices could be distributed over a period set by the Council, this way providing an opportunity to maintain stable natural gas tariffs for household consumers, in case of significant fluctuations in prices (gas product) in the market, also provides a more detailed regulation of the calculation of the LNG terminal funds administration costs, and that the LNG reloading price will be set for one year;
- Decree No. O3E-744 of 15<sup>th</sup> November 2019 provides for the possibility of adjusting the additional component of supply security of the natural gas transmission price twice a year.
- Decree No. O3E-728 of 15<sup>th</sup> November 2019 amended paragraph 26 of the Methodology, specifying the Formula for the Calculation of a Security component.
- On 30<sup>th</sup> December 2019 a 38.55% lower LNG security component for natural gas was set, effective from 1<sup>st</sup> January 2020.
- It should also be noted that NERC set natural gas tariffs for household customers for 2020 in the meeting of 29 November 2019, having assessed the maximum benefit of the FSRU leasing cost refinancing to consumers. As a result, natural gas tariffs for household consumers are unchanged, falling by about 17% for consumers who use natural gas for cooking; and about 22% for consumers who use natural gas for premises heating.

LNG terminal capacity allocated for the Gas Year 2019 (period from 1 October 2018 to 30 September 2019):

| Allocated capacity            | Amount of allocated capacity, kWh* | Period                                   |
|-------------------------------|------------------------------------|--|
|                               | 5,238,105,521                      | From 1 October 2018 to 30 September 2019 |
|                               | 1,000,000,000                      | From 18 October 2018 to 30 November 2018 |
|                               | 2,280,000,000                      | From 1 April 2019 to 31 May 2019         |
| LNG regasification capacity** | 5,222,530,600                      | From 1 May 2019 to 30 September 2019.    |
|                               | 964,000,000                        | From 1 June 2019 to 30 June 2019.        |
|                               | 62,500,000                         | From 25 July 2019 to 1 August 2019       |
|                               | 125,000,000                        | From 1 August 2019 to 30 September 2019  |

LNG terminal capacity allocated for the gas year 2020 (period from 1 October 2019 to 30 September 2020):

| Allocated capacity                  | Amount of allocated capacity, kWh* | Period                                   |
|-------------------------------------|------------------------------------|--|
| LNG<br>regasification<br>capacity** | 5,000,838,000                      | From 1 October 2019 to 30 September 2020 |
|                                     | 3,882,720,000                      | From 1 October 2019 to 31 December 2019  |
|                                     | 1,066,121,000                      | From 1 December 2019 to 1 February 2020  |
|                                     | 944,000,000                        | From 1 October 2019 to 31 October 2019   |
|                                     | 8,152,000,000                      | From 1 January 2020 to 30 September 2020 |
|                                     | 248,750,000                        | From 1 November 2019 to 31 December 2019 |
|                                     | 61,500,000                         | From 20 January 2020 to 9 March 2020     |
|                                     | 430,500,000                        | From 1 May 2020 to 31 August 2020        |

\*Combustion / measurement temperature 25/0 °C, pressure 1.01325 bar, natural gas gross calorific value 11.90 kWh/nm<sup>3</sup>, expansion factor 1: 578 m<sup>3</sup> LNG / nm<sup>3</sup> of gas).

\*\*During Gas Year LNG regasification capacity may be changed to LNG reloading capacity.

During 2019 the LNG terminal:

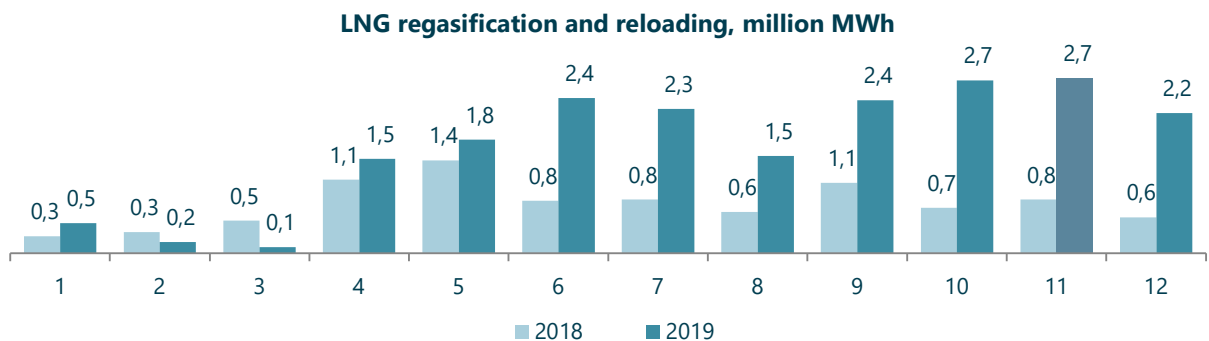
- Performed 64 ship-to-ship operations (more than during the entire period of 2014-2018), of which 51 were cargo deliveries (10 LNG carriers in 2018)
- 1,375.4 thousand tonnes of LNG were received (608.2 thousand tonnes in 2018);
- 1.646 billion nm<sup>3</sup> of natural gas were regasified and supplied to the natural gas transmission system (745 billion nm<sup>3</sup> in 2018);
- 81.4 thousand m<sup>3</sup> of LNG were reloaded into small scale LNG carriers (13 LNG carriers in total) (comparing 9 LNG carriers, 47.2 thousand m<sup>3</sup> of LNG in 2018).

Revenue of LNG Terminal for 2019 amounts to EUR 70.9 thousand (EUR 64.4 thousand in 2018).

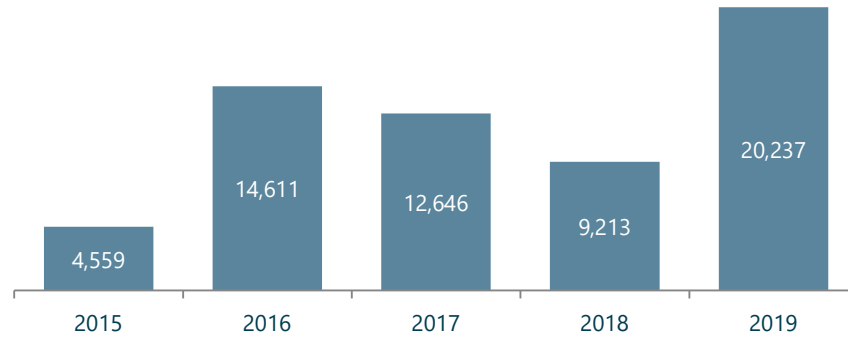
In 2019 the LNG terminal was used by 5 users - designated and commercial natural gas supplier Ignitis JSC, Imlitex JSC, Achema SC, Eesti Energia AS, and Eesti Gaas AS.

The need for LNG terminal capacity depends on several key criteria:

- Joint gas demand of Lithuania and other Baltic States;
- Pricing offered by competing natural gas supply sources (gas supplied by pipeline) and quantity of gas supplied;
- Limitations of the Lithuanian natural gas infrastructure (transmission system capacity);
- Supply of LNG in the global market;
- LNG prices in the region and worldwide;
- Duration and terms of gas supply contracts;
- Availability and freight costs of LNG carriers.



### Total LNG regasification and reloading, million MWh



#### Gas pipelines projects in the Baltic States

Energy projects implemented in the Baltic region would enable the development of the LNG market and more efficient use of the available capacity of the LNG terminal. The following energy projects related to gas supply, which are of strategic importance to the Company, can be identified:

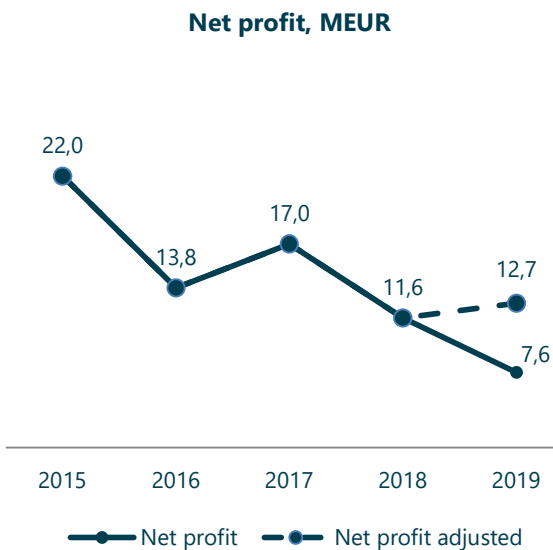
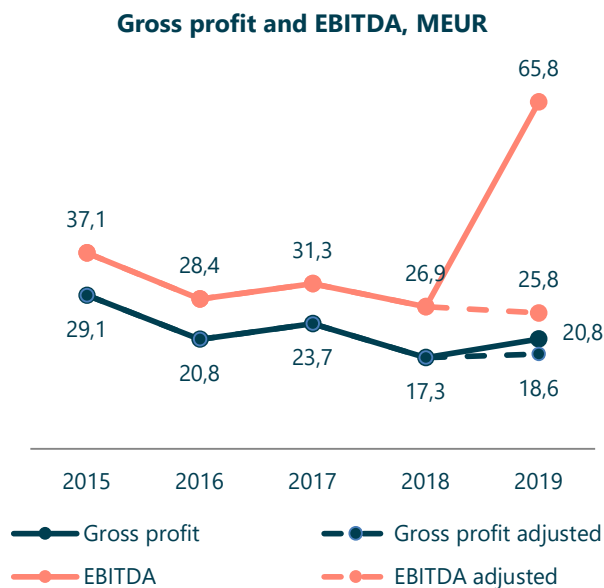
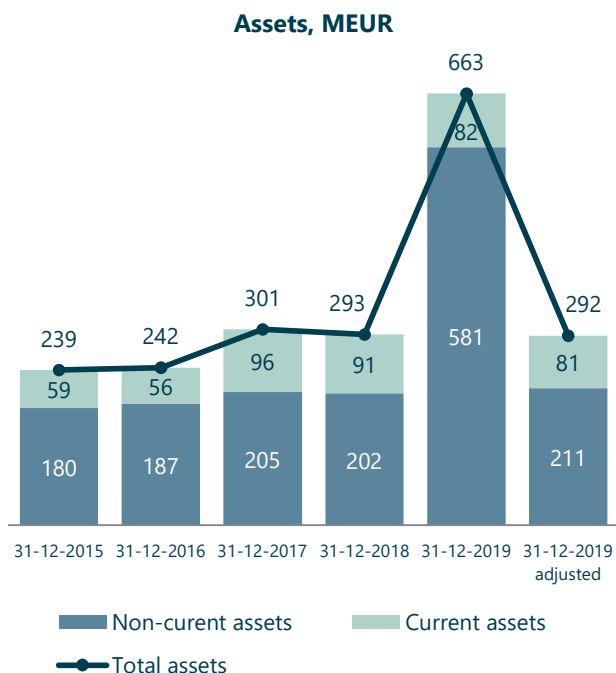
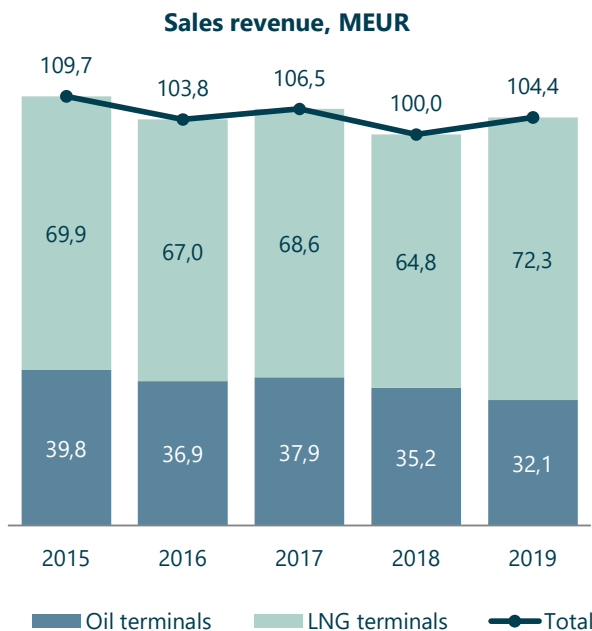
- Gas pipeline connection between Poland and Lithuania GIPL;
- Increasing the capacity of the gas pipeline

connection between Latvia and Lithuania;

- Increasing the capacity of the gas pipeline connection between Latvia and Estonia;
- Expansion and modernization of the Inčukalnis Underground Gas Storage Facility.

On 1 January 2020 Baltic Connector, natural gas connection between Estonia and Finland became operational, it will open the possibility to supply the natural gas regasified at the LNG terminal to the Finnish natural gas market. Finland natural gas consumption amounts approximately is 2.314 billion m<sup>3</sup> per year.

## FINANCIAL RESULTS OF GROUP'S ACTIVITY



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

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

\*"adjusted" - financial indicators/data are recalculated and presented by eliminating the impact of IFRS 16 and respective loss from exchange rates in order to additionally present financial results comparable to prior periods:

|   | 2019    | 2019<br>adjusted* | 2018    | 2017    | 2016    | 2015    |
|---|---------|-------------------|---------|---------|---------|---------|
| Transshipment of oil products, thousand t           | 5,749   | 5,749             | 6,694   | 7,177   | 7,338   | 6,461   |
| LNG regasification and reloading, thousand MWh      | 20,237  | 20,237            | 9,213   | 12,646  | 14,611  | 4,559   |
| Investments of non-current assets                   | 22,051  | 22,051            | 13,156  | 32,858  | 16,874  | 6,809   |
| <b>Financial figures</b>                            |         |                   |         |         |         |         |
| Sales   | 104,363 | 104,363           | 99,998  | 106,484 | 103,839 | 109,702 |
| Gross profit  | 20,834  | 18,635            | 17,369  | 23,745  | 20,797  | 29,123  |
| EBITDA <sup>1)</sup>                                | 65,805  | 25,767            | 26,949  | 31,339  | 28,446  | 37,136  |
| EBIT <sup>2)</sup>                                  | 8,304   | 12,172            | 12,065  | 17,711  | 15,269  | 24,363  |
| Financial and investment activities                 | (8,314) | (127)             | (8)     | (94)    | 211     | (482)   |
| Profit before income tax (EBT)                      | 6,002   | 12,007            | 11,857  | 17,513  | 15,095  | 24,104  |
| Financial net profit                                | 7,561   | 12,665            | 11,577  | 17,031  | 13,794  | 22,036  |
| Current assets                                      | 81,946  | 81,045            | 90,654  | 96,268  | 55,536  | 58,713  |
| Non-current assets                                  | 581,351 | 210,479           | 202,473 | 204,977 | 186,895 | 180,074 |
| Total assets  | 663,297 | 291,524           | 293,127 | 301,245 | 242,431 | 238,787 |
| Equity  | 190,649 | 195,752           | 195,490 | 200,344 | 192,969 | 196,804 |
| <b>Profitability</b>                                |         |                   |         |         |         |         |
| Return on assets (ROA) <sup>3)</sup>                | 1.6%    | 4.3%              | 3.9%    | 6.3%    | 5.7%    | 9.6%    |
| Return on equity (ROE) <sup>4)</sup>                | 3.9%    | 6.5%              | 5.8%    | 8.7%    | 7.1%    | 11.9%   |
| Return on Capital Employed (ROCE) <sup>5)</sup>     | 1.3%    | 4.5%              | 4.4%    | 6.3%    | 6.7%    | 10.7%   |
| Gross profit margin                                 | 20.0%   | 18.2%             | 17.4%   | 22.3%   | 20.0%   | 26.5%   |
| EBITDA margin                                       | 63.1%   | 24.7%             | 26.9%   | 29.4%   | 27.4%   | 33.9%   |
| EBIT margin   | 8.0%    | 11.7%             | 12.1%   | 16.6%   | 14.7%   | 22.2%   |
| EBT margin  | 5.8%    | 11.5%             | 11.9%   | 16.4%   | 14.5%   | 22.0%   |
| Net profit margin                                   | 7.2%    | 12.1%             | 11.6%   | 16.0%   | 13.3%   | 20.1%   |
| <b>Financial structure</b>                          |         |                   |         |         |         |         |
| Debt ratio <sup>6)</sup>                            | 2.48    | 0.49              | 0.50    | 0.50    | 0.26    | 0.21    |
| Capital to assets ratio                             | 0.29    | 0.67              | 0.67    | 0.67    | 0.80    | 0.82    |
| Gross liquidity ratio (current ratio) <sup>7)</sup> | 0.78    | 0.25              | 4.87    | 4.78    | 3.61    | 5.56    |
| Quick ratio <sup>8)</sup>                           | 1.24    | 3.93              | 4.77    | 4.72    | 3.52    | 5.40    |
| <b>Market value ratios</b>                          |         |                   |         |         |         |         |
| Price-Earnings Ratio (P/E) <sup>9)</sup>            | 18.3    | 10.9              | 13.4    | 11.4    | 14.8    | 6.4     |
| Earnings per share (EPS)                            | 0.020   | 0.033             | 0.030   | 0.045   | 0.036   | 0.058   |

<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 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> 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>5</sup> Return on Capital Employed (ROCE) = EBIT / (Total assets at the end of the period - Total current amounts payable and liabilities at the end of the period);

<sup>6</sup> Debt ratio = total current and non-current liabilities at the end of the period / total equity at the end of the period;

<sup>7</sup> Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

<sup>8</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;

<sup>9</sup> P/E = The indicator describing the company's share price and earnings per share ratio.



