



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

**FOR THE FINANCIAL YEAR ENDING ON 31 DECEMBER 2014**

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Juridinio asmens kodas 110878442  
PVM mokėtojo kodas LT108784411  
Juridinių asmenų registras

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

## Independent auditor's report to the shareholder of AB "Klaipėdos nafta"

### Report on the Financial Statements

We have audited the accompanying financial statements of AB "Klaipėdos nafta", a public limited liability company registered in the Republic of Lithuania (hereinafter "the Company"), which comprise the statement of financial position as at 31 December 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes (comprising a summary of significant accounting policies and other explanatory notes).

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of AB "Klaipėdos nafta" as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Report on Other Legal and Regulatory Requirements

Furthermore, we have read the accompanying Annual Report for the year ended 31 December 2014 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2014.

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



Jonas Akelis  
Auditor's licence  
No. 000003

The audit was completed on 26 March 2015.

## Statement of financial position

|  | Notes | <u>31-12-2014</u>     | <u>31-12-2013</u>     |
|--|-------|-----------------------|-----------------------|
| <b>ASSETS</b>                            |       |                       |                       |
| Non-current assets                       |       |                       |                       |
| Intangible assets                        | 3     | 2,152                 | 1,266                 |
| Property, plant and equipment            | 4     | 631,276               | 518,650               |
| Long-term receivables and accrued income | 8     | 5,804                 | 2,776                 |
| Investment into associates               | 7     | 14,148                | 989                   |
| <b>Total non-current assets</b>          |       | <b><u>653,380</u></b> | <b><u>523,681</u></b> |
| <b>Current assets</b>                    |       |                       |                       |
| Inventories                              | 9     | 5,524                 | 1,155                 |
| Prepayments                              |       | 3,325                 | 558                   |
| Trade receivables                        | 10    | 6,517                 | 11,052                |
| Advance income taxes                     |       | 1,409                 | 5,644                 |
| Other receivables and accrued income     | 11    | 29,841                | 13,703                |
| Other financial assets                   | 12    | 28,602                | 30,146                |
| Cash and cash equivalents                | 13    | 37,642                | 89,895                |
| <b>Total current assets</b>              |       | <b><u>112,860</u></b> | <b><u>152,153</u></b> |
| <b>Total assets</b>                      |       | <b><u>766,240</u></b> | <b><u>675,834</u></b> |




*(Cont'd on the next page)*

Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.

## Statement of financial position (cont'd)

|  | Notes | <u>31-12-2014</u>     | <u>31-12-2013</u>     |
|--|-------|-----------------------|-----------------------|
| <b>EQUITY AND LIABILITIES</b>          |       |                       |                       |
| Equity                                 |       |                       |                       |
| Share capital                          | 1, 14 | 380,606               | 380,606               |
| Share premium                          |       | 13,512                | 13,512                |
| Legal reserve                          | 14    | 26,394                | 24,611                |
| Reserve for own shares                 |       | 55,000                | 55,000                |
| Other reserves                         | 14    | 95,782                | 62,273                |
| Retained earnings                      |       | 31,963                | 35,649                |
| <b>Total equity</b>                    |       | <b><u>603,257</u></b> | <b><u>571,651</u></b> |
| <b>Non-current liabilities</b>         |       |                       |                       |
| Deferred income tax liability          | 25    | 3,880                 | 6,935                 |
| Non-current employee benefits          | 15    | 1,039                 | 837                   |
| Loan                                   | 16    | 103,004               | 51,212                |
| <b>Total non-current liabilities</b>   |       | <b><u>107,923</u></b> | <b><u>58,984</u></b>  |
| <b>Current liabilities</b>             |       |                       |                       |
| Loan interests                         | 16    | 191                   | 134                   |
| Trade payables                         | 17    | 43,782                | 25,189                |
| Payroll related liabilities            | 18    | 4,819                 | 4,782                 |
| Prepayments received                   |       | 2                     | 40                    |
| Dividends payable                      |       | 39                    | 39                    |
| Other payables and current liabilities | 20    | 6,227                 | 15,015                |
| <b>Total current liabilities</b>       |       | <b><u>55,060</u></b>  | <b><u>45,199</u></b>  |
| <b>Total equity and liabilities</b>    |       | <b><u>766,240</u></b> | <b><u>675,834</u></b> |

Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.