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

\*"adjusted" - financial indicators/data are recalculated and presented by eliminating the impact of IFRS 16 and respective loss from exchange rates in order to additionally present financial results comparable to prior periods:

|   | 2019    | 2019<br>adjusted* | 2018    | 2017    | 2016    | 2015    |
|---|---------|-------------------|---------|---------|---------|---------|
| Transshipment of oil products, thousand t           | 5,749   | 5,749             | 6,694   | 7,177   | 7,338   | 6,461   |
| LNG regasification and reloading, thousand MWh      | 20,237  | 20,237            | 9,213   | 12,646  | 14,611  | 4,559   |
| Investments of non-current assets                   | 22,051  | 22,051            | 13,156  | 32,858  | 16,874  | 6,809   |
| <b>Financial figures</b>                            |         |                   |         |         |         |         |
| Sales   | 104,138 | 104,138           | 99,998  | 106,484 | 103,839 | 109,702 |
| Gross profit  | 21,241  | 19,042            | 17,369  | 23,745  | 20,797  | 29,123  |
| EBITDA <sup>1)</sup>                                | 66,192  | 26,154            | 26,949  | 31,339  | 28,446  | 37,136  |
| EBIT <sup>2)</sup>                                  | 8,690   | 12,559            | 12,065  | 17,711  | 15,269  | 24,363  |
| Financial and investment activities                 | (8,345) | (127)             | (8)     | (94)    | 211     | (482)   |
| Profit before income tax (EBT)                      | 6,388   | 12,393            | 11,857  | 17,513  | 15,095  | 24,104  |
| Financial net profit                                | 7,947   | 13,051            | 11,577  | 17,031  | 13,794  | 22,036  |
| Current assets                                      | 77,917  | 77,918            | 90,654  | 96,268  | 55,536  | 58,713  |
| Non-current assets                                  | 585,904 | 214,130           | 202,473 | 204,977 | 186,895 | 180,074 |
| Total assets  | 663,821 | 292,048           | 293,127 | 301,245 | 242,431 | 238,787 |
| Equity  | 191,173 | 196,277           | 195,490 | 200,344 | 192,969 | 196,804 |
| <b>Profitability</b>                                |         |                   |         |         |         |         |
| Return on assets (ROA) <sup>3)</sup>                | 1.7%    | 4.5%              | 3.9%    | 6.3%    | 5.7%    | 9.6%    |
| Return on equity (ROE) <sup>4)</sup>                | 4.1%    | 6.7%              | 5.8%    | 8.7%    | 7.1%    | 11.9%   |
| Return on Capital Employed (ROCE) <sup>5)</sup>     | 1.4%    | 4.6%              | 4.4%    | 6.3%    | 6.7%    | 10.7%   |
| Gross profit margin                                 | 19.4%   | 18.3%             | 17.4%   | 22.3%   | 20.0%   | 26.5%   |
| EBITDA margin                                       | 63.6%   | 25.1%             | 26.9%   | 29.4%   | 27.4%   | 33.9%   |
| EBIT margin   | 8.3%    | 12.1%             | 12.1%   | 16.6%   | 14.7%   | 22.2%   |
| EBT margin  | 6.1%    | 11.9%             | 11.9%   | 16.4%   | 14.5%   | 22.0%   |
| Net profit margin                                   | 7.6%    | 12.5%             | 11.6%   | 16.0%   | 13.3%   | 20.1%   |
| <b>Turnover</b>                                     |         |                   |         |         |         |         |
| Accounts receivables, days                          | 46      | 46                | 45      | 41      | 37      | 92      |
| Accounts payable, days                              | 32      | 32                | 38      | 44      | 36      | 30      |
| <b>Financial structure</b>                          |         |                   |         |         |         |         |
| Debt ratio <sup>6)</sup>                            | 2.47    | 0.50              | 0.50    | 0.50    | 0.26    | 0.21    |
| Capital to assets ratio                             | 0.29    | 0.67              | 0.67    | 0.67    | 0.80    | 0.82    |
| Gross liquidity ratio (current ratio) <sup>7)</sup> | 1.21    | 3.89              | 4.87    | 4.78    | 3.61    | 5.56    |
| Quick ratio <sup>8)</sup>                           | 1.18    | 3.77              | 4.77    | 4.72    | 3.52    | 5.40    |
| <b>Market value ratios</b>                          |         |                   |         |         |         |         |
| Price-Earnings Ratio (P/E) <sup>9)</sup>            | 17.4    | 10.6              | 13.4    | 11.4    | 14.8    | 6.4     |
| Earnings per share (EPS)                            | 0.021   | 0.034             | 0.030   | 0.045   | 0.036   | 0.058   |

<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 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> 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>5)</sup> Return on Capital Employed (ROCE) = EBIT / (Total assets at the end of the period - Total current amounts payable and liabilities at the end of the period);

<sup>6)</sup> Debt ratio = total current and non-current liabilities at the end of the period / total equity at the end of the period;

<sup>7)</sup> Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

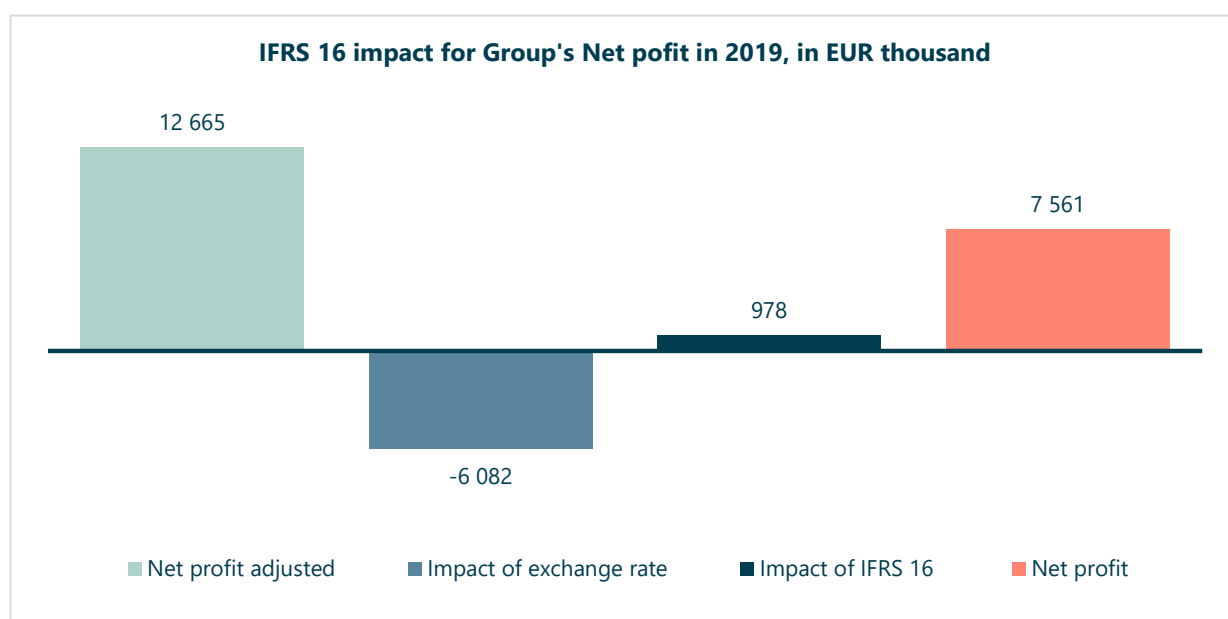
<sup>8)</sup> Quick ratio = (total current assets at the end of the period - Inventories at the end of the period) / total current liabilities at the end of the period,

<sup>9)</sup> P/E = The indicator describing the company's share price and earnings per share ratio.

## Financial results

KN's financial results of 2019 have been affected by IFRS 16 "Leases" amended as of 1 January 2019 compared to 2018. This change has significantly affected KN's statement of financial position, statement of comprehensive income, and financial indicators. In 2018, the costs of lease have been registered in the statement of comprehensive income and had no impact on the statement of financial position. Upon coming into effect

of the amendments to the standard, leases have been accounted for as assets and liabilities (right of use the assets and financial lease liabilities). As most of lease payments capitalized are denominated in USD, the negative impact of exchange rates in amount of EUR 6,082 thousand has been recognized in the statement of comprehensive income in 2019, however in reality the Company is not affected by this.



Due to aforementioned circumstances the Company also calculated adjusted net profit of 2019, where the impact of IFRS 16 and respective impact of exchange rates is eliminated. Therefore, for comparison reasons of figures 2019 and 2018, adjusted figures of 2019 are used. In line

with IFRS 16 assets and liabilities have been recognised in the Company's financial statements 2019, therefore for ratios calculation purposes adjusted assets and liabilities are calculated by eliminating lease assets and liabilities arising from IFRS 16.

The impact of IFRS 16 "Leases" on the Statement of comprehensive income for 2019:

| Income/(decrease) in EUR thousand      | 31-12-2019    | 31-12-2019    |
|--|---------------|---------------|
|  | The Group     | The Company   |
| <b>Financial Net profit</b>            | <b>7,561</b>  | <b>7,947</b>  |
| <i>Depreciation expenses</i>           | 43,907        | 43,907        |
| <i>Rent expenses</i>                   | (46,120)      | (46,120)      |
| <u>Finance costs:</u>                  |               |               |
| <i>Rent interest</i>                   | 2,136         | 2,136         |
| <i>(Losses) from currency exchange</i> | 6,082         | 6,082         |
| <u>Profit tax:</u>                     |               |               |
| <i>Change in deferred income tax</i>   | (901)         | (901)         |
| <b>Net profit adjusted</b>             | <b>12,665</b> | <b>13,051</b> |

In year 2019 the main KN financial indicators have changed compared to 2018 as follows:

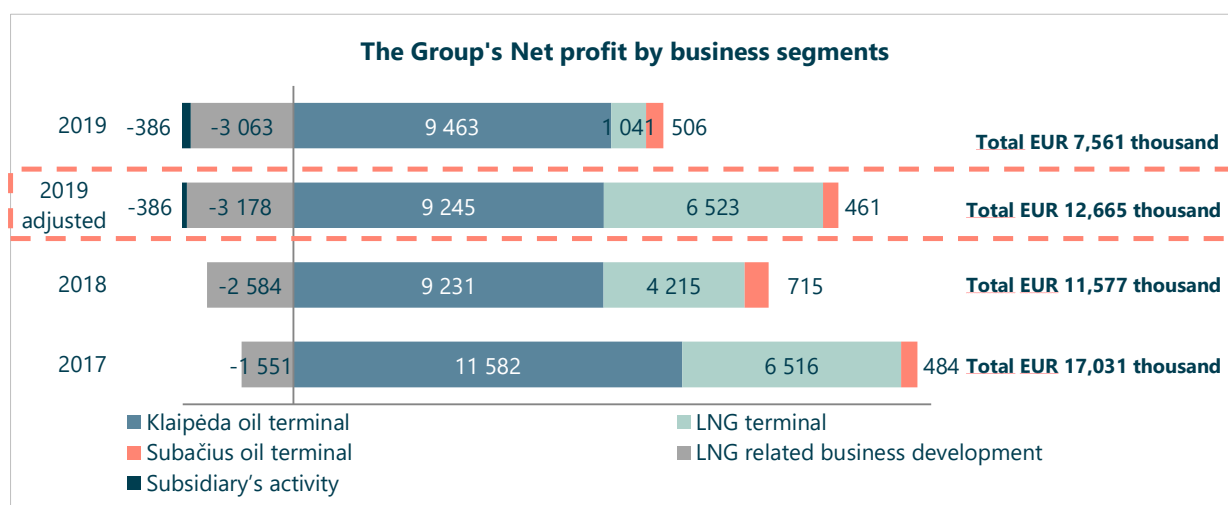
|                           | 2019    | 2019 adjusted | 2018   | Change,<br>2019A vs 2018 |        |
|---------------------------|---------|---------------|--------|--------------------------|--------|
|                           |         |               |        | +/-                      | %      |
| <b>GROUP</b>              |         |               |        |                          |        |
| Gross profit              | 20,834  | 18,635        | 17,369 | 1,266                    | 7.3%   |
| Net profit                | 7,561   | 12,665        | 11,577 | 1,088                    | 9.4%   |
| EBITDA                    | 65,805  | 25,767        | 26,949 | -1,182                   | -4.4%  |
| Gross profit margin       | 20.0%   | 18.2%         | 17.4%  | 0.8 %                    | 4.6%   |
| Net profit margin         | 7.2%    | 12.1%         | 11.6%  | 0.5%                     | 4.3%   |
| EBITDA margin             | 63.1%   | 24.7%         | 26.9%  | -2.2%                    | -8.2%  |
| Earnings per share (EPS)  | 0.020   | 0.033         | 0.030  | 0.005                    | 16.7%  |
| Financial activity result | (8,343) | (155)         | (52)   | (103)                    | 198.9% |
| Return on equity (ROE)    | 3.9%    | 6.5%          | 5.8%   | 0.7 %                    | 12.1%  |
| <b>COMPANY</b>            |         |               |        |                          |        |
| Gross profit              | 21,241  | 19,042        | 17,369 | 1,673                    | 9.6%   |
| Net profit                | 7,947   | 13,051        | 11,577 | 1,474                    | 12.7%  |
| EBITDA                    | 66,192  | 26,154        | 26,949 | -795                     | -3.0%  |
| Gross profit margin       | 19.4%   | 18.3%         | 17.4%  | 0.9 %                    | 5.2%   |
| Net profit margin         | 7.6%    | 12.5%         | 11.6%  | 0.9%                     | 7.8%   |
| EBITDA margin             | 63.6%   | 25.1%         | 26.9%  | -1.8%                    | -6.7%  |
| Earnings per share (EPS)  | 0.021   | 0.034         | 0.030  | 0.005                    | 16.7%  |
| Financial activity result | (8,455) | (155)         | (52)   | (103)                    | 198.9% |
| Return on equity (ROE)    | 4.1%    | 6.7%          | 5.8%   | 0.9%                     | 15.5%  |

In 2019 **the Group's adjusted net profit** is EUR 12,665 thousand and is higher by 9.4 per cent or by EUR 1,088 thousand comparing to 2018 (EUR 11,577 thousand). The Group's adjusted net profit consists of the Company's adjusted net profit - EUR 13,051 thousand, the loss of subsidiary UAB SGD logistika – EUR 382 thousand, and others subsidiary's EUR 4 thousand loss.

The Group's adjusted net profit margin for 2019 is 12.1 per cent, the adjusted gross profit margin reached 18.2 per cent (in 2018 respectively 11.6 per cent and 17.4 per

cent). The profit per one share amounts to EUR 0.020/share in 2019 (EUR 0.030/share in 2018).

In 2019 **the Company's adjusted net profit** is EUR 13,051 thousand and is higher by 12.7 per cent or by EUR 1,474 thousand comparing to 2018 (EUR 11,577 thousand). The Company's adjusted net profit margin for 2019 is 12.5 per cent, the adjusted gross profit margin reached 18.3 per cent (in 2018 respectively 11.6 per cent and 17.4 per cent). The profit per one share amounts to EUR 0.021/share in 2019 (EUR 0.030/share in 2018).



The main impacts to the higher Group's adjusted net profit by EUR 1,088 thousand is - EUR 2,308 thousand higher adjusted net profit of LNG terminal and EUR 14 thousand higher adjusted net profit of KOT. LNG related business development has generated loss. For detailed explanations see below:

- LNG terminal's adjusted net profit was higher by EUR 2,308 thousand and equal to EUR 6,523 thousand due to higher quantity of LNG regasification;
- Klaipėda Oil terminal's adjusted net profit was higher by EUR 14 thousand and equal to EUR 9,245 thousand mainly due to the following reduced terminal costs: variable costs (gas, electricity and railroad costs) lower by EUR 1,029 thousand (change related to lower oil transshipment), and depreciation and amortization costs lower by EUR 990 thousand. The positive effect has been minimised by lower sales revenue;
- Subačius oil terminal's adjusted net profit was lower by EUR 254 thousand and equal to EUR 461 thousand. The change has been mainly influenced by lower income from commercial oil storage services;
- The adjusted loss of LNG related business development was higher by EUR 594 thousand up to EUR 3,178 thousand due to higher costs of development of new LNG projects;
- The subsidiary's UAB SGD logistika activity (LNG transportation activities) results are negative – loss of EUR 382 thousand.

In 2019 the **Group's financial activity loss** is EUR 8,343 thousand (in 2018 - EUR 52 thousand loss). The main

impacts to the significantly higher financial loss are: EUR 6,082 thousand loss from currency exchange according to IFRS 16, EUR 2,136 thousand interest on the financial lease liabilities (IFRS 16 impact), other financial activity's costs (interest costs, realised negative impact from exchange rate, fines) comprised EUR 266 thousand (other financial activity's cost of 2018 comprised EUR 283 thousand). Income from financial activities in 2019 mainly comprise from: EUR 46 thousand fines income (2018 – EUR 175 thousand), EUR 64 thousand interest income on bank accounts (2018 – EUR 56 thousand), profit from disposal of shares – EUR 24 thousand (KN subsidiary UAB SGD logistika has sold 10% of stake of shares in the charter contract of Kairos to the German company Nauticor GmbH & Co.KG in September 2019).

In 2019 **Group's adjusted EBITDA** comprise EUR 25,767 thousand and was lower by 4.4 per cent or by EUR 1,182 thousand compared to 2018 (EUR 26,949 thousand). Adjusted EBITDA margin is 24.7 per cent, for 2018 – 26.9 per cent.

In 2019 **Company's adjusted EBITDA** comprised EUR 26,154 thousand and was lower by 3.0 per cent or by EUR 795 thousand compared to 2018 (EUR 26,949 thousand). Adjusted EBITDA margin is 25.1 per cent, for 2018 – 26.9 per cent.

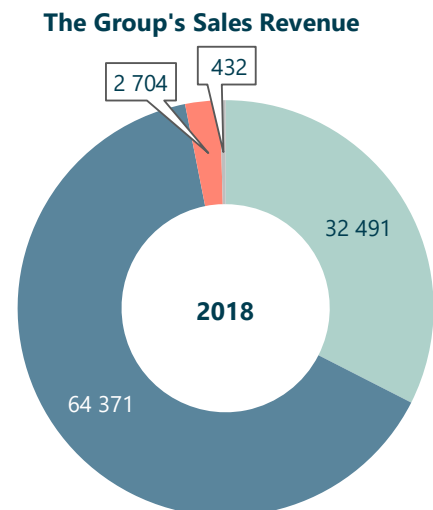
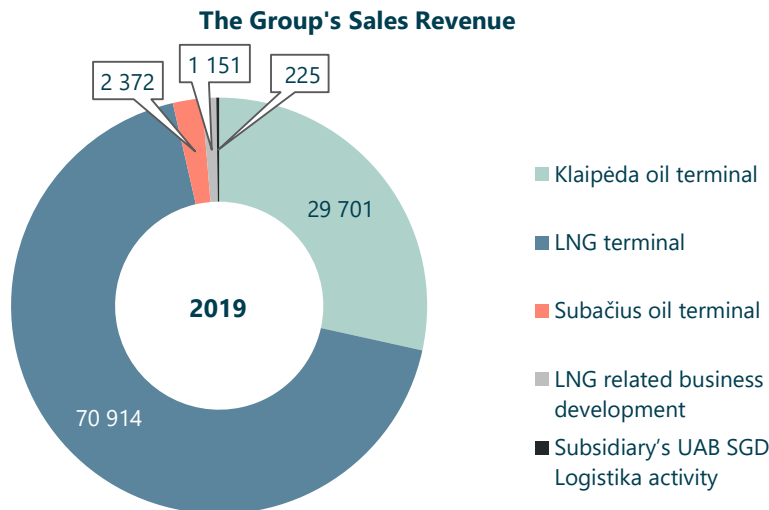
In 2019 the **Group's adjusted annual return on equity (ROE)** is 6.5 per cent, the **Company's adjusted annual return on equity (ROE)** is 6.7 per cent (5.8 per cent in 2018).

The **adjusted Group's return on assets (ROA)** is 4.3 per cent in 2019, the **Company's adjusted return on assets (ROA)** is 4.5 per cent (3.9 per cent in 2018).

### Sales revenue

The Group's **sales revenue** in 2019 was higher by 4.4 per cent or by EUR 4,365 thousand (EUR 104,363 thousand) compared to 2018 (EUR 99,998 thousand). The Company's sales revenue was EUR 104,138 thousand and the subsidiary's UAB SGD logistika – EUR 225 thousand.

The Company's **sales revenue** in 2019 was higher by 4.1 per cent or by EUR 4,140 thousand (EUR 104,138 thousand) compared to 2018 (EUR 99,998 thousand). The main reason was higher revenue of the LNG terminal in 2019.



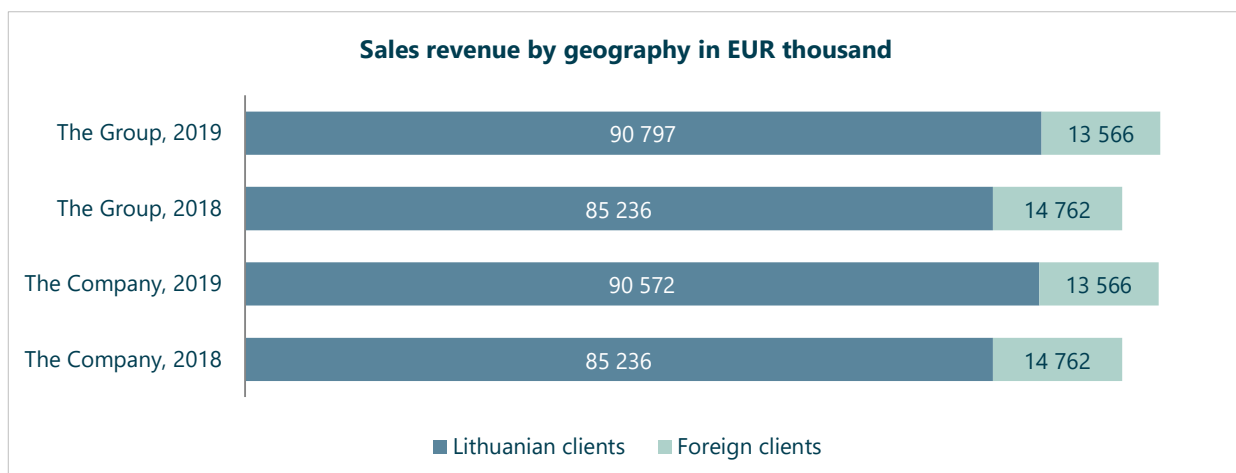
The total **revenue of the LNG terminal** activity in 2019 amounted to EUR 70,914 thousand and was higher by EUR 6,543 thousand or by 10.2 per cent compared to 2018. The activity of LNG terminal is regulated and has a price cap; therefore, revenue and profit of LNG activity does not depend on regasification volume. For more information, concerning regulated revenues refer to the article "Regulated profit of LNG terminal".

transshipment of oil products. Decrease in quantities of oil products has been mainly influenced by the risky geopolitical situation in neighbouring countries. The transit cargo flow has been directly influenced by the incident in the Russian "Druzhba" oil pipeline in March 2019, when the oil pipeline has been contaminated with unconditional oil. This incident has resulted in the suspension of Mozyr Refinery (Belarus) for some period.

**Sales revenue from Klaipėda oil terminal** operations of 2019 amounted to EUR 29,701 thousand and was lower by EUR 2,790 thousand or by 8.6 per cent compared to 2018. Revenue was lower mainly due to less

**Subačius oil terminal sales revenue** in 2019 was lower by 12.3 per cent (or by EUR 332 thousand) due to decrease in the commercial long-term storage volumes.

Sales revenue by geography is provided herein. Sales revenue from foreign clients is revenue from the clients not registered in Lithuania.



## Expenses

The detailed information about the IFRS 16 "Leases" impact on financial results is published in the Annual

report of 2019 chapter "Financial results". IFRS 16 impact for the costs of 2019 is as follows:

| in EUR thousand                               | 13-12-2019 | 31-12-2019 |
|---|------------|------------|
|   | Group      | Company    |
| Cost of sales and operating expenses          | 90,593     | 89,951     |
| Depreciation expenses                         | (43,907)   | (43,907)   |
| Rent expenses                                 | 46,120     | 46,120     |
| Adjusted cost of sales and operating expenses | 92,806     | 92,164     |

Total **adjusted cost of sales of the Group** of 2019 comprises EUR 85,728 thousand (the Company's – EUR 85,096 thousand and the subsidiary's UAB SGD logistika – EUR 632 thousand) and was lower by 3.8 per cent or by EUR 3,099 thousand comparing to 2018 (EUR 82,629 thousand). Total **adjusted cost of sales of the Company** of 2019 comprises EUR 85,096 thousand and was higher by 3.0 per cent or by EUR 2,467 thousand compared to 2018 (EUR 82,629 thousand). This change is related to the higher costs of FSRU Independence (hereinafter – FSRU) rent and other expenses, related with the FSRU operation (for explanation see below). **Cost of sales of the subsidiary's SGD Logistika** (EUR 632 thousand) comprises LNG transportation services costs.

The **Group's adjusted operating expenses** of 2019 comprise EUR 7,078 thousand and were higher by 22.5 per cent or EUR 1,298 thousand compared to 2018 (EUR 5,780 thousand). **The Company's adjusted operating expenses** of 2019 were higher by 22.3 per cent or EUR 1,288 thousand and for the end of the year 2019 comprised EUR 7,068 thousand (EUR 5,780 thousand in 2018). This change is related to the higher costs by EUR 620 thousand of consulting and legal costs, and to the higher costs by 472 thousand of impairment of doubtful accounts receivables.

|                    | 2019          | 2019 adjusted | 2018          | Change 2019A vs 2018 |             | 2019          | 2019 adjusted | 2018          | Change 2019A vs 2018 |             |
|--------------------|---------------|---------------|---------------|----------------------|-------------|---------------|---------------|---------------|----------------------|-------------|
|                    | Group         | Group         | Group         | +/-                  | %           | Company       | Company       | Company       | +/-                  | %           |
| Cost of sales      | 83,529        | 85,728        | 82,629        | 3,099                | 3.8%        | 82,897        | 85,096        | 82,629        | 2,467                | 3.0%        |
| Operating expenses | 7,064         | 7,078         | 5,780         | 1,298                | 22.5%       | 7,054         | 7,068         | 5,780         | 1,288                | 22.3%       |
| <b>Total costs</b> | <b>90,593</b> | <b>92,806</b> | <b>88,409</b> | <b>4,397</b>         | <b>5.0%</b> | <b>89,951</b> | <b>92,164</b> | <b>88,409</b> | <b>3,755</b>         | <b>4.2%</b> |

The listing of **the Company's** major expenses is presented below:

|   | 2019 adjusted |               |              |               | 2018          |               |              |               | Change 2019A vs 2018 |             |
|---|---------------|---------------|--------------|---------------|---------------|---------------|--------------|---------------|----------------------|-------------|
|   | OT            | LNGT          | BDP          | Total         | OT            | LNGT          | BDP          | Total         | +/-                  | %           |
| Depreciation and amortization                               | 7,484         | 6,093         | 23           | <b>13,600</b> | 8,522         | 6,468         | 20           | <b>15,010</b> | -1,410               | -9.4%       |
| FSRU rent and other expenses                                | -             | 53,777        | -            | <b>53,777</b> | -             | 48,079        | -            | <b>48,079</b> | 5,698                | 11.9%       |
| Staff costs   | 7,048         | 2,979         | 894          | <b>10,921</b> | 7,368         | 3,199         | 808          | <b>11,375</b> | -454                 | -4.0%       |
| Variable costs (natural gas, electricity, railway services) | 6,009         | 63            | -            | <b>6,072</b>  | 7,038         | 19            | -            | <b>7,057</b>  | -985                 | -14.0%      |
| Port fees   | 585           | 1,529         | -            | <b>2,114</b>  | 581           | 1,738         | -            | <b>2,319</b>  | -205                 | -8.8%       |
| Other cost of sales and operating expenses                  | 2,092         | 2,840         | 748          | <b>5,680</b>  | 2,107         | 2,110         | 352          | <b>4,569</b>  | 1,111                | 24.3%       |
| <b>Total costs</b>  | <b>23,218</b> | <b>67,281</b> | <b>1,665</b> | <b>92,164</b> | <b>25,616</b> | <b>61,613</b> | <b>1,180</b> | <b>88,409</b> | <b>3,755</b>         | <b>4.2%</b> |

In 2019 **total amount of LNG terminals costs** were EUR 67,281 thousand, the major part of which were the costs of rent of the FSRU and the expenses, related to the FSRU operation, in total EUR 53,777 thousand that were higher by 11.9 per cent or by EUR 5,698 thousand comparing to 2018. Cost of rent was higher by EUR 2,602 thousand. Lease of the FSRU is paid in USD; therefore, exchange rate deviation has caused negative impact. FSRU operating expenses (excluding lease) were higher by EUR 3,096 thousand due to LNGT executed scheduled technical inspection – dry dock (of the hull, the LNG tanks, and all of the regasification equipment) and maintenance of the FSRU in 2019, which is mandatory every five years.

Other LNG terminal's costs (staff remuneration, depreciation, jetty lease costs) comprised EUR 13,504 thousand and were higher by 0.2 per cent or by EUR 30 thousand comparing to 2018.

In 2019 the total amount of **Oil terminals costs** amounted to EUR 23,218 thousand (2018 – EUR 25,616 thousand) and was lower by EUR 2,398 thousand. The Oil terminals variable costs (gas, electricity and railroad costs) were lower by 14.0 per cent or EUR 985 thousand. The costs change is related with lower oil transshipment by 14.1 per cent. OT's depreciation and amortization costs were lower by EUR 1,038 thousand due to fully depreciated assets.

**Staff costs** were lower by 4.0 per cent or EUR 454 thousand that was affected by both: lower average salaries and lower number of employees. Average salary per employee was lower by 1.3 per cent because for the first time part of the yearly bonus to employees has been paid in company shares. Average number of employees was lower by 5.6 per cent or 22 employees due to executed optimization of management structure.

### Regulated profit of LNG terminal

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

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

The revenue of the LNG terminal activity comprises from 3 parts:

- Fixed part of LNG regasification service price that is approved every year by the resolution of the NERC. This part of the price is included into the additional Security Supplement added to the gas transmission price;
- Variable part of LNG regasification service price that is received for the regasified volume directly from the clients and which tariff is approved by the NERC on an annual basis;
- LNG reloading service revenue for reloaded LNG quantity. In 2015-2019 the tariff of the LNG reloading service was set for 5 years. Since 2020 LNG reloading price will be adjusted annually.

LNG regasification service price variable part and LNG reloading service revenue are recognized at the moment of services provision according to existing tariffs.

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

| In EUR thousand                            | 2014 | 2015  | 2016  | 2017  | 2018  | 2019<br>(unaudited) |
|--|------|-------|-------|-------|-------|---------------------|
| Financial LNG terminal profit              | 600  | 6,981 | 3,518 | 6,516 | 4,212 | 6,523               |
| Regulated profit (in terms of Methodology) | 267  | 3,525 | 3,329 | 3,297 | 3,688 | 3,982               |
| Difference                                 | 333  | 3,456 | 189   | 3,218 | 524   | 2,574               |
| Difference (cumulative)                    | 333  | 3,789 | 3,978 | 7,197 | 7,721 | 10,262              |

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

Meanwhile the LNG Security Supplement tariff is set annually by the NERC based on the amount required to be collected (estimated LNG terminal revenue) and proportionally allocated for the forecasted gas consumption capacities. LNG security supplement is paid by the users of natural gas transmission system, including the end users, together with the other payments for the natural gas transmissions services. The payments are collected by the transmission service operator (hereinafter - TSO) either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO.

Factual LNG Security Supplement collections and payments may differ from planned ones (calculated at the approval of Security Supplement) because of variation of consumption capacities and other differences.

As long as LNG terminal revenue in the financial accounting (under IFRS) are recognized based on the factual gas consumption capacities for the reporting period and correspondingly calculated factual LNG Security Supplement, the differences between the financial LNG terminal segment profit and regulated profit which is calculated based on the NERC methodical may arise.

LNG operating expenses are recognized in the relevant period when incurred.

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

The decrease in regulated profit is related with the reducing amount of regulated asset base.



**Impact of IFRS 16 and capitalisation of purchase option**

FSRU Independence lease contract according to which the Company has a purchase option has a significant impact to the financial statements as at 31 December 2019. According to IFRS 16 requirements, lessee should remeasure lease liability of each agreement upon the occurrence of either a significant event or a significant change in circumstances at each financial statements' date. During the year of 2019 the following significant events have happened that determined the need to reassess the probability of realizing the purchase option:

- On 1st March 2019 amendments of the Republic of Lithuania Law on Liquefied Natural Gas Terminal No XI-2053 Article 5 and 9 (further – the Law) entered into force stipulating obligation to the Company as a Liquefied Natural Gas terminal operator to acquire ownership of FSRU (by selecting the most economic option) not later than by 31st December 2024;
- On 19th September 2019 European Commission has approved state aid consent regarding LNG security supplement reduction;
- On 24th October 2019 the Board of the Company has adopted a decision to acquire FSRU no later than by 31 December 2024 with the conditions that 1) loan to finance the purchase is arranged and 2) Parliament approves the State guarantee for the loan;
- On 19th December 2019 a binding offer from NIB to finance the 100 % purchase price of FSRU (up to 160 MMEUR) has been received;
- On 19th December 2019 Parliament has approved granting State guarantees for NIB loans for LNG security supplement reduction and purchase of FSRU;
- On 20th December 2019 a loan agreement with NIB has been signed for the LNG security supplement reduction.

While evaluating the probability to realize the purchase option the management of the Company has considered a number of economic, size and FSRU technological circumstances, which has shown that:

- Currently used FSRU is economically most favorable when compared to the 1) availability; 2) price factors of the same size and functionality of new and used FSRUs and conversions of LNG carriers and 3) possible additional investments needed for any other FSRU;

- In terms of size the industry is currently being equipped by modern 170-180 tm3 FSRU and LNG carriers, enabling to unload to FSRU full cargo of conventional size LNG carriers (140-180 tm3) and not limiting LNG suppliers' interest in using the terminal;
- Current terminal size and parameters are needed in order to meet N-1 criteria for energy security, i.e. to ensure gas supply in the event of failure of the largest supply infrastructure during highest daily demand;
- Technologically currently used FSRU has the technology that is still regarded as advanced/not obsolete in comparison with other developments and can easily accept "green gases" and remain functional in the context of the EU "green policy" decisions in a long term;
- Recently implemented dry-dock has confirmed that currently used FSRU is in good condition and current FSRU is designed to be operative for at least 25 more years.

Considering the above significant events and circumstances outlined, from the current point of view, the management of the Company is reasonably certain that the purchase option of lease contract will be realized. As a result, based on the managements' judgement the purchase option has to be capitalized as at 31<sup>st</sup> December 2019. It is the duty of the management to re-evaluate the probability to realise the purchase option at each financial statements' date in the upcoming reporting periods and in circumstances if any changes occur, it will be reflected in the financial statements respectively.

The management of the Company ensures that the transparent FSRU selection process will be organized in order to choose the most economically favorable option, as required by the Law and decision of the Board.

In case the purchase option will not be realized in the year of 2022, this will require to write-off capitalized assets and liabilities what would cause approx. Eur 73.4 million of negative impact to the net profit result for each year in period of 2023-2024. However, the total impact of not realizing the purchase option during the full life cycle period of 2020-2044 is zero, as in subsequent years starting from 2025 there would be no lease depreciation expenses incurred. Please refer to the table below for the financial effect to the statement of comprehensive income:

| Impact to net profit, EUR million | 2020 | 2021 | 2022 | 2023  | 2024  | 2025 | 2026-2044 per annum | Accumulated profit for period |
|-----------------------------------|------|------|------|-------|-------|------|---------------------|-------------------------------|
| Impact to net profit              | 0.8  | 0.8  | 0.0  | -73.4 | -73.4 | 7.3  | 7.3                 | 0.0                           |

## INVESTMENTS

The most important investment projects of 2019:

| No. | Project  | Investments in 2019 (incl. prepayments) | Project description  |
|-----|--|---|--|
| 1.  | The 2nd stage of expansion of LFO Park in Klaipėda oil terminal (construction of new 6x20,000 tanks; 2x10,000 and 4x5,000 tanks) | EUR 17.9 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. During the year 2019 storage tanks, piping and equipment were mechanically fully erected. By the end of the year final tuning of new control system, punch list items finalization was performed, state acceptance procedure of project was initiated. The total amount of overall investment project (prepayments included) is EUR 30.5 million. |
| 2.  | Construction of new railway trestle  | EUR 0.2 million                         | During the year 2019 basic design project for railway trestle was completed, construction permit, approved by relevant authorities received. By the end of the year preparation of tendering package for construction works was commenced and other preparation works were initiated.  |
| 3.  | Modernization of jetty No. 1 and No. 2   | EUR 1.2 million                         | Detailed project design contract was signed and design process started, part of the works, related to connecting product pipeline construction were implemented during the year 2019.  |

## ACTIVITY PLANS AND FORECASTS

As to the Financial plan for 2020, approved by the Board of the Company, AB Klaipėdos nafta will continue seeking to increase the value of the Company through return on equity invested in non-regulated activities, dividend, high profitability of commercial activities, and investments in other profitable projects with good prospects.