|  |                            |  |                      |
|--|----------------------------|--|----------------------|
| <u>General Manager</u>                                   | <u>Mantas Bartuška</u>     |  | <u>26 March 2015</u> |
| <u>Director of Finance and Administrative Department</u> | <u>Marius Pulkauninkas</u> |  | <u>26 March 2015</u> |
| <u>Head of Accounting Division</u>                       | <u>Asta Sedlauskienė</u>   |  | <u>26 March 2015</u> |



## Statement of comprehensive income

|  | Notes | <u>2014</u>     | <u>2013</u>     |
|--|-------|-----------------|-----------------|
| Sales  | 21    | 137,334         | 126,860         |
| Cost of sales  | 22    | <u>(91,931)</u> | <u>(76,089)</u> |
| <b>Gross profit</b>  |       | <b>45,403</b>   | <b>50,771</b>   |
| Operating expenses   | 23    | (13,417)        | (12,606)        |
| Other income   |       | <u>309</u>      | <u>244</u>      |
| <b>Profit from operating activities</b>                            |       | <b>32,295</b>   | <b>38,409</b>   |
| Income from financial activities                                   | 24    | 159             | 695             |
| Loss from financial activities                                     | 24    | (103)           | (106)           |
| Share of the associate's net profit (loss)                         | 7     | <u>(1,039)</u>  | <u>(669)</u>    |
| <b>Profit before income tax</b>                                    |       | <b>31,312</b>   | <b>38,329</b>   |
| Income tax income (expenses)                                       | 25    | <u>651</u>      | <u>(2,680)</u>  |
| <b>Net profit</b>  |       | <b>31,963</b>   | <b>35,649</b>   |
| Other comprehensive income   |       | -               | -               |
| Items that will not be subsequently reclassified to profit or loss |       | -               | -               |
| Items that may be subsequently reclassified to profit or loss      |       | -               | -               |
| <b>Total comprehensive income</b>                                  |       | <b>31,963</b>   | <b>35,649</b>   |
| Basic and diluted earnings per share, in LTL                       | 26    | 0.08            | 0.09            |




Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.

|  |                            |  |                      |
|--|----------------------------|--|----------------------|
| <u>General Manager</u>                                   | <u>Mantas Bartuška</u>     |  | <u>26 March 2015</u> |
| <u>Director of Finance and Administrative Department</u> | <u>Marius Pulkauninkas</u> |  | <u>26 March 2015</u> |
| <u>Head of Accounting Division</u>                       | <u>Asta Sedlauskienė</u>   |  | <u>26 March 2015</u> |

## Statement of changes in equity

|                                | Notes | Share capital | Share premium | Legal reserve | Reserve for own shares | Other reserves | Retained earnings | Total   |
|--------------------------------|-------|---------------|---------------|---------------|------------------------|----------------|-------------------|---------|
| Balance as at 31 December 2012 |       | 380,606       | 13,512        | 22,561        | 55,000                 | 23,727         | 41,006            | 536,412 |
| Net profit for the year        |       | -             | -             | -             | -                      | -              | 35,649            | 35,649  |
| Other comprehensive income     |       | -             | -             | -             | -                      | -              | -                 | -       |
| Total comprehensive income     |       | -             | -             | -             | -                      | -              | 35,649            | 35,649  |
| Dividends declared             | 27    | -             | -             | -             | -                      | -              | (410)             | (410)   |
| Transfers between reserves     |       | -             | -             | 2,050         | -                      | 38,546         | (40,596)          | -       |
| Balance as at 31 December 2013 |       | 380,606       | 13,512        | 24,611        | 55,000                 | 62,273         | 35,649            | 571,651 |
| Net profit for the year        |       | -             | -             | -             | -                      | -              | 31,963            | 31,963  |
| Other comprehensive income     |       | -             | -             | -             | -                      | -              | -                 | -       |
| Total comprehensive income     |       | -             | -             | -             | -                      | -              | 31,963            | 31,963  |
| Dividends declared             | 27    | -             | -             | -             | -                      | -              | (357)             | (357)   |
| Transfers between reserves     |       | -             | -             | 1,783         | -                      | 33,509         | (35,292)          | -       |
| Balance as at 31 December 2014 |       | 380,606       | 13,512        | 26,394        | 55,000                 | 95,782         | 31,963            | 603,257 |

Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.

|   |                     |  |               |
|---|---------------------|--|---------------|
| General Manager                                   | Mantas Bartuška     |  | 26 March 2015 |
| Director of Finance and Administrative Department | Marius Pulkauninkas |  | 26 March 2015 |
| Head of Accounting Division                       | Asta Sedlauskienė   |  | 26 March 2015 |