During the year 2020 the Company will seek to maintain its position as one of the most modern and rapidly growing oil terminals in the Baltic Sea Region. Making use of its experience of many years, employment of specialists with the highest qualifications, use of state-of-the-art technologies and by continuing implementation of investment projects the Company will ensure the quality and uninterrupted provision of the Klaipėda Oil Terminal services, seek to enhance the flexibility of oil product loading by increasing the number of product types that the terminal can handle and store and will seek to increase the oil product handling volumes for the key customers.

Klaipėda LNG terminal during the year 2020 will seek to secure continuous safe and uninterrupted operations of LNGT herewith by putting effort in ensuring that LNGT incurs only the necessary operating costs and at the most acceptable cost by conducting efficient public procurement, exercising strict control over costs, and an efficient use of the Company's human resources and assets. After conclusion of long-term strategic partnership contract of LNG small-scale reloading station capacity reservation and assurance of stable and continuous income flow for the year 2020 the Company will continue to focus will on effective infrastructure operation and the establishment and improvement of regulatory base which is crucial for the market development.

By winning the international contest to operate LNG terminal in Acu port, Rio de Janeiro, Brazil the Company has managed to secure long-term income source which is not related with oil product transshipment or LNG regasification services in Baltic region as well as is

considered as a long-period additional source of profit. Implementation of this agreement will higher the chance for the Company to win other contest for other terminal development and operation projects and is expected higher the chance to participate in public contest of terminal operation services purchases where is aimed the experience of not less than two terminal operation experiences. Regardless of assured long-term operation contract, the Company will continue to pay special attention and focus on opportunities to implement new LNG terminal projects or to take part in such projects as an operator during the year 2020.

Undoubtedly, one of the essential long-term strategic objectives and aims for the Company is environmental safety. In 2020 the Company will seek to continue promoting sustainable growth of the business, where environmental and social aspects are one of the Company's top priorities. The goal of the management of the Company is to conciliate the aims of KN shareholders with society or other stakeholders.

In order to achieve long-term strategic objectives the Company will continue to develop an organizational environment where people work in line with corporate values, the requisite competences and the substitution for key employees are consistently and purposefully ensured, and employees' involvement in business processes is promoted.

**13<sup>th</sup> February 2020** The Supervisory Board of the Company approved corporate strategy of the KN until 2030. The main directions of the strategy are international LNG projects, strengthening the competitiveness of oil terminals and developing Klaipėda as an LNG service center in the Baltic region. KN corporate strategy until 2030 is available at: [2030.kn.lt/en](https://2030.kn.lt/en).

## 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 | 380,952,393  |

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 31 December 2019 all the shares of the Company were owned by 2,646 shareholders (on 31 December 2018 – 2,191). All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General meeting of Shareholders.

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

1. To receive a part of the Company's profit (dividends);
2. To receive funds of the Company in the event the Authorized Capital of the Company is being reduced in order to pay funds of the Company to the shareholders;
3. To receive a part of the assets of the Company in case of liquidation;
4. To receive shares free of charge if the Authorized Capital is increased out of the funds of the Company (except in the cases specified by the imperative norms of the valid laws);
5. To have the preferential right in acquiring shares or convertible bonds issued by the Company except in cases when the General Shareholders' Meeting by a qualified majority of votes that shall not be less than 3/4 of the participating and voting shares for solution of this matter, resolves to withdraw the preferential right in acquiring the Company's newly issued shares or convertible bonds for all the shareholders;
6. To lend to the Company in the manner provided by law, however, when borrowing from its shareholders the Company has no right to pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average

interest rate offered by commercial banks of the location where the Lender has his place of residence or business, which was in effect on the day of conclusion of the Loan Agreement. In such a case the Company and its shareholders shall be prohibited from negotiating a higher interest rate;

7. Other economic rights established by the laws.

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

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

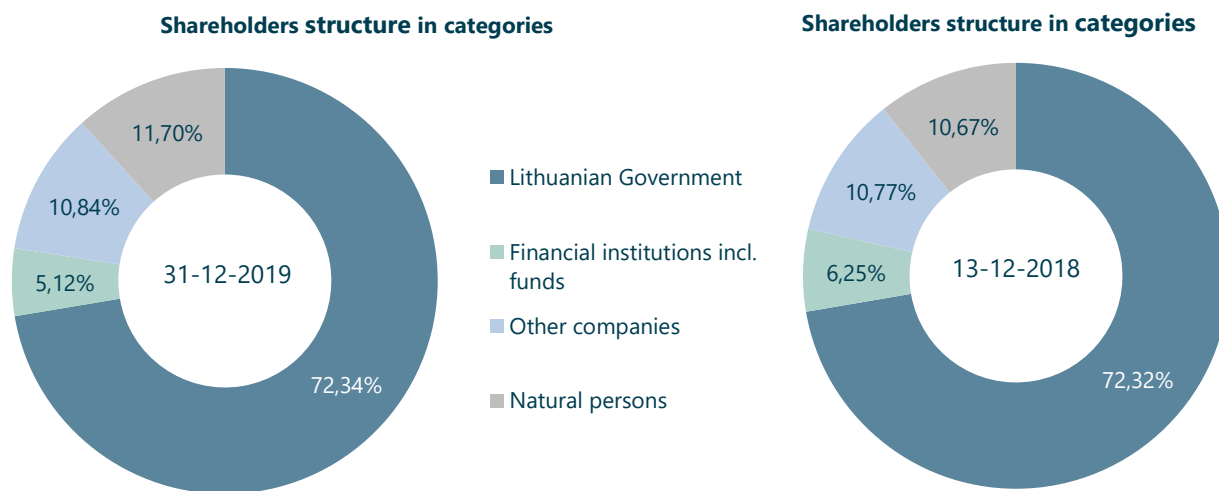
The Company has not been informed about mutual agreements of its shareholders which could limit the transfer of securities and (or) right of vote.

Major shareholders of the Company having more than 5% of shares (each) of the Company as at 31 December 2019 and 2018:

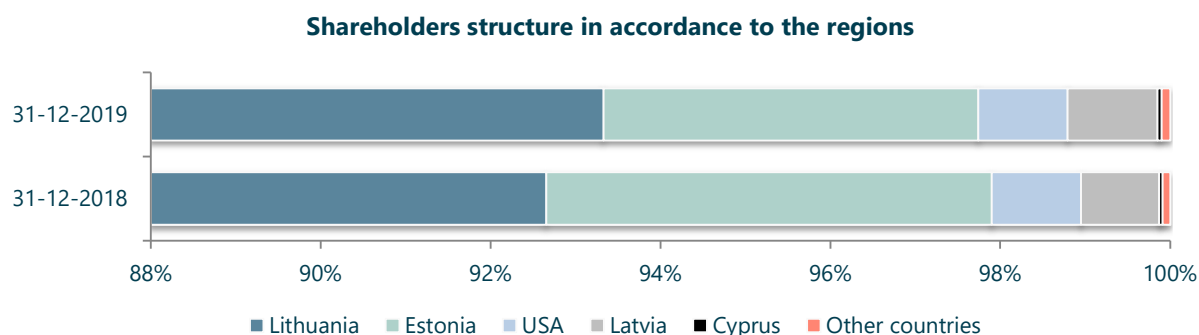
| Shareholder's name (company's name, address, company code of registration)  | 31 December 2019              |                                | 31 December 2018              |                                |
|---|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
|   | 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) | 275,587,444                   | 72.34%                         | 275,241,290                   | 72.32%                         |
| Concern AB Achemos grupe (Vykinto st. 14, Vilnius, 156673480)   | 39,650,338                    | 10.41%                         | 39,605,234                    | 10.41%                         |
| Other (each owning less than 5%)  | 65,714,611                    | 17.25%                         | 65,759,660                    | 17.27%                         |
| <b>Total</b>  | <b>380,952,393</b>            | <b>100.00%</b>                 | <b>380,606,184</b>            | <b>100.00%</b>                 |

**Shareholders structure in categories and to the regions:**

Shareholders structure in categories:

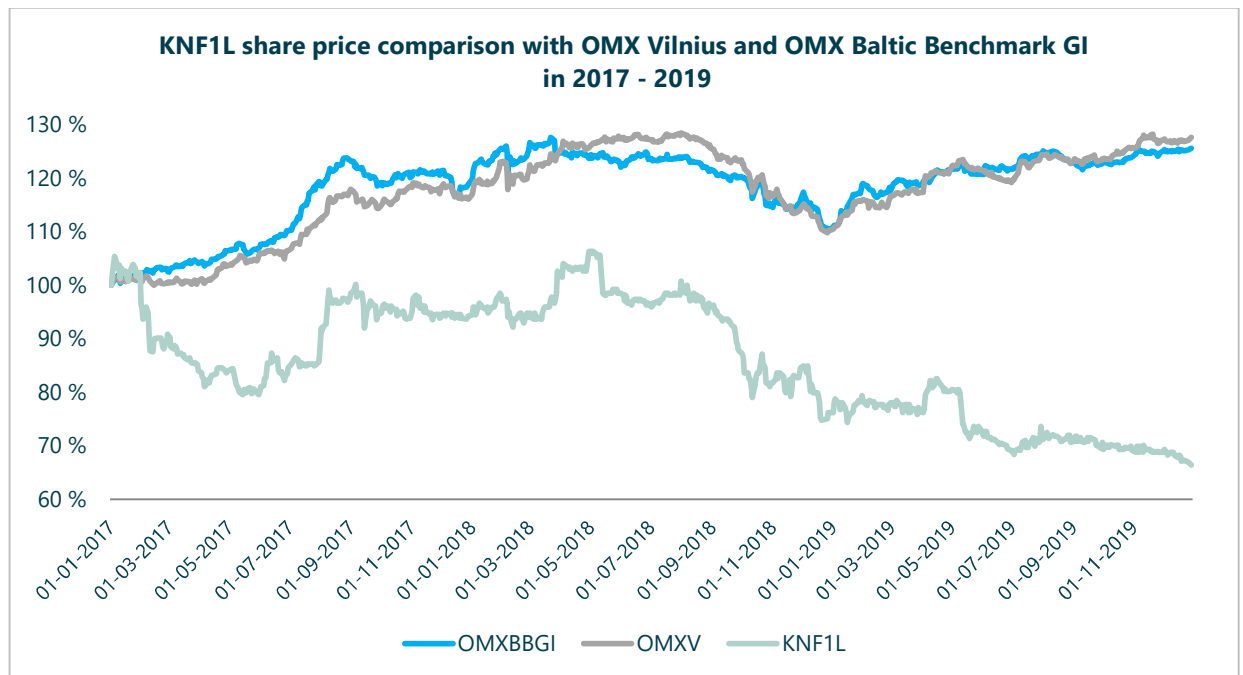
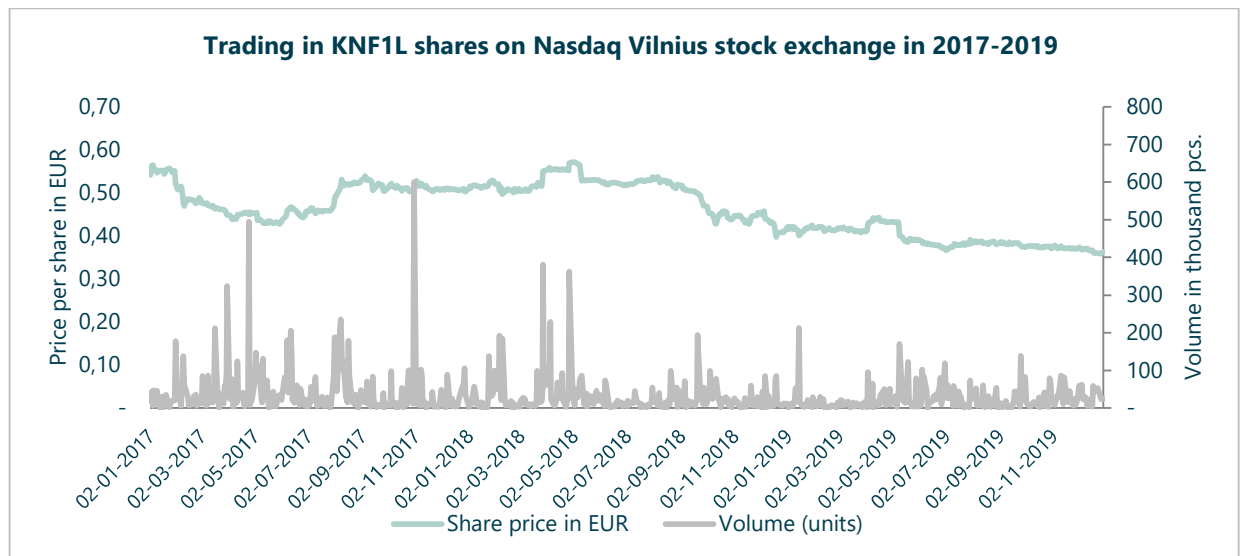


Shareholders structure in accordance to the regions:



Dynamics of KNF1L share price at NASDAQ Vilnius during 2015 – 2019

|   | 2019      | 2018      | 2017       | 2016       | 2015      |
|---|-----------|-----------|------------|------------|-----------|
| Highest share price in EUR                      | 0.444     | 0.574     | 0.572      | 0.705      | 0.419     |
| Lowest share price in EUR                       | 0.357     | 0.386     | 0.428      | 0.360      | 0.315     |
| Price per share at the end of the period in EUR | 0.362     | 0.410     | 0.508      | 0.538      | 0.369     |
| Average share price in EUR                      | 0.393     | 0.502     | 0.490      | 0.505      | 0.373     |
| Traded volume, pcs.                             | 5,908,666 | 6,936,769 | 10,501,664 | 17,879,294 | 5,257,607 |
| Turnover in EUR thousand                        | 2,296     | 3,552     | 5,083      | 8,730      | 1,955     |
| Capitalisation in EUR thousand                  | 139,905   | 156,049   | 193,348    | 204,766    | 140,444   |



### Authorized share capital of the Company

The Company's authorized share capital amounted to EUR 110,476 thousand as of 31 December 2019 (EUR 110,376 thousand as of 31 December 2018). All the shares of the Company are fully paid. The authorized capital is divided into 380,952,393 ordinary shares with a nominal value of 0.29 Eur. On 29 March 2019 amended Articles of Association of the Company had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorized capital EUR 110,476 thousand of the Company.

In January 2019 the Company acquired its own shares for EUR 600 thousand (1,463,414 units) and at the end of the year 2019 had a balance of own shares of EUR 267 thousand (655,808 units). During the year 2018 The Company has not acquired own shares and had no balance of own shares as at period end. The purpose of shares' acquisition in 2019 is the provision of shares to the Company's employees. On May 2019 the Company paid out part of annual bonuses to employees in Company's shares - 807,606 units of shares have been granted to the employees of the Company.

### Dividends

On 26<sup>th</sup> April 2019, the ordinary General Meeting of Shareholders has been held which approved the audited financial statements and profit distribution of 2018. The Company has paid dividends in amount

EUR 17,577 thousand or EUR 0.0304 for one share from the 2018 profit (in 2018 the Company paid EUR 17,031 thousand dividends or EUR 0.0447 for one share) in 2019. Dividends have been paid to the shareholders in 2019.

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

|  | 2019   | 2018   | 2017   | 2016   | 2015   |
|--|--------|--------|--------|--------|--------|
| Dividends paid in EUR thousand               | 11,577 | 17,031 | 9,656  | 17,629 | 92.6   |
| Dividends per one share in EUR               | 0.0304 | 0.0447 | 0.0254 | 0.0463 | 0.0002 |
| Net profit per 1 share in EUR                | 0.03   | 0.04   | 0.04   | 0.06   | 0.02   |
| Dividends for net profit (of previous FY), % | 100%   | 100%   | 70%    | 80%    | 1%     |

On 25<sup>th</sup> January 2016 the Board of AB Klaipėdos nafta has approved the Dividend Policy. The Dividend Policy provides that the Board of the Company shall, on the basis of net profit of previous financial year of the Company and General Manager's proposal regarding profit distribution, present the draft decision to approve the dividend allocation equal to 50 per cent of the Company's annual net profit to the Company's shareholders.

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

The Company's Dividend Policy is available at: [here](#).

The Company sets the goal to increase the shareholders' value and pay stable dividends. The main objectives for a Dividend Policy are:

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

The Company would propose to shareholders meeting to approve the distribution as dividends not less than 50 per cent of its net profit, if such distribution will not disturb the implementation of strategic projects and ensure acceptable financial ratios.

The amount of dividends proposed may be adjusted if:

### Agreements with intermediaries of public securities trading

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

| AB SEB bank Financial Markets Department: |  |
|---|--|
| Company code                              | 112021238  |
| Address                                   | J.Balčikonis Street 7, LT-08247 Vilnius, Lithuania |
| Telephone                                 | 1528   |
| E-mail                                    | info@seb.lt  |
| Website                                   | www.seb.lt   |

## 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.

Number of AB Klaipėdos nafta Group employees at the end of the year:

|                    | 31-12-2019 | 31-12-2018 | Change, %   |
|--------------------|------------|------------|-------------|
| AB Klaipėdos nafta | 359        | 389        | -7.7        |
| UAB SGD terminalas | 2          | -          | 100.0       |
| UAB SGD logistika  | 2          | 2          | -           |
| UAB SGD SPB        | 2          | -          | 100.0       |
| <b>Total</b>       | <b>365</b> | <b>391</b> | <b>-6.6</b> |

Remarks s:

- KN Acu Servicos de Terminal de GNL LTDA was established on 13th December of 2019. In 2019 the company did not conclude any employment contracts and had no employees.
- This number of employees does not include employees on maternity/paternity leave.

The breakdown of the number of the AB Klaipėdos nafta Group and Company employees by gender as at 31 December 2019:

|                    | Females   | %            | Males      | %            |
|--------------------|-----------|--------------|------------|--------------|
| AB Klaipėdos nafta | 85        | 23.7%        | 274        | 76.3%        |
| UAB SGD terminalas | 1         | 50.0%        | 1          | 50.0%        |
| UAB SGD logistika  | 1         | 50.0%        | 1          | 50.0%        |
| UAB SGD SPB        | 1         | 50.0%        | 1          | 50.0%        |
| <b>Total</b>       | <b>88</b> | <b>24.1%</b> | <b>277</b> | <b>75.9%</b> |

### Payroll system and Remuneration Policy

The Company seeks to create motivating, an efficient, fair, transparent and understood by everyone compensation system which aims to attract, retain and motivate employees whose skills and work results help the Company to successfully develop and implement its mission and achieve strategic business objectives. Therefore, on September of 2016 the Employee

Remuneration Policy has been formed and approved, on September of 2017 The Procedure of Remuneration System Formation has been approved. Starting, from January of 2018, the remuneration structure has been changed and on November of 2018 Rules for Granting Shares have been approved, in March of 2019 Procedure of the Program for Employee's pension saving in Pension Funds has been approved.