## Cash flow statement

|  | Notes        | 2014             | 2013            |
|--|--------------|------------------|-----------------|
| <b>Cash flows from operating activities</b>                                      |              |                  |                 |
| Net profit   | 26           | 31,963           | 35,649          |
| Adjustments for non-cash items:  |              |                  |                 |
| Depreciation and amortization  | 3, 4, 22, 23 | 26,021           | 24,880          |
| Change in vacation reserve   | 18           | 536              | 205             |
| Impairment and write-off (reversal) of non-current tangible assets               | 4            | (1,101)          | 421             |
| Change in allowance for doubtful receivables                                     | 10           | (120)            | 112             |
| Change in non-current liabilities for employees                                  | 15           | 202              | 21              |
| Change in allowance in inventory   | 9            | (29)             | (360)           |
| Accrued emission rights  | 19           | -                | (164)           |
| Share of profit of equity-accounted investees                                    | 7            | 1,039            | 669             |
| Accrued income   | 8,11         | (23,996)         | (1,439)         |
| Other non-cash adjustments   |              | -                | (7)             |
| Income tax (income) expenses   | 25           | (651)            | 2,680           |
| Interest income  | 24           | (136)            | (372)           |
|  |              | <b>33,728</b>    | <b>62,295</b>   |
| <b>Changes in working capital:</b>   |              |                  |                 |
| (Increase) decrease in inventories   | 9            | (4,411)          | 448             |
| Decrease (increase) in prepayments   |              | (2,767)          | (4)             |
| Decrease (increase) in trade and other accounts receivable                       | 10           | 4,651            | 2,415           |
| Decrease (increase) in other receivables   |              | 7,549            | (12,777)        |
| Increase (decrease) in trade and other payables                                  |              | 8,624            | (2,909)         |
| (Decrease) increase in prepayments received                                      |              | (38)             | (13)            |
| Increase (decrease) in other current liabilities and payroll related liabilities |              | (500)            | 708             |
|  |              | <b>46,836</b>    | <b>50,163</b>   |
| Income tax (paid)  |              | (884)            | (9,229)         |
| Interest received  | 24           | 136              | 372             |
| Net cash flows from operating activities   |              | <b>46,088</b>    | <b>41,306</b>   |
| <b>Cash flows from investing activities</b>                                      |              |                  |                 |
| (Acquisition) of property, plant, equipment and intangible assets                | 4            | (137,123)        | (65,069)        |
| (Acquisition) of investments held-to-maturity                                    | 12           | (28,602)         | (208,121)       |
| Sales of investments held-to-maturity  | 12           | 30,146           | 191,209         |
| Acquisition of other investments   | 7            | (14,198)         | (66)            |
| Net cash flows from investing activities   |              | <b>(149,777)</b> | <b>(82,047)</b> |

(Cont'd on the next page)




Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.



## Cash flow statement (cont'd)

|  | Notes | 2014            | 2013          |
|--|-------|-----------------|---------------|
| <b>Cash flows from financing activities</b>  |       |                 |               |
| Dividends (paid)                             |       | (357)           | (410)         |
| Loans received                               | 16    | 51,793          | 51,212        |
| Net cash flows from financing activities     |       | <b>51,436</b>   | <b>50,802</b> |
| <b>Net increase (decrease) in cash flows</b> |       |                 |               |
|  |       | <b>(52,253)</b> | <b>10,061</b> |
| Cash and cash equivalents on 1 January       | 13    | 89,895          | 79,834        |
| Cash and cash equivalents on 31 December     | 13    | 37,642          | 89,895        |

Explanatory notes, set out on pages 10-45, are an integral part of these financial statements.

|  |                            |  |                      |
|--|----------------------------|--|----------------------|
| <u>General Manager</u>                                   | <u>Mantas Bartuška</u>     |    | <u>26 March 2015</u> |
| <u>Director of Finance and Administrative Department</u> | <u>Marius Pulkauninkas</u> |   | <u>26 March 2015</u> |
| <u>Head of Accounting Division</u>                       | <u>Asta Sedlauskienė</u>   |  | <u>26 March 2015</u> |

## Explanatory notes to financial statements

### 1 General information

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

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

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

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

As of 31 December 2014 all the shares were owned by 1,871 shareholders (as of 31 December 2013 all the shares were owned by 1,820 shareholders). The Company’s share capital – LTL 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of one (1) LTL. 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the year 2014 and 2013. The Company’s shares are listed in the Baltic Secondary List on the NASDAQ OMX Vilnius Stock Exchange (ISIN code LT0000111650, abbreviation KNF1L).