The Employee 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 invested foreign capital. Employees in the same position can receive different monthly pay depending on qualifications, experience, capabilities, and functions and responsibilities assigned to the employee. The variable component is set according to the procedure laid down in the Remuneration Policy.

Each employee's pay is reviewed in relation to current trends on Lithuanian 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 the AB Klaipėdos nafta 2019 year Governance Report.

The breakdown of AB Klaipėdos nafta Group employee related expenses (EUR thousand) by the companies:

|                    | 2019          | 2018          | Change, %   |
|--------------------|---------------|---------------|-------------|
| AB Klaipėdos nafta | 10,572        | 11,375        | -7.1        |
| UAB SGD terminalas | 3             | -             | 100.0       |
| UAB SGD logistika  | 3             | 2             | 50.0        |
| UAB SGD SPB        | 1             | -             | 100.0       |
| <b>Total</b>       | <b>10,579</b> | <b>11,377</b> | <b>-7.0</b> |

Information about employees of the Company:

#### Employees of the Company according to categories

| Employee category      | Average number of employees |            | Change, %   |
|------------------------|-----------------------------|------------|-------------|
|                        | 2019                        | 2018       |             |
| Managers <sup>1)</sup> | 41                          | 40         | 2.5         |
| Specialists            | 181                         | 196        | -7.7        |
| Workers                | 147                         | 155        | -5.2        |
| <b>Total</b>           | <b>369</b>                  | <b>391</b> | <b>-5.6</b> |

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

### The Company's employees' average monthly salaries

| Employee category                           | Average monthly salary (gross), EUR |                    | Change, %.  |
|---|-------------------------------------|--------------------|-------------|
|   | 2019                                | 2018 <sup>3)</sup> |             |
| Managers <sup>1)</sup>                      | 4,744                               | 5,054              | -6.1        |
| Specialists                                 | 2,286                               | 2,312              | -1.1        |
| Workers                                     | 1,621                               | 1,678              | -3.4        |
| <b>Average of the Company <sup>2)</sup></b> | <b>2,282</b>                        | <b>2,313</b>       | <b>-1.3</b> |

<sup>1)</sup> The Company's managers include: Chief Executive Officer (CEO), Directors, Functional Managers and Heads of Divisions. The following sums were calculated for the remuneration to the Company's managers in 2019: EUR 2,832 thousand, in that amount taxes paid by the employer included EUR 48 thousand (when in 2018 – EUR 2,658 thousand from which EUR 629 thousand of taxes paid by the employer). The average salary of each manager of the Company amounted to EUR 69 thousand in 2019 (in 2018 EUR - 66 thousand for manager).

<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.

<sup>3)</sup> For comparability reasons of data the average monthly salary of 2018 has been multiplied by 1.289.

All the Company's employee's average monthly salary decreased, because around 50% of bonus has been

paid out in shares in 2019 and another part has been transferred to the 3<sup>rd</sup> pension fund.

### The procedures for employee performance evaluation and annual bonus allocation

The Company has implemented the procedures for annual employee performance evaluation and annual bonus allocation. These bonuses depend on the achievement of the goals set directly for the person or for the Company. Annual employee performance review together with periodic one to one meeting throughout the year is one of the most effective management and leadership techniques that increase employee engagement and help to achieve the organizational goals. Such practice creates collaborative and positive relationships between managers and their subordinates that allow to make it clear with employees while planning their careers, increasing their motivation and promoting continuous improvement in their professional field. Annual performance review at the Company is a tool for employee performance management and development that ensures that employees' personal goals are set in accordance with the Company's goals and values. The annual performance review helps to assess the employee's achievement of goals as well as set the new goals and form the feedback culture, strengthen

collaboration and unity between a supervisor and a subordinate. During the review opportunities for competence development, learning, and career are being discussed.

For the last five years the Company conducts personnel surveys in order to determine the level of employee satisfaction with the work environment and the Company and the level of engagement as well as to improve relevant areas and working conditions of employees. The personnel surveys in 2019 revealed that 62 per cent of employees are satisfied with their work environment, the Company and its culture. Engaged Company's personnel in 2019 amounted 69 per cent.

The Company is measuring the level of engagement because it believes that colleagues who are engaged and like their job are more likely to do their job easier, feel happier and accordingly generate greater returns to shareholders by effectively implementing Company's strategy and achieving the goals.

## COMPANY'S SOCIAL RESPONSIBILITY

AB Klaipėdos nafta as a company of strategic importance for both national and regional energy security one of the largest and most modern oil and gas terminal operators in the Baltic Sea Region acts under the guidance of the highest business ethics standards and social responsibility principles. The Company aims at keeping the status of a reliable social partner beyond Lithuania's seaport by contributing to resolving the relevant social issues, faced by the society.

As requirements for business sustainability become increasingly important, being a responsible member of society forms the basis for both ethical business and long-term success. Therefore, social responsibility is one of the cornerstones of Company's operations. Developing and promoting reliable ties is important for the Company in order to retain the mandate received from communities and other stakeholders to act in all markets in which we develop our activities.

We understand that state-controlled companies must be an example of a socially responsible and sustainable business, therefore, we have set for ourselves high requirements for sustainability and we carefully monitor the social and economic impact produced upon the environment. Considering this, we act following the social responsibility principles set out below:

**Financial sustainability.** We develop our business responsibly seeking to augment the added value for our shareholders, society and the State. We augment the value by seeking the maximum return on operations and by pursuing a clearly defined dividend policy. In each market that we operate we seek to make a sustainable contribution to the national economy.

**Good governance.** By implementing good governance practices, we seek the highest business management standards. This includes the transparent and clearly defined business management processes and principles as well as a transparent and clear informing of target groups about activities of the Company.

**Standard of conduct.** We apply the KN standard of conduct in our activities. The standard applies to each employee irrespective of his/her position including members of the Board and the Supervisory Council. In our work, we take guidance from the values of respect, cooperation, professionalism and improvement.

**Transparent and ethical business practices.** The Company complies with all current legal acts applicable to the markets in which it operates and with international standard. The Company has adopted a zero-tolerance-to-corruption approach.

**Good employer.** We have created a working environment in which everyone is respected and has equal opportunities for disclosing their potential and improving together with the organization. This means that we:

- Ensure a fair pay having regard to the employees' competences, achievements and behavior in line with the KN's standard of conduct;
- Ensure a working environment complying with advanced safety and welfare standards; promote a culture of a safe working environment;
- Provide all employees with equal opportunities for vertical and horizontal career; invest in the development of our employees. We believe that we can grow talents in our team, thus ensuring internal replaceability and continuity;
- Are strictly against any discrimination and non-ethical and disrespectful conduct at workplace;
- Recognize the employees' right to defend their collective interests and enable them to do this.

**Sustainable partnership with customers.** We seek long-term cooperation with our customers and focus on providing the best result for the customer in the context of sustainable cooperation. We maintain confidentiality of information and data in our activities, treat the data provided to us by customers responsibly, and follow the principles of ethical competition.

**Focus on communities.** We care for the communities on which our operations can have a direct or indirect impact. We seek to be good neighbours and good members of society. This includes an active dialogue with communities regarding matters that are relevant to them and are related to our activities, and initiatives contributing to improving the quality of life for the communities, increasing public awareness, and development of the civic society.

**Care for the environment.** We care for the environment in which we operate, and we seek to reduce the impact of our operations. This means the:

- Application of the highest environmental standards in all areas of the KN's activities;
- Inclusion of environmental aspects in the transshipment processes in order to increase the efficiency of operations and reducing the impact on nature;
- Environmental impact assessments of our operations and identification of pollution prevention measures;
- Increasing the employee awareness of environmental protection issues.

While pursuing the principles of social responsibility, we develop/review our business processes and also promote changes by providing targeted sponsorship. The Company's sponsorship policy identifies clear principles of sponsoring and five main lines of sponsorship of activities of benefit for society. KN sponsors sport, cultural, educational, environmental protection or other socially important activities that are recognized as activities not creating personal benefits. In sponsoring organizations, we consider both the value created for Klaipėda Region and the opportunities for promoting positive changes on a national scale. In 2019 the Company has provided EUR 90 thousand of support for regional and national organizations. In total 21 project from the fields of culture, sports, education, environmental protection and other spheres, which comply with KN rules of providing support, were sponsored by the Company in 2019. The full list of the support beneficiaries is provided at the Company's website.

## 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

### Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented in the Explanatory note to the Company's financial statements for 2019. In 2019

### Participation in Associations

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

- Klaipėda Chamber of Commerce, Industry and Crafts, <http://www.kcci.lt/>;
- Association of Lithuanian Stevedoring Companies, [www.ljka.lt](http://www.ljka.lt/);

### Information about the audit

**30<sup>th</sup> August 2019.** Extraordinary General Meeting of Shareholders of the Company adopted the following resolutions: UAB KPMG Baltics has been elected as an auditor for the Financial Statements and Regulated Activities Statements of the Company and assessment of its Annual Report for the years 2019 and 2020. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of 2 years auditing services (financial audit and regulatory activities audit) for total amount of EUR 94 thousand (excl. VAT). UAB Ernst & Young Baltic performed the audit for

The Company believes that social responsibility and support measures are important in order keep good partnership relations with local communities and the society on the nationwide level.

The aim of social responsibility is extremely important for state-controlled companies which have the tasks, set out to become examples a successful fostering of states principal values and contribute to developing the "common welfare".

Detailed corporate social responsibility report of AB Klaipėdos nafta for the year 2019 and prepared in accordance with the Global Reporting Initiative (GRI) guidelines will be published on websites [www.kn.lt](http://www.kn.lt) according to Investor [calendar](#).

of Association can be made by the General Meeting of Shareholders.

there were no changes in type of transactions with related parties, which could have made impact on the Company's financial activity. All transactions with the related parties have been performed under market conditions (following the arm's length principle).

- Lithuanian Confederation of Industrialists, [www.lpk.lt](http://www.lpk.lt/);
- Gas Infrastructure Europe (GIE) association Gas LNG Europe (GLE) group, [www.gie.eu.com](http://www.gie.eu.com);
- Lithuanian LNG cluster, [www.lngcluster.eu](http://www.lngcluster.eu)

the years 2014-2018. UAB KPMG Baltics performed the audit for the years 2008-2013.

The proposal regarding approval of the audit company is provided by the management of the Company based on public procurement procedures. To participate in procurement tender 4 international audit companies are invited (UAB Ernst & Young Baltic, UAB PricewaterhouseCoopers, UAB KPMG Baltics and UAB Deloitte Lietuva), the winner is selected based on the lowest price criteria.



2019

**AB KLAIPĖDOS NAFTA  
GOVERNANCE REPORT**

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## AB KLAIPĖDOS NAFTA GOVERNANCE REPORT INFORMATION

AB Klaipėdos nafta aims to make its corporate management and internal processes in a way to ensure transparent, effective and profitable activities and its activities retain the trust of our stakeholders. The internal control processes and management practices implemented within the Company are in line with the best management practice principles. This report provides main information and principles regarding management and related processes.

Paragraph "Risk factors and risk management" describes the main risks the Company is facing in its activity, also short risks identification and respective mitigation processes implemented within the Company are included.

The Company's management structure and managing and supervisory bodies are described in detail in article "Management of the Company of the annual report". This paragraph also contains information regarding corporate management and organizational scheme, connection with the other bodies and short description of the functions of the each managing body. Also mentioned paragraph provides the information regarding remuneration for service in the collegial bodies and amount accounted for each member of the bodies.

In order for the management and supervision bodies of the Company to exactly and clearly understand the targets, directions and objectives the corporate strategy is being prepared with purpose to foreseen long term strategic goals and tasks. The Supervisory Board of the Company is responsible for the approval of the strategy. AB Klaipėdos nafta strategic goals are described in the paragraph "The Company's Strategy". KN corporate strategy until 2030 is available at: [2030.kn.lt](http://2030.kn.lt).

The Company, acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific provisions or recommendations in the paragraph "AB Klaipėdos nafta Compliance with the Corporate Governance Code".

Company's annual report of the year 2019 along with Company's governance report and explanatory notes of the year 2019 financial statements are published in AB Klaipėdos nafta official website (<http://www.kn.lt>) and in AB NASDAQ Vilnius ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)) Stock Exchange.

## RISK FACTORS AND RISK MANAGEMENT

The Company's Board has 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 high-level management is responsible for shaping the personnel's attitude towards risk management, setting the risk management goals in the managed area, implementation of the control measures, implementation and monitoring the efficiency of the risk management measures. The medium level managers are responsible for implementation of the risk management process and provision of the results, as well as for reliability, correctness and impartiality of information.

The Company has established Audit Committee which is responsible for efficiency improvement when controlling Company's finances, contribution to the achievement of optimal and impartial decision making. The Audit Committee reviews financial reporting process as well as

audit execution process and oversees internal control environment, risk management and internal audit framework.

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 covering potential loss resulting from inadequate or failed procedures, systems or policies, employee errors. systems failures, fraud or other criminal activity. As well as any event that disrupts business processes.
- 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 several large investment projects, therefore, effective risk management throughout the whole lifecycle is critical when achieving goals.

**Some wider comments on the risk categories of the Company are provided below:**

- **Business risk**

The Company works with several big clients in transshipment of oil products area. The main client of the Company is AB ORLEN Lietuva. Its transshipment volume during the year 2019 comprised 2/3 of the Company's terminal total transshipment. The Company has signed a long-term transshipment agreement with ORLEN Lietuva which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva. Nevertheless, the Company continuously looks for other potential clients, flows of shipments and alternative activities because of constantly escalated topic on possible closing or suspension of ORLEN Lietuva refinery. Also, the Company reviews existing expenses and constantly searches for costs optimization possibilities.

Annual transshipment volume of oil products from Belarusian and Russian oil refineries amounts approximately 1/3 in 2019 of the total transshipment volumes of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighbouring countries and their ports in order to export oil products to the Western countries. Therefore, the cooperation with Belarusian companies and institutions is highly important in order to divert their transit of oil products through Klaipėda port. Due to the significant share of Belarusian transit of oil products in Company's activities there is a risk (including but not limited by political, economic, etc.) that the Belarusian oil refineries may decide to export oil products using ports of other countries (Latvia, Estonia or Ukraine). On the other hand, Belarusian companies are highly dependent on oil import from Russia and any disruption in supply chain may lead to decreased quantities of refined oil products, thus decreasing transshipment volume of the Company.

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

infrastructure servicing the terminal (roads, railway networks, etc.), cost of logistics.

It is reasonable to expect that the Company will maintain oil product freights because of the good reputation of the Company, technological advantages (in particular relation to HFO transshipment in winter conditions), investments into expansion of park of oil products' storage tanks, current market share, long-term agreements with cargo owners, and benefits of ice-free port.

The Company striving to manage its business risks by diversifying its income sources and widens the range of services it provides: operates liquefied natural gas (LNG) terminal, consults and participates in international investment projects related with the development of LNG terminals, providing completely new small-scale LNG services to clients.

The Law of the Liquefied Natural Gas terminal approved on 12 June 2012 by the Parliament of the Republic of Lithuania establishes development of the LNGT at the territory of the Republic of Lithuania, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT operation. On 1st March 2019 entered into force amendments in the Law on Liquefied Natural Gas Terminal that has obliged the Company to acquire ownership of FSRU not later than 31st December 2024.

On 19th September 2019 European Commission has approved state aid consent regarding LNG security supplement reduction.

On 24th October 2019 the Board of the Company has adopted a decision to acquire FSRU no later than by 31 December 2024 with the conditions that 1) loan to finance the purchase is arranged and 2) Parliament approves the State guarantee for the loan.

On 19th December 2019 a binding offer from NIB to finance the 100 % purchase price of FSRU (up to 160 MMEUR) has been received.

On 19th December 2019 Parliament has approved granting State guarantees for NIB loans for LNG security supplement reduction and purchase of FSRU.

On 20th December 2019 a loan agreement with NIB has been signed for the LNG security supplement reduction.

The inadequate change of laws and other already adopted laws regulating activity and exploitation of the LNGT could result in significant losses concerning the financial and/or legal liabilities that already have been taken. Therefore, Company's lawyers actively participate in different meetings with state institutions striving to emphasize the consequences the potential decisions.

- **Operational risk**

Operational risk is considered as risk directly related to the increase of losses, caused by the external factors (for



example, natural disasters, illegal acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient utilization of funds, internal control deficiencies, ineffective procedures, human error, malfunctions of information systems, cyber security control gaps, unduly allocation of functions or responsibilities, etc.).

In order to manage operational risk, the Company implemented required organizational measures and procedures as well as information systems to be used for support of business processes that collectively ensure proper functioning of internal control system and duly cooperation with the third parties concerned. The Company applies the following means of internal control: separation of decision making and controlling functions, control of transactions and accountancy, limitation of decision-making powers and control of their execution, collegial decision making in crucial issues, etc.

The Company strives to minimize legal compliance risk and assure that its operations are compliant with the applicable legal requirements and standards. Therefore, Company lawyers actively take part in decision making processes of the Company; participate while drafting internal legal acts and agreements. Infrastructure, as well as management and safety processes, cooperation with the third parties and control system has been positively evaluated by the representatives of potential clients of the terminals.

- **Reputational risk**

The Company cherishes its reputation and good name and employs risk mitigation means. Revised Company values stayed at the core of how we do business and

behave in 2019, too. The Company are building the culture at the company guided by respect, cooperation, professionalism and progress. In 2019 the company continued to achieve highest possible engagement level of Company's employees. Company also arranged an interactive one-day learning session – Values Dialogue for all employees where everybody engaged in the discussions how one should behave in different situations according to our values. Number of initiatives like the latter during the year help to assure that behaviour of employees is in line with values and Company's code of ethics The Company pays substantial attention for minimizing corruption risk and implements relevant internal processes.

- **Project risk**

Investment project management is an important part of the Company's business. The Company invests into the expansion of tanks for light oil product storage, development of the system of relevant connecting pipes and pumps, development of tanks for mixtures of oil and water, reconstruction of jetties, development of liquidated natural gas reloading station, etc. Also, the Company looks for opportunities in international LNG investment projects and has signed an Operation and Maintenance Services Agreement for the LNG terminal in Brazil on 3 February 2020. In order to attain the economic value that investment projects are supposed to generate it is important to assure that the projects are implemented within the defined budget and timeframe. Company's Board have set 10 per cent tolerance limit for deviations, therefore Company's management constantly monitors implementation statuses of the important projects, related risks and their mitigation measures.

## MANAGEMENT OF THE COMPANY

### Management structure

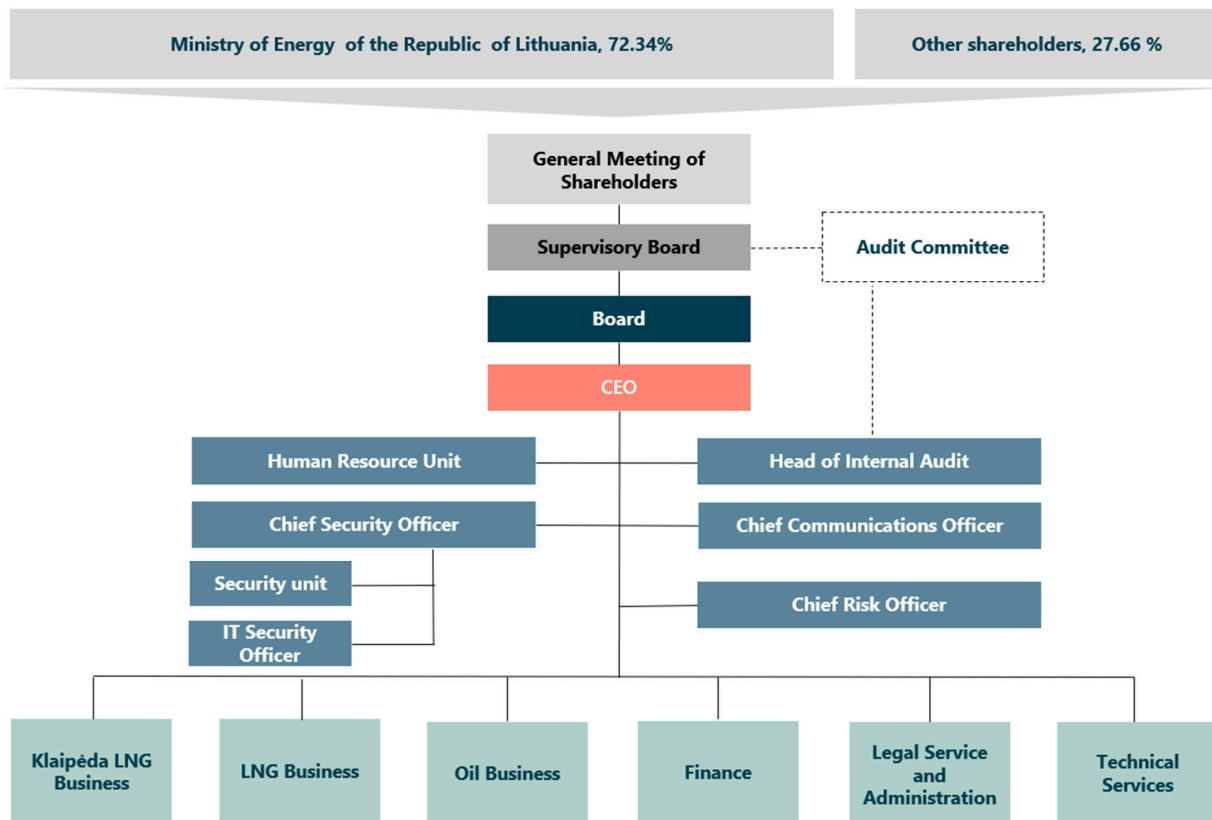
The Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company and other legal acts of the Republic of Lithuania during its operation.

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, General Manager).

### Organizational and management structure of the Company:



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

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

In the last ordinary general meeting of Shareholders of the Company the following representatives of the Company took part: General Manager of the Company, acting Chief financial officer, head of the legal division.

**The Supervisory Board** is a collegial supervisory body which consists of 3 (three) members (at least 2 (two) being independent), elected for the period of four years in the General Meeting of Shareholders according to the procedure established by the Law on Stock Companies. The number of the terms of office a member may serve on the Supervisory Board is not limited. The CEO of the Company, a member of the Board of the Company and a person, who under the legal acts is not entitled to serve in this office, shall not serve on the Supervisory Board. The Supervisory Board is a collegial body supervising the activities of the Company, its status, competence and functions have been defined by the Law on Stock Companies and the Articles of Association of the Company. Functions, rights and duties of the Supervisory Board are detailed in the Working Regulations of the Supervisory Board. Upon convention of the Company's General Meeting of Shareholders on 27 April 2018, the

members of the Company's Supervisory Board have been elected for the period of four years: Eimantas Kiudulas (independent member), Andrius Varanavičius (independent member) and Tomas Lukoševičius (resigned from 3 September 2019).

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

By the decision of the Supervisory Board of the Company the members of Audit committee have been elected until the end of office of the current Supervisory Board: Andrius Varanavičius (independent member) and Laura Garbenčiūtė – Bakienė (independent member) have been appointed from 21 August 2018 and Žana Kraučenkienė (independent member) has been appointed from 3 December 2018.

**The Board** is a collegial management body of the Company consisting of 5 (five) members, who are elected by the Supervisory Board for the period of 4 (four) years with the requirement that at least 3 (three) members are independent. Board members: Dainius Bražiūnas, Mantas

Bartuška, Giedrius Dusevičius (independent member), Bjarke Pålsson (independent member) ir Ian Bradshaw (independent member) (appointed as at 2 January 2019). The Board members elect the Chairman of the Board. On 28 May 2018 Board member Giedrius Dusevičius has been elected as a chairman of the Board. The number of the terms of office a member may serve on the Board is not limited. A person who is a member of the Supervisory Board of the Company or who under the legal acts may have no right to be elected, cannot serve as a member of the Board. The mandate of the Board members and scope of activity of the CEO have been determined by the Law of Stock Companies and the Articles of Association of the Company. The tenure of all Board members of AB Klaipėdos nafta has been extended. Taking into account the 24 April 2019 decision of the Supervisory Council of AB Klaipėdos nafta which extended the tenure of the Board members of the Company until the respective separate decision of the Supervisory Council, on 2 July 2019 the Supervisory Council of the Company decided to extend the tenure of all Board members of the Company for three years from 24 April 2019.

The Company is managed by **the Chief Executive Officer (CEO)** which is a single-person managing body of the Company. The CEO is the main person managing and representing the Company. The duties and competence of the CEO have been determined by the Law on Stock Companies and the Articles of Association of the Company.

**Members of the Supervisory Board as at 31 December 2019**

**Eimantas Kiudulas (independent member)**



Chairman of the company's Supervisory Council. Elected to the Supervisory Council on the 27 April 2018 by the ordinary General Meeting of Shareholders for a four-year term. Also served as a member of the KN Supervisory Council in 2013–2017. Education: ISM University of Management and Economics, Management Accounting: Value Analysis module (2010); Vilnius University Faculty of Economics (1994). Participation in activities of other companies and organisations: Eimantas Kiudulas' company, owner UAB iValue, CEO, shareholder; Klaipėda Chamber of Commerce, Industry and Craft, Council Member; Lithuanian Association of Free Economic Zones, Board Member, Chairman of the Board UAB Biorro, Board Member; UAB Klaipėda Free Economic Zone Management Company, CEO, Board Member; UAB LEZ projektų valdymas, Board Member; UAB PO7, Board Member; UAB ProBioSanus, Board Member; UAB Flex Start One, CEO; Public Institution Klaipėda ID, Board Member, Chairman of the Board. Information about the shares of AB Klaipėdos nafta or shares of other companies, which Eimantas Kiudulas holds, and the total amount of which exceeds 5% of all shares of the company: UAB ProBioSanus – 23 %; UAB Biorro – 38 %.

**Andrius Varanavičius (independent member)**



Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 27 April 2018 during an ordinary general shareholders' meeting for the office duration of four years. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company until the end of office of the current Supervisory Council. Education: Concordia International University Estonia, BA in International Business— Finance Major (2001). Participation in activities of other companies and organisations: Takeda Pharmaceuticals International, director of finance for Europe and Canada, Takeda Pharma AG, Board Member, Takeda UK Limited, Board Member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

There have been 11 meetings of Supervisory Board in 2019, which were attended by all Supervisory Board members.

| Name                 | Position in the Company           | The independence criteria | Cadence commencement date                     |
|----------------------|-----------------------------------|---------------------------|---|
| Eimantas Kiudulas    | Chairman of the Supervisory Board | Independent               | 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    |
| Tomas Lukoševičius   | Member of the Supervisory Board   | -                         | From the 27 April 2018 until 3 September 2019 |

**8<sup>th</sup> February 2019.** An Extraordinary General Meeting of Shareholders of the Company adopted decision to determine fixed monthly remuneration for the independent member of the Supervisory Board and the chairman of Supervisory board. Remuneration shall be applicable for the Supervisory board member activity starting at 2019.

T. Lukoševičius, a member of Supervisory Board of AB Klaipėdos nafta resigned from members of

Supervisory Board of the Company as of 3 September 2019.

In 2019 for the independent members of the Supervisory Board total remuneration amount comprise of EUR 25.9 thousand (2018 – EUR 15.1 thousand). Members of the Supervisory Board were not granted with any loans, guarantees or assets for the year 2019.

### **Supervisory Board activity in 2019**

The Supervisory Board, during 2019, supervised the activities of the Board and the CEO of the Company, submitted its comments and proposals to the general meeting of shareholders on the set of annual financial statements, the draft of profit/loss distribution, and the annual report of the Company.

In addition to its regular tasks, the Supervisory Board in 2019 was also highly involved in the discussions about the Company's long-term strategy. Members of the Supervisory Board spent a lot of hours in retreats and meetings with the management bodies drawing a strategic direction for the Company until 2030. As a reward for extensive workshops, the new Company's strategy for 2030 was approved by the Supervisory Board in early 2020.

There were 11 meetings of Supervisory Board in 2019, which were attended by all incumbent members of the Supervisory Board.

During 2019, the Supervisory Board issued two approvals for transactions with the related party.

Members of the Audit Committee as at 31 December 2019



**Andrius Varanavičius (independent member)**

Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 27 April 2018 during an ordinary general shareholders' meeting for the office duration of four years. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company until the end of office of the current Supervisory Council. Education: Concordia International University Estonia, BA in International Business— Finance Major (2001). Participation in activities of other companies and organisations: Takeda Pharmaceuticals International, director of finance for Europe and Canada, Takeda Pharma AG, Board Member, Takeda UK Limited, Board Member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Žana Kraučenkienė (independent member)**

Member of the Audit Committee. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company as of 3 December 2018 until the end of office of the current Supervisory Council. Education: Vilnius University, Master's degree in Mathematics (study programme of Finance and Insurance Mathematics), 2000, Vilnius University, Bachelor's degree in Applied Mathematics (study programme of Finance and Insurance Mathematics), 1998. Place of work and position: Since March 2016 – Director of Effectum LT, owner of the company. Since January 2016 – Head of the Internal Audit Department of the Lithuanian Children and Youth Centre. In the period from 2000 to 2018 occupied various positions in the insurance company Lamantinas and was a member of the company board. Since 2015 – Board member of the Association of Risk Management Professionals. Since 2017 – Board member of the Institute of Internal Auditors. Member of the Institute of Internal Auditors. Member of the Risk Management Committee of the Actuarial Association of Europe. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Laura Garbenčiūtė-Bakienė (independent member)**

By the decision of the Supervisory Council, elected as a member of the Audit Committee of the company until the end of office of the current Supervisory Council. Education: Vilnius Gediminas Technical University, Master degree in Finance (1999); Kaunas University of Technology, Bachelor degree in business administration (1996). Employer and positions: Since 2016 – financial advisor with portfolio of small and middle-sized Lithuanian and foreign companies; 2015-2016 – Director of Internal audit at Lithuanian Energy; 2013-2015 – Director of the Digital Operations at Western Union Processing; 1997-2012 – various positions at PricewaterhouseCoopers. Participation in the management of other companies: Since 2018 Laura Garbenčiūtė-Bakienė is an independent member of the Supervisory Council at Investment and business guarantees. Since 2016 – the independent Chair of the Audit and Risk Committee at the State Enterprise Ignalina nuclear power plant. Since 2019 – independent member of the Audit Committee at the Lithuanian Airports, and independent member of the Board at Plunges vandenys. Has no direct interest in the share capital of the Company no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During the year 2019, 19 Audit Committee meetings have been arranged where all Audit Committee members have participated.

| <b>Name</b>               | <b>Position in the Company</b> | <b>The independence criteria</b> | <b>Cadence commencement date</b>             |
|---------------------------|--------------------------------|----------------------------------|--|
| Andrius Varanavičius      | Chairman of Audit Committee    | Independent                      | From the 21 August 2018 until 27 April 2022  |
| Laura Garbenčiūtė-Bakienė | Member of Audit Committee      | Independent                      | From the 21 August 2018 until 27 April 2022  |
| Žana Kraučenkienė         | Member of Audit Committee      | Independent                      | From the 3 December 2018 until 27 April 2022 |

In 2019 for the independent members of Audit Committee total remuneration amount comprise of EUR 34.2 thousand (in 2018 – EUR 4.8 thousand). Members of the Audit Committee have not received any loans, guarantees or assets, unpaid bonuses, tantjems and

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

Members of the Board as at 31 December 2019



**Dainius Bražiūnas**

(born 1983) – Member of the Board of the Company since 25 August 2014, until the term of office of the acting Board of Company. Education: Vilnius Gediminas Technical University, Bachelor in energy (2005). Employment – head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania (legal status - budget office, code 302308327, Gedimino pr. 38, Vilnius). Participation in the activity of other companies: head of Koturna association (legal status - association, code 301684878, Mykolo Marcinkevičiaus street 23-13, Vilnius), member of the Board and member of the Board of No. 599 homeowner community bendrijos (legal status – community, code 124754821, Paribio street 53A, Vilnius). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Mantas Bartuška**

(born 1984) – Board member of the Company since 25 September 2014, elected by the Supervisory Board until the term of office of the acting Board of Company. Until 2 January 2017 was CEO of AB Klaipėdos nafta. Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). Since 16 December 2016 works as general manager at AB Lietuvos geležinkeliai (legal status – Stock Company, code 110053842, Mindaugo street 12, Vilnius). Participation in the activity of other companies: since 14 December, 2016 member of the Board of the AB Lietuvos geležinkeliai (legal status – Stock Company, code 110053842, Mindaugo street 12, Vilnius, member of Presidium of Lietuvos pramoninkų konfederacija (legal status – association, code 110058241, A. Vienuolio street 8, Vilnius). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Giedrius Dusevičius (independent member)**

(born 1971) – Independent member of the Board since 30 December 2016, elected till the end of the Board of Company cadence. Education: Vilnius University, Faculty of Economics, (1989); Vilnius University, Institute of International Relations and Political Science (1994); INSEAD, Management Programme (AMP, 2006). Participation in the management of other companies – member of the Board of UAB ACC Distribution (legal status – Limited Liability Company, code 135150085, Jonavos street 196, Kaunas. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Bjarke Pålsson (independent member)**

(born 1968) – Independent member of Board since 24 January 2017, elected till the end of the Board of Company cadence. Education: University of St. Gallen (HSG) in Switzerland, CEMS Master's Study Programme of Quantitative Economics and Finance. Copenhagen Business School in Denmark, Master's in Finance (excl. thesis) (1992). Copenhagen Business School in Denmark, Bachelor's in Economics. Employed: 50% owner and Co-CEO of Mark & Wedell (Oldenvej 5, 3490 Kvistgaard, Denmark). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



**Ian Jonathan Bradshaw (independent member)**

(born 1959) - Independent member of Board since 2 January 2019, elected till the end of the Board of Company cadence. Education: Columbia Business School, US: Senior Executive Program (2008); Durham University, UK: BSc(Hons), Engineering Science, (1980). Employed and Participation in activities of other companies and organisations: Contiguous Consulting Ltd., owner. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.



2nd January 2019. Mr. Ian Jonathan Bradshaw was elected as the independent Board Member of the Company to the current vacancy until the end of the acting Board's tenure (24th of April 2022).

All members of the Board of the Company attended all 20 Board meetings held during the year 2019.

### **Board activity**

The Board reviewed the strategic, operational, financial, reputational, and safety issues throughout the year on a regular basis. In addition, The Board monitored the Company's financial and strategic goals against the annual plan for 2019 quarterly and considered the yearly plan for 2020 after taking into account management's assumptions.

The Board's work was very intensive in 2019, and it held 25 meetings, 15 of which were held in writing. The 122 items were presented for the Board, 76 of them – for the adoption of a decision.

During 2019 the Board considered the long-term strategy of the Company and participated in numerous discussions with the management, the Supervisory Board, and external advisors Roland Berger. The Board analysed and provided its approval to the Company's strategy for 2030.

The Board oversaw the Company's risks and reviewed management judgments about specific ones. During the year, four Risk reports were approved.

In 2019, the Board adopted a strategic conditional decision to acquire a floating liquefied natural gas storage

unit no later than by 31 December 2024. The decision followed by the thorough analysis which required a lot of time and energy.

At the end of June 2019, the Board started to search for new Company's CEO. After a thorough selection process, Darius Šilenskis was appointed as new CEO in November 2019.

The Board was also actively involved in significant transactions of the Company. The Board engaged by approving the main terms and conditions or by supporting the management with the strategic advice. The major transactions are as follows:

- Agreement on extension of a long-term contract on oil products handling with ZAT Belaruskaja neftenaja kompanija;
- Agreement regarding booking of the capacities of LNG reloading station for 5 years with Polish state-owned oil and gas company Polskie Górnictwo Naftowe i Gazownictwo S.A.;
- Operation and Maintenance Services Agreement for the provision of operations and maintenance services in connection with GNA's liquefied natural gas terminal, located at the Port of Açú in the state of Rio de Janeiro, Brazil, with UTE GNA I Geração de Energia S.A.;
- Agreement regarding granting a loan of 134 million euros with the purpose to finance the rent payable by Company, for reduction of the LNG terminal Security Component price, with the Nordic Investment Bank.

| 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   |
| Ian Bradshaw        | Member of the Board     | Independent               | From the 2 January 2019    |

Independent members of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. In 2019 for the independent members of the Board total remuneration amount comprise of EUR 97,1 thousand. (2018 - EUR 57.7 thousand.)