As of 31 December 2014 and 31 December 2013 the shareholders of the Company were:

|   | 31 December 2014                 |                       | 31 December 2013                 |                       |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|
|   | Number of shares held (thousand) | Part of ownership (%) | Number of shares held (thousand) | Part of ownership (%) |
| State of Lithuania represented by the Ministry of Energy (Gediminas av. 38/2, Vilnius, 302308327) | 275,241                          | 72.32                 | 275,241                          | 72.32                 |
| Concern JSC Achemos grupė (Jonalaukis village, Jonava district, 156673480)                        | 38,975                           | 10.24                 | 38,975                           | 10.24                 |
| Other (less than 5 per cent each)   | 66,390                           | 17.44                 | 66,390                           | 17.44                 |
| Total   | 380,606                          | 100.00                | 380,606                          | 100.00                |

The average number of employees in 2014 was 374 (368 – in 2013).

#### Financial statements approval

The Company’s management approved these financial statements on 26 March 2015. The Company’s shareholders have a legal right to confirm these financial statements or not confirm them and to require the management to prepare new financial statements.

### 2 Accounting principles

All values in these financial statements are presented in Litas and rounded to the nearest thousand (LTL 000), except when otherwise indicated.

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

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

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

## 2 Accounting principles (cont'd)

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

#### Statement of compliance

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

#### Effect of application of new standards and their amendments as well as new interpretations on the Financial Statements

The applied accounting principles set out below have been applied consistently to all periods presented in these financial statements except for the new / revised standards and interpretations the Company has implemented which are effective as for financial periods beginning on or after 1 January 2014:

- Amendment to IAS 27 *Separate Financial Statements* - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was amended to contain accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 did not have any impact on the financial statements, because the Company prepares only individual financial statements.
- Amendment to IAS 28 *Investments in Associates and Joint Ventures* - As a result of the new standards IFRS 10, IFRS 11 and IFRS 12 this standard was renamed and addresses the application of the equity method to investments in joint ventures in addition to associates. Amendments to the standard did not have any impact on the financial statements, because the Company does not have joint ventures.
- IFRS 12 *Disclosures of Interests in Other Entities* - IFRS 12 combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, investments in associates and structured entities into one comprehensive disclosure standard. A number of new disclosures are also required such as disclosing the judgments made to determine control over another entity. The standard did not have any effect on the Company's financial statements. However, it resulted in additional disclosures (Note 7).

#### Adoption of new and/or amended IAS, IFRSs and IFRIC interpretations

Several new and revised International Financial Reporting Standards and their interpretations have been issued, which will be mandatory for financial reporting periods starting from 1 January 2015 and subsequent years. The Company has decided not to adopt these new standards and interpretations early. Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Company's Management, are stated below:

- Amendments to IAS 1 *Presentation of financial statements: Disclosure Initiative* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments aim at clarifying IAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The Company has not yet evaluated the impact of the implementation of this standard.
- Amendments to IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible assets: Clarification of Acceptable Methods of Depreciation and Amortization* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendment provides additional guidance on how the depreciation or amortization of property, plant and equipment and intangible assets should be calculated. It is clarified that a revenue-based method is not considered to be an appropriate manifestation of consumption. The implementation of this amendment will have no impact on the financial statements of the Company, as the Company does not use revenue-based depreciation and amortization methods.
- Amendments to IAS 19 *Employee Benefits* (effective for financial years beginning on or after 1 February 2015). The amendments address accounting for the employee contributions to a defined benefit plan. Since the Company's employees do not made such contributions, implementation of this amendments IAS 19 will not have any impact on the financial statements.
- Amendments to IAS 27 *Equity method in separate financial statements* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company assumes that amendments to IAS 27 will not have an impact on the financial statements.
- IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2018, once endorsed by the EU). IFRS 9 will replace IAS 39 and will have effect on the classification and measurement framework for financial assets, impairment of financial assets and hedge accounting. The Company has not yet evaluated the impact of the implementation of this standard.