Members of the Board in 2019 did not receive any loans, guarantees or assets, were not paid bonuses, premiums tantiemes or any other benefits for work as members of the Board.

**The Directors of the Company as at 31 December 2019**



**Darius Šilenskis**

(born 1981) – Chief Executive Officer. Works at the Company since 28 September 2015. Education: Baltic Management Institute, Master of executives international business management (EMBA), (2013), Vytautas Magnus University, Master of business administration (2013), Mykolas Riomeris university, Master of law (2006, Law and management studies), Bachelor of law (2004, International law if the Sea studies). No participation in other companies management. The share of AB Klaipėdos nafta held by Darius Šilenskis is less than 0.05%; no in the related companies of AB Klaipėdos nafta.



**Jonas Lenkšas**

(born 1979) – Chief Financial Officer. Works at the Company since 4 June 2018. Education: Vilnius University, MA in Economics (2003); Vilnius University, BA in Economics (2001). No participation in other companies management. The share of AB Klaipėdos nafta held by Jonas Lenkšas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.



**Tadas Matulionis**

(born 1977) - LNG Business Director. Works at the Company since 2 April 2013. Education: Kaunas University of Technology, BA in Telecommunications (2000); Vytautas Magnum University, MA in Management (2004); Baltic Management Institute, EMBA (2004), Project Management Institute, Project Management Professional (PMP) (2007), Prince2 Practitioner (2012), Baltic Institute of Corporate Governance, programme for Professional Board Members (2014). The share of AB Klaipėdos nafta held by Tadas Matulionis is less than 0.05%; no in the related companies of AB Klaipėdos nafta.



**Genadijus Andrejevas**

(born 1974) – Technical Director. Works at the Company since 4 May 2011. Education: Vilniaus Gediminas Technical university, Master of Engineering computer science (1999), Kaunas university of Technology, bachelor of thermal engineering (1996). No participation in other companies management. The share of AB Klaipėdos nafta held by Genadijus Andrejevas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.



**Giedrius Sabaliauskas**

(born 1980) - acting Oil Business Director. Works at the Company since 04 September 2017. Education: Kaunas University of Technology, Bachelor of Transport Engineering (2005). No participation in other companies management. The share of AB Klaipėdos nafta held by Giedrius Sabaliauskas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.



**Rytis Valūnas**

(born 1985) - Chief Administrative Officer and General Counsel. Works at the Company since 15 September 2012. Education: Baltic Institute of Corporate Governance, Professional Board Member Certificate (2015); The Fletcher School of Law and Diplomacy/Harvard Law School, LL.M. (2011); Mykolas Romeris University/Ghent University, MA in International Law (2009); Mykolas Romeris University, BA in Law (2007). The share of AB Klaipėdos nafta held by Rytis Valūnas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

**The Directors of the Company as at 31 December 2019**



**Arūnas Molis**

(born 1978) - Klaipėda LNG Director. Works at the Company since 2 January 2019. Education: Vytautas Magnus University, MA in International Business Law (2016); Vilnius University, PhD in Political Science (2008); Hochschule Bremen, University of Applied Sciences (Germany), MA in European Studies (2002); Vilnius University, BA in Political Science (2001). The share of AB Klaipėdos nafta held by Arūnas Molis is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

On 6<sup>th</sup> June 2019 the General Manager of AB Klaipėdos nafta Mindaugas Jusius presented the Board of the Company with resignation notice, due on July 26<sup>th</sup>.

After the selection of candidates for the position of General Manager of AB Klaipėdos nafta procedures were performed the Board of AB Klaipėdos nafta adopted the decision as of 11<sup>th</sup>

November 2019 to elect Darius Šilenskis as CEO of AB Klaipėdos nafta.

No members of the Company's management have been convicted of crimes against property, business or finances. Information about managers' salary for the year 2019 is stated in chapter "Information about the employees of the Company" in the Annual Report.

**System of remuneration to the Company's management**

The Board of the Company sets the salary of the Chief Executive Officer (hereinafter referred to as the 'CEO'), the pay ceiling for employees directly subordinate to the CEO, and the procedure for incentive of management personnel for both, short-term and annual results.

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

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

The monthly salary for the General Manager of the set out by the Board of the Company comprise 9,200 EUR starting from November of 2019. Following the Remuneration policy approved by the Board of the Company and the Company's Procedure for Rewarding Management Personnel there can be paid annual bonus depending on the results of the Company and achievement volume of annual goals. The maximum bonus in case all targets are achieved comprise of 4 monthly salaries. For the General Manager of the Company a variable part of the salary is not paid.

## **OTHER GOVERNANCE INFORMATION**

### **Information on major share packages controlled either directly or indirectly**

Details of the shares are provided in chapter "Information about investment into other companies in the Annual Report.

### **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 in 2019.

### **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. Details of the shares are provided in chapter "Shareholders and Shares of the Company" in the Annual Report.

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

**29<sup>th</sup> March 2019.** The Company's amended Articles of Association had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company and the new shares of the Company are registered with the Nasdaq CSD, SE. Following the increase of the authorised capital of the Company, such capital is equal to EUR 110,476 thousand and is divided into 380,952,393 units of shares, which grant 380,952,393 votes. Nominal value per share – 0.29 EUR.

### **Information on all agreements between shareholders**

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

### **Information on the varied policy applicable to the election of the Company's chief manager, the members of governing and supervisory boards**

The Company does not have the variety policy applicable to the election of the chief manager and the members of governing and supervisory bodies. During the procedure of selection of candidates to the Company's board of directors, governing and supervisory boards, the candidates shall be subject to requirements that do not discriminate a candidate on grounds of age, sex, education, or professional experience. During the selection of a candidate, the Company does not set any restrictions for nomination of a candidature on grounds of sex or age.

Considering the specificity of the Company's business activity and the status of a state-owned company, unbiased requirements which are only related to the functions and competences of the members of a governing or supervisory boards and the professional experience and education proportionate to these functions and competences are set.

General and independence requirements to candidates to the Company's supervisory board are set by the Description of Selection of Candidates to the Boards of State or Municipal Companies and Candidates to the Collegial Supervisory or Governing Board of a Company That Is under Control of a State or Municipal Company Elected by the General Meeting as adopted by Decision No 631 of 17 June 2015 of the Government of the Republic of Lithuania.

## AB KLAIPĖDOS NAFTA COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The public limited liability company AB Klaipėdos nafta (hereinafter referred to as the "Company"), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific

provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

### Form of the Governance report of the Company:

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
| <b>Principle I: Basic Provisions</b><br><b>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</b>                     |                              |  |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes                          | The development strategy and objectives of AB Klaipėdos nafta have been set up in its internal documents (Annual Report placed publicly on the website of AB NASDAQ Vilnius) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment, declaring how it plans to act in the interests of the shareholders and increase shareholders' equity. The Articles of Association of the Company are publicly announced on NASDAQ Vilnius Stock Exchange's and Company's website, according to the procedures defined for the companies listed on the regulated market.                          |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.  | Yes                          | The General Meeting of Shareholders and the Board of the Company adopt the main strategic resolutions, making impact on the shareholders' value increase. During the year under review, the General Meeting of Shareholders of the Company and the Board adopted decisions related with implementation of the strategic projects of the Company, core decisions related with activities of the Company. The Company's Supervisory Board and its advisory body, Audit Committee ensures active monitoring and supervision of the Company's activity.  |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.   | Yes                          | The Company's Supervisory Board, its advisory body - Audit Committee, the Company's Board and the Company's General Manager implement this recommendation. The documents regulating the activities of the management and supervisory bodies were approved providing the principles and procedures for the cooperation between the Company's management and supervisory bodies, and regular supervision and control carried out by the supervisory bodies additionally ensure the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders. If necessary, general meetings are organized, where the members of the Company's Board, Supervisory Board, and Audit Committee are invited. |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.   | Yes                          | <p>The Company's bodies respect the rights and interests of the persons participating in or connected with the Company's operation:</p> <ol style="list-style-type: none"> <li>1. Employees – since its establishment the Company has been cooperating and performing social partnership with the representatives of its employees (the Board of the Company by its resolutions assigns additional means for the execution of the Collective Agreement and extra stimulation of the employees, etc.);</li> <li>2. Creditors the Company takes on and fulfils its financial and other obligations in accordance with the budget approved by the Board of the Company and the general commercial agreements;</li> <li>3. Suppliers – the Company's Board adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association;</li> <li>4. Clients – the Company's Board adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association;</li> <li>5. Other persons (local society) – by the resolution of general shareholders meeting part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the annual support budget, including the projects plan which is made based on the principles that the prioritized support for Klaipėda region and focusing on the support to be annually dedicated for both local companies and institutions and organizations located near the Company.</li> </ol> |
| <p><b>Principle II: The corporate governance framework</b><br/> <b>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</b></p>  |                              |   |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes                          | The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, is formed within the Company.   |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.   | Yes                          | The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief  |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
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|  |                              | <p>Executive Officer; submits proposals and comments to the General Meeting of Shareholders regarding the strategy of the Company's operation<sup>1</sup>, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts).</p> <p>The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation<sup>2</sup>; approves the annual budget, annual policy plan and operational objectives, funds investment procedure, adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, significant transactions, realization of rights of the Legal Entity's member within the companies under control, different commitments, etc.).</p> <p>The Company's Audit Committee performs separate supervisory functions assigned by the Supervisory Board (monitors and supervises the preparation of Company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).</p> |
| <p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.</p>  | Yes                          | <p>The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.</p>  |
| <p>2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.</p> | Yes                          | <p>The Company has set up a collegial supervisory body - the Supervisory Board. The internal regulations for election of collegial body the Supervisory Board by the Company's shareholders meeting are set in the way ensuring: minor shareholders' interests are properly represented, this body accountability to the shareholders and objective supervision of the Company's activity and its managing bodies.</p> <p>The management system of the Company ensures that collegial supervisory body elected by the shareholders operates properly and effectively, and the rights assigned to it has to ensure effective supervision of the managing bodies and protection of the all shareholders interests.</p>  |
| <p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can</p>  | Yes                          | <p>The Board of the Company is comprised of five members elected by the Supervisory Board.</p>  |

<sup>1</sup> The competence of the Supervisory board is specified in the articles of the Company. As to the Law on Stock Companies, approved on 28 November 2017, the strategy of the company is approved and submitted by the Supervisory board of a company, the implementation of approved strategy is analysed and information submitted to the ordinary general meeting of shareholders.

<sup>2</sup> The competence of the Supervisory board is specified in the articles of the Company. As to the Law on Stock Companies, approved on 28 November 2017, the board of the companies, which has a formed Supervisory board, analyses and assesses the project of company's strategy and information of implementation of the strategy, which is provided to the Supervisory board by the head of the company.

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| dominate decision-making on the part of these bodies.   |                              | <p>The Supervisory Board is comprised of three members elected by the General Meeting of Shareholders of the Company<sup>3</sup>.</p> <p>The Audit Committee of the Company is comprised of three members elected by the Supervisory Board.</p> <p>None of the Company's management or supervisory bodies are comprised of that number of members that a separate person or group of persons could dominate them adopting the decisions.</p>  |
| 2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.               | Yes                          | <p>The opportunity to recall both separate members of collegial bodies and the whole collegial body <i>in corpore</i>, before the end of the term of office is provided in the documents regulating activity of the management and supervisory bodies and the Company's Articles of Association.</p> <p>The Board members (one or all) have the right to recall the Supervisory Board, and the General Meeting of Shareholders has the right to recall the Supervisory Board members (one or all).</p> <p>The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members; however, the restrictions on the candidates to the Supervisory Board are applied according to the applicable legal acts ensuring an appropriate rotation of the members of these bodies, necessary development of their professional experience and rather often additional approval of their status.</p> <p>Audit Committee corresponds to the term of office of the Supervisory Board by which it was elected and which can also recall members of the Audit committee before the end of the term of office.</p> <p>Thus, the procedure of recall of the members of the Company's supervisory bodies is not easier than the procedure of dismissal of the Company's Executive Director (General Manager) or the Board member.</p> |
| 2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the | Yes                          | <p>The chairperson of the Company's Board and the Chief Executive Officer of the Company is not the same person. The chairperson of the Company's Supervisory Board or its members has never been Board members or the General Managers of the Company.</p>   |

<sup>3</sup> 21 April 2017, after the ordinary general meeting of the Company shareholder, the term of office of AB Klaipėdos nafta has ended as stated in the part 4 of the Republic of Lithuania Law on Stock Companies article 31. Members of Audit Committee term of office has also expired along with Supervisory Board term of office. T.Lukoševičius, a member of Supervisory Board of AB Klaipėdos nafta resigned from members of Supervisory Board of the Company as of 3 September 2019.



| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
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| <p>general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>   |                              |   |
| <p><b>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</b><br/> <b>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</b></p>  |                              |   |
| <p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>   | Yes                          | <p>The collegial body of the Company is elected following the order established by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company.</p> <p>The selection of candidates to the Company's collegial body is carried out according to the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a Company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p> <p>Additional, candidates for the members of the collegial body elected by the General Meeting of Shareholders, according to the procedures defined, can be delegated by all shareholders holding the amount of shares giving them not less than 1/20 of the total votes.</p>  |
| <p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p> | Yes                          | <p>Information about the candidates to become members of a collegial body is presented in advance publishing this information on the website of AB Nasdaq Vilnius before the General Meeting of Shareholders or publishing it during the meeting for the shareholders participating in the General Meeting of Shareholders if the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest, and for this purpose they submit declarations about the absence of conflict of interest and are obliged to immediately inform the body by which they were elected of any new circumstances that may lead to the conflict of interest.</p> <p>The Company informs the public of the positions by the collegial body in its annual and six months interim report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies.</p> |
| <p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its</p>   | Yes                          | <p>All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests to the Company's body that elects them. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body.</p> <p>The information about the composition of the Company's collegial bodies and the competences of their members are publicly disclosed to the shareholders in AB Nasdaq</p>  |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| composition and particular competences of individual members which are relevant to their service on the collegial body.  |                              | Vilnius Stock Exchange website (changes of the collegial body and changes in the Audit committee, which is concluded by the collegial supervising bodies, are being published on AB Klaipėdos nafta web page ( <a href="http://www.kn.lt">www.kn.lt</a> ) and also on 2019 annual report of the year).   |
| 3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy. | Yes                          | The collegial body ensures that its members are competent. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial supervising bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit Committee are appointed questioning if Audit Committee, acting collegially, shall has recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.   |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.   | Not applicable               | The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation.<br><br>Up to now there has been neither need nor practice in the Company to offer a special tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities and to organize annual examinations. However, the Company's chief executive officers personally inform and introduce the Company's organization and activity to the new members of the collegial bodies.                                   |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.  | Yes                          | Since more than 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, at least 2 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent.<br><br>During the year under review, the Company's Board had 3 independent members (out of 5 acting member), Audit Committee had 3 independent members (out of 3), and the Supervisory Board had 2 independent member (out of 2 at 31-12-2019). |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| <p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <p>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</p> <p>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization</p> | <p>Yes</p>                   | <p>The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies, however, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by SC Nasdaq Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the Independence Criteria defined by the Requirement for Audit Committees that were approved by the Resolution No. 03-14 of the Board of the Bank of Lithuania on 24 January 2017. The independent members of the collegial supervising bodies are also appointed (elected) in compliance with the provisions of the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p> <p>In order to evaluate the independence of the candidates for the Company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest of the collegial body and the Company.</p> <p>The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content but not the form.</p> |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| <p>receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> |                              |  |
| <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>  | Yes                          | <p>Refer to the comment regarding the item 3.7 above.</p> <p>In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies and in the Company's Articles of Association.</p> <p>The selection of candidates to the Company's collegial body is carried out according to the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p> |
| <p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. (When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent.) When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its</p>  | Not applicable               | <p>Refer to the comment submitted regarding the item 3.6 above.</p> <p>The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies set out in the Code.</p>  |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.  |                              |   |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.                  | Yes                          | <p>There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information.</p> <p>The Company regularly specify in its published periodical reports the relation of the Company's collegial bodies to the Company, as well as information about possession (absence) of the Company's shares</p> <p>The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.</p> |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.  | Yes                          | <p>Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings with a fixed monthly remuneration.</p> <p>The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board.</p> <p>The General Meeting of Shareholders has a right to reward (pay tantieme) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association.</p>                            |
| <p><b>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</b></p> <p><b>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</b></p> |                              |   |
| 4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the  | Yes                          | The Company's Board approves the business strategy <sup>4</sup> of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board also   |

<sup>4</sup> See Note 3

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
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| company's management bodies and monitor and control the company's management performance.  |                              | <p>analyses and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, and other significant information.</p> <p>In addition, the Board analyses and evaluates the Company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders.</p> <p>The Board regularly analyses and assesses financial status of the Company, as well as periodic financial results, submits recommendations on the appropriate management of the Company to the Company's managing bodies and adopts other decisions, as provided in the Law on Companies of the Republic of Lithuania.</p> |
| 4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution). | Yes                          | According to the information available to the Company all the members of the collegial body act in good faith for the benefit and in the interests of the Company but not in their own or third parties' interests seeking to maintain their independence in decision-making, as well as taking into account employees' interests and public welfare. Independent members maintain their analyses, as well as independence in decision-making, and acting.  |
| 4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.   | Yes                          | The members of the collegial body duly perform their functions: they actively attend the meetings and devote sufficient time and attention to perform their duties as members of the collegial body. The members of the collegial bodies actively participate in the ongoing meetings both directly and voting in advance in written or by telecommunication means. During the year under review, neither of the Company's collegial bodies missed so many meetings that hence it would have participated less than in the half of the meetings of the respective collegial body.   |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| <p>4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.</p>  | <p>Yes</p>                   | <p>The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. According to the Company's Articles of Association, in certain cases the most important decisions of the Company shall be taken only after the decision of the Board of the Company is approved by the General Meeting of Shareholders.</p> <p>All information regarding insider information related to the Company's activity are publicly available according to the procedure prescribed by law for the Company's shareholders on the website of SC Nasdaq Vilnius Stock Exchange and in official website of the Company. Additional informing of the shareholders except that provided in the legal acts is not carried.</p> |
| <p>4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p> | <p>Yes</p>                   | <p>According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.</p>   |
| <p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies<sup>5</sup>. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial</p>   | <p>Yes</p>                   | <p>The Company's collegial bodies are independent from the Company's managing bodies and, according to the Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies</p> <p>The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations</p>   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
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| <p>resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p>   |                              | <p>by third parties on the issues that fall under the collegial body's or (and) its committees' competence.</p>   |
| <p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p> | <p>Yes</p>                   | <p>The advisory body, i.e. Audit Committee, elected by the Supervisory Body is formed within the Company. The Supervisory Body determined its functions, rights, obligations and remuneration procedure. The Company's Audit Committee has been assigned with advisory functions related to the audit control and assessment and covering supervision of financial reports preparation and audit execution process, examination of its effectiveness and implementation of recommendations, analysis of need of internal audit functions and other functions, as provided by the Resolution No. 03-14 of the Board of the Bank of Lithuania on 24 January 2017, observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.</p> <p>Other specialized committees are not established within the Company, however collegial management body, i.e. the Company's Board, is responsible for the issues related to the appointment of the Company's directors and determination of the remuneration for the Company's directors. The Board appoints and dismisses the Company's Chief Executive Officer, regularly evaluates skills, knowledge and experience of other Company's directors; discusses general application policy of remuneration (including stimulation) systems; determines remuneration of all Company's management personnel as it is defined in the Description of the Company's the highest Management Structure (or in the list of staff positions) approved by the Board and its bonus procedure.</p> <p>According to the practice established within the Company, the majority of independent</p> |



| PRINCIPLES / RECOMMENDATIONS   | Yes and No Not applicable | COMMENTARY   |
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|  |                           | Board members vote for the adoption of the decisions on the relative issues.   |
| 4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.   | Yes                       | The advisory body, i.e. Audit Committee, consist of three members.   |
| 4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. | Yes                       | Refer to the comment submitted regarding the item 4.7 above.<br><br>The advisory body, the Audit Committee, formed by the Supervisory Board, comprises of three members.<br><br>All of the acting members of Audit Committee were independent.   |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the  | Yes                       | Refer to the comment submitted regarding the item 4.7 above.<br><br>The documents of the operation of the Company determine that the Audit Committee has to regularly (at least two times per year) inform the Supervisory Board about its operation, and to provide the Supervisory Board with its operation report one time per year.<br><br>The main information about the Company's Audit Committee and its composition is published in the Company's annual report (governance report). |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
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| independence of the audit process and describe briefly the actions it has taken to reach this conclusion.  |                              |   |
| 4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.   | Yes                          | Refer to the comment submitted regarding the item 4.7 above.<br><br>The documents of the operation of the Company provide the right for the members of the Audit Committee according to the need to invite at its discretion to its meetings the Company's responsible persons and receive from them necessary explanations. The system of anonymous postings about the violations done in the Company is also provided and introduced in the Company.  |
| 4.12. Nomination Committee.<br><br>4.12.1. Key functions of the nomination committee should be the following:<br><br>1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company;<br><br>2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes;<br><br>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;<br><br>4) Properly consider issues related to succession planning;<br><br>5) Review the policy of the management bodies for selection and appointment of senior management.<br><br>4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee. | Yes                          | The documents of the operation of the Company provide the right for the purpose of members of Board to create Nomination committee.<br><br>For the purpose of one-off selection of candidates for Company's independent Members of Board Nomination committee was created on 16 September 2016 by the Supervisory Board.<br><br>Nomination committee functions were determined by Nominated committee work regulations confirmed of Supervisory Board.<br><br>Members and experts of Nomination committee select Supervisory Board.<br><br>By the Supervisory board approved competency requirements for the candidates, Nomination committee prepare and approve candidates for Company's independent Members of Board nomination description, publish and carries public candidates nomination, analyses, assess and consider candidates applications and documents, organize and coordinate conversations with candidates and also nominate candidates to the independent Members of Board, offered for the Supervisory Board. |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
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| <p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</li> <li>2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies;</li> <li>3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</li> <li>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</li> <li>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</li> <li>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</li> <li>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the</li> </ol> | <p>Not applicable</p>        | <p>Refer to the comment submitted regarding the item 4.7 above.</p> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No Not applicable | COMMENTARY  |
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| <p>executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <ol style="list-style-type: none"> <li>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</li> <li>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</li> <li>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</li> </ol> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p> |                           |   |
| <p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> <li>1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group);</li> <li>2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided;</li> <li>3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management</li> </ol>   | Yes                       | Refer to the comments submitted regarding the items 4.7 - 4.10 above. |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY |
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| <p>to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should</p> |                              |            |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
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| <p>be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose, the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p> |                              |   |
| <p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>   | Yes                          | <p>Refer to the comment submitted regarding the item 3.4 above.</p> <p>The internal documents of the Company do not directly provide for a separate assessment for the collegial body, acting the supervision functions, activities because it was not required by the legal acts of the Republic of Lithuania.</p> <p>Started from 12 June 2015, the Board of the Company performs annual assessment of its activity.</p> <p>The assessment is designed to evaluate organizational, teamwork, skills, competencies and performance efficiency aspects and whether the set goals have been achieved.</p> <p>Information about the collegial bodies' organization itself and activity procedures are</p> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No Not applicable | COMMENTARY   |
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|   |                           | <p>disclosed periodically in the annual (governance) report.</p> <p>The Company is setting the goal to improve more the information announcement procedures of Company's internal organization indicating what essential changes were made based on the self-assessment results.</p>   |
| <p><b>Principle V: The working procedure of the company's collegial bodies</b><br/> <b>The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</b></p>  |                           |  |
| <p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p> | <p>Yes</p>                | <p>A chairperson of the collegial body of supervision - the Supervisory Board and a chairperson of the collegial body of management - the Board implement this provision in the Company.</p>   |
| <p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p>   | <p>Yes</p>                | <p>The documents of the operation of the Company provides that the meetings of the Company's Supervisory Board are convened at least once in a quarter according to need, and the ordinary meetings of the Company's Board are carried out according to the schedule approved by the Board, which during the reporting period provided frequency of the Board meetings, i.e. once in a calendar month or more often, thereby ensuring continuous solution of the essential Company's management issues.</p>  |
| <p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p>              | <p>Yes</p>                | <p>The Company observes provisions stated in this recommendation. The members of the collegial body together with the convocation to the meeting receive a notice on the agenda of the meeting convened. According to the procedure and the terms provided in the documents of the operation of the Company, the Company's collegial bodies receive according to the set form written information about the matter under consideration when the decision is adopted, and when information is submitted only to collegial body's knowledge – on demand.</p> |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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|  |                              | In the Company's practice, the meeting agenda during the meeting is changed and supplemented only in cases when all members of the collegial body participate in the meeting and it is necessary to immediately solve important Company's issues and all members of the collegial body agreed with this agenda change and supplement.                                    |
| 5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed. | Yes                          | The Company observes provisions stated in this recommendation. If necessary, in the Company's determined practice, the general Company's management and supervision bodies' meetings are also convened.  |
| <p><b>Principle VI: The equitable treatment of shareholders and shareholder rights</b><br/> <b>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</b></p>  |                              |  |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.   | Yes                          | The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.  |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.  | Yes                          | The Company observes provisions stated in this recommendation.   |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.   | Yes                          | According to the Law on Companies of the Republic of Lithuania and Articles of Association all important transactions, and in set cases the key conditions of these transactions are approved by the Board, and also in cases prescribed by the Law on Companies an approval of the General Meeting of Shareholders is additionally received for such Board's decisions. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.   | Yes                          | All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of SC                     |



| PRINCIPLES / RECOMMENDATIONS   | Yes and No Not applicable | COMMENTARY   |
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|  |                           | <p>Nasdaq Vilnius Stock Exchange and on the Company's website (<a href="http://www.kn.lt">www.kn.lt</a>).</p> <p>Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them.</p>   |
| <p>6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p> | Yes                       | <p>Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company <a href="http://www.kn.lt">www.kn.lt</a>.</p> <p>The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (<a href="http://www.kn.lt">www.kn.lt</a>).</p> <p>Information indicated and the documents are published in the information disclosure system of SC Nasdaq Vilnius Stock Exchange in Lithuanian and English languages.</p> |
| <p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>  | Yes                       | <p>The shareholders of the Company can implement their right to participate at the meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts.</p> <p>The Company also furnishes its shareholders with the opportunity to vote in advance in written by completing and submitting to the Company the general voting ballot.</p>   |
| <p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to</p>  | Not applicable            | <p>Taking into account the structure of the shareholders (controlling interest is owned by the Government of the Republic of Lithuania) and the valid regulations for organisation of the meeting of shareholders ensuring full advance publication of the material of the General Meeting of Shareholders and publicity of the decisions adopted by the shareholders (publishing all this information on the website of SC Nasdaq Vilnius Stock Exchange) and the opportunity to vote in advance, there is no necessity to additionally</p>   |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| watch shareholder meetings by means of modern technologies.  |                              | install costly system of IT, which would give the opportunity for the shareholders to vote during the meeting of the shareholders using telecommunication terminal equipment.  |
| <p><b>Principle VII: The avoidance of conflicts of interest and their disclosure</b></p> <p><b>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</b></p>   |                              |  |
| <p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p> | Yes                          | <p>The members of the Company's supervisory and management bodies oblige to act in such a manner so as to avoid conflict of interests with the Company. This is determined in the Articles of Association of the Company and in other documents of operation of the Company.</p> <p>For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations.</p> <p>In case of a conflict of interests between a member of the Company's supervisory and management bodies and the Company during discussion of issues, such a member of the supervisory or management bodies shall immediately notify Company's body that elected them and not participate in voting regarding specific items in view of which such conflict arose. A member of the supervisory and management bodies shall not be entitled to vote when the meeting of the supervisory and management bodies discusses the issue related to his work on the supervisory and management bodies or the issue of his responsibility.</p> |
| <p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>  | Yes                          | Refer to the comment submitted regarding the item 7.1 above.   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| <p>7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.</p> | <p>Yes</p>                   | <p>During the reporting period, the members of the Company's supervisory and management bodies concluded with the Company only the following transactions: non-disclosure agreement (obligations) and the independent members of the collegial bodies - also concerning remuneration for the work in the Company's collegial body according to the conditions established by the body that elected them. The General Manager of the Company has also concluded the Employment Contract with the Company under the conditions approved by the Company's Board. During the year under review, no other transactions between the Company and the members of its collegial bodies were concluded.</p> |
| <p>7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.</p>  | <p>Yes</p>                   | <p>The members of the Company's Board have been familiarised with these provisions and they oblige to observe these recommendations.</p> <p>According to the practice established in the Company, the members of the Company's management and supervisory bodies withdraw both when the decisions adopted and in the cases when the transactions and (or) issues related to the member of the collegial body by personal or business interest are considered (as for information) in the collegial body.</p> <p>For detailed information refer to the comment in item 7.1 above.</p>  |
| <p><b>Principle VIII: Company's remuneration policy</b></p> <p><b>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</b></p>   |                              |   |
| <p>8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.</p>   | <p>Yes</p>                   | <p>The Company has an approved employee remuneration policy, which has an aim to determine remuneration, promotion principles and procedure for all employees, including senior executives.</p> <p>The remuneration policy of Company is published to the employees of the Company.</p> <p>The information about the Company's accrued average monthly remuneration (including according to the different categories of the employee) during the year under review is published on the website <a href="http://www.kn.lt">www.kn.lt</a>.</p>  |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
| <p>8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.</p>  | Yes                          | <p>Refer to the comment in item 8.1 above.</p> <p>(The Company's directors' remuneration policy for the subsequent years has been provided in the annual report.) The annual (governance) report contains information about the amount of money (or other compensations, if there was any) accrued for the members of the Company's bodies and directors'.</p> |
| <p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> <li>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;</li> <li>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;</li> <li>3) An explanation how the choice of performance criteria contributes to the long-term interests of the company;</li> <li>4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled;</li> <li>5) Sufficient information on deferment periods with regard to variable components of remuneration;</li> <li>6) Sufficient information on the linkage between the remuneration and performance;</li> <li>7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;</li> <li>8) Sufficient information on the policy regarding termination payments;</li> <li>9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code;</li> <li>10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code;</li> <li>11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned;</li> <li>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</li> <li>13) Remuneration statement should not include commercially sensitive information.</li> </ol> | Yes                          | <p>The information is presented in the annual (governance) report.</p>   |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY  |
|--|------------------------------|---|
| <p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p>   | Yes                          | The information is presented in the annual (governance) report (if there was any such case).  |
| <p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</li> <li>2) The remuneration and advantages received from any undertaking belonging to the same group;</li> <li>3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted;</li> <li>4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director;</li> <li>5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year;</li> <li>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</li> </ol> | Yes                          | The information is presented in the annual (governance) report. However, information about remuneration is not provided for each director individually, though the average amount for all managing personnel is provided. |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
| <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p> |                              |  |
| <p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>  | Not applicable               | Refer to the comment in item 8.1 above.  |
| <p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>   | Yes                          | The amount of annual bonuses depends on the predetermined and measurable performance criteria, i.e. on the level of the budgeted net profit achievement and realization of the set annual goals. |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| <p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>  | <p>Not applicable</p>        | <p>During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company.</p> |
| <p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>   | <p>Not applicable</p>        | <p>Refer to the comment submitted regarding the item 8.8 above.</p>   |
| <p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>   |                              |   |
| <p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>   |                              |   |
| <p>8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p> |                              |   |
| <p>8.13. Shares should not vest for at least three years after their award.</p>   | <p>Not applicable</p>        | <p>Refer to the comment submitted regarding the item 8.8 above.</p>   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
| 8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.  | Not applicable               | Refer to the comment submitted regarding the item 8.8 above.   |
| 8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).   | Not applicable               | Refer to the comment submitted regarding the item 8.8 above.   |
| 8.16. Remuneration of non-executive or supervisory directors should not include share options.  | Not applicable               | Refer to the comment submitted regarding the item 8.8 above.   |
| 8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.   | Not applicable               | Directors' remuneration setting function is performed by the Board of the Company. Shareholders are invited in all meeting of Shareholders where they can raise questions regarding remuneration of the Directors. |
| 8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.   | Not applicable               | General principles of the remuneration are disclosed in the annual (governance) report.  |
| 8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes. | Not applicable               | Refer to the comment submitted regarding the item 8.8 above.   |



| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
| <p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> <li>1) Grant of share-based schemes, including share options, to directors;</li> <li>2) Determination of maximum number of shares and main conditions of share granting;</li> <li>3) The term within which options can be exercised;</li> <li>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</li> <li>5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.</li> </ol> | Not applicable               | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>  | Not applicable               | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>  | Not applicable               | Refer to the comment submitted regarding the item 8.8 above. |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
| <p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p> | <p>Not applicable</p>        | <p>Refer to the comment submitted regarding the item 8.8 above.</p>  |
| <p><b>Principle IX: The role of stakeholders in corporate governance</b></p> <p><b>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</b></p>  |                              |  |
| <p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>  | <p>Yes</p>                   | <p>The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organisations regulating and controlling the Company's activities.</p>  |
| <p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>   |                              | <p>The management bodies consult with the employees on corporate governance and other important issues, (employee) participation in the Company's share capital is not limited.</p>  |
| <p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>   |                              | <p>Publicity of the essential information about the Company's activity creates the conditions for the holders of interests to participate in the management of the Company according to the procedure established by the law and the Article of Association, as well as for the Company's employees also according to the Collective Agreement of the Company.</p> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and No<br>Not applicable | COMMENTARY  |
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| <p><b>Principle X: Information disclosure and transparency</b></p> <p><b>The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</b></p>  |                              |   |
| <p>10.1. The company should disclose information on:</p> <p>The financial and operating results of the company;</p> <p>Company objectives;</p> <p>Persons holding by the right of ownership or in control of a block of shares in the company;</p> <p>Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</p> <p>Material foreseeable risk factors;</p> <p>Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</p> <p>Material issues regarding employees and other stakeholders;</p> <p>Governance structures and strategy.</p> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation</p> | <p>Yes</p>                   | <p>Performance and corporate governance is regularly disclosed by distributing press posts about publicly undisclosed information, related to the Company on SC Nasdaq Vilnius Stock Exchange website, as well as in the Company's annual reports and financial statements, press releases published in the exchange and in other public presentations of the Company activity.</p> <p>The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company's activity.</p> <p>The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC Nasdaq Vilnius Stock Exchange.</p> |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
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| schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.  |                              |  |
| 10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.  | Yes                          | The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of SC Nasdaq Vilnius Stock Exchange so that the submitted identical information in both languages could simultaneously be announced thus guaranteeing its simultaneous dissemination to all Company's shareholders so that all Company's shareholders and investors have the same opportunities to familiarize with information and adopt certain investment decisions.<br><br>In its practice the Company focuses on publication of notifications about publicly undisclosed information, related to the Company before or after SC Nasdaq Vilnius Stock Exchange trading session. |
| 10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well. | Yes                          | Refer to the comment in item 10.5 above.<br><br>Similarly to published information in the system of SC Nasdaq Vilnius Stock Exchange, information is also published on the Company's website.<br><br>Access to information in the system of SC Nasdaq Vilnius Stock Exchange and on the Company's website is free for the shareholders.  |
| 10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.   | Yes                          | The Company's annual reports, other periodical accounts prepared by the company and publicly undisclosed information, related to the Company are placed on the company's website   |
| <b>Principle XI: The selection of the company's auditor</b>  |                              |  |
| <b>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</b>   |                              |  |
| 11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.   | Yes                          | The Company observes this recommendation, annually, an independent firm of auditors conducts an audit of the Company's annual financial statements and report according to the International Accounting Standards and submits an independent auditor's report concerning financial statements.   |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the  | Yes                          | The Company's Board (a collegial body) proposes a candidate firm of auditors to the General Meeting of Shareholders taking into  |

| PRINCIPLES / RECOMMENDATIONS   | Yes and No<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
| <p>company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p>   |                              | <p>account the results of publicly carried out procurement of acquiring audit services.</p> <p>According to the practice established in the Company, the Company's Supervisory Board is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services.</p> <p>The Supervisory Board according to the Articles of Association of the Company can make their comments and suggestions over the Company's annual financial statements, annual report and profit allocation draft.</p> |
| <p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p> | <p>Yes</p>                   | <p>The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Boards as much as they consider it to be important.</p>   |