## 2 Accounting principles (cont'd)

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

#### Adoption of new and/or amended IAS, IFRSs and IFRIC interpretations (cont'd)

- Amendments to IFRS 10, IFRS 12 and IAS 28 - *Investment Entities: Applying the consolidation exception* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Company assumes that the new standard will not affect the financial statements as the Company does not meet the requirements for investment entities.
- Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business and partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The Company does not think that amendments to these standards will have significant impact on the financial statements.
- Amendment to IFRS 11 *Joint arrangements: Accounting for Acquisitions of Interests in Joint Operations* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). IFRS 11 addresses the accounting for interests in joint ventures and joint operations. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS and specifies the appropriate accounting treatment for such acquisitions. The Company assumes that amendment will not have a significant impact on the financial statements, because it is not a party of any joint agreements.
- IFRS 14 *Regulatory Deferral Accounts* (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU). It is an interim standard that provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities until a comprehensive project on accounting for such assets and liabilities is completed by the IASB. The implementation of this amendment will have no impact on the financial statements of the Company, as the Company is not first-time adopter of IFRS.
- IFRS 15 *Revenue from Contracts with Customers* (effective for financial years beginning on or after 1 January 2017, once endorsed by the EU). IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer, regardless of the type of revenue transaction or the industry. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Company has not yet evaluated the impact of the implementation of this standard.

#### Improvements to IFRSs

- In December 2013 IASB has issued the Annual Improvements to IFRSs 2011 – 2013 Cycle, which is a collection of amendments to the following IFRSs (effective for financial years beginning on or after 1 January 2015): IFRS 1 *First-time adoption of IFRS*; IFRS 3 *Business Combinations*; IFRS 13 *Fair value Measurement*; IAS 40 *Investment property*.

In December 2013 IASB issued the Annual Improvements to IFRSs 2010 – 2012 Cycle (effective for financial years beginning on or after 1 February 2015): IFRS 2 *Share-based Payment*; IFRS 3 *Business Combinations*; IFRS 8 *Operating Segments*; IFRS 13 *Fair value Measurement*; IAS 16 *Property, Plant and Equipment*; IAS 24 *Related Party Disclosures*; IAS 38 *Intangible Assets*.

In September 2014 IASB issued the Annual Improvements to IFRSs 2012 – 2014 Cycle (effective for financial years beginning on or after 1 January 2016, once endorsed by the EU): IFRS 5 *Non-current Assets Held for Sale and Discontinued Operation*; IFRS 7 *Financial Instruments: Disclosures*; IAS 19 *Employee Benefits*; IAS 34 *Interim Financial Reporting*.

The adoption of these amendments may result in changes to accounting policies or disclosures but will not have any impact on the financial position or performance of the Company.

- IFRIC Interpretation 21 *Levies* (effective for financial years beginning on or after 17 June 2014). This interpretation addresses the accounting for levies imposed by governments. Liability to pay a levy is recognized in the financial statements when the activity that triggers the payment of the levy occurs. The Company has not yet evaluated the impact of the implementation of this interpretation.

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

## 2 Accounting principles (cont'd)

### 2.2. Foreign currency

#### **Functional currency**

The amounts shown in these financial statements are measured and presented in local currency, Litas (LTL), which is the functional currency of the Company. Since 2 February 2002, the Litas has been pegged to the Euro at the rate of LTL 3.4528 = EUR 1.

#### **Transactions and balances**

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

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

### 2.3. Operating segments

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

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

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

- KNF – oil terminal in Klaipeda, providing oil products' transshipment and other related services.
- SGD – LNG terminal in Klaipeda, which receives and stores liquefied natural gas, regasifies it and supplies it to Gas Grid.
- SKB – Subačius fuel base in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.

### 2.4. Investment into subsidiaries

The Company accounts for its investments in subsidiaries at cost. A subsidiary is an entity that is controlled by the Company. The financial statements of the subsidiary are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. The Company determines at each reporting date whether it is necessary to recognise an additional impairment loss on the Company's investment in its subsidiary. 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 associate and its carrying value and recognises the amount in the profit (loss) in the statement of comprehensive income.

As of 31 December 2014 and as of 31 December 2013 the Company did not have any subsidiaries, therefore the Company does not prepare consolidated accounts (Note 6).

### 2.5. Investment into associates

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

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

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

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method

## 2 Accounting principles (cont'd)

### 2.5. Investment into associates (cont'd)

The Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the caption "Share of associates' net profit (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 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.

### 2.6. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. The Company did not have assets with indefinite useful lives (as of 31 December 2014 and 31 December 2013). Intangible assets with finite lives are amortised over the useful economic lives of 1 to 5 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end (Note 3).

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

### 2.7. Property, plant and equipment

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

Non-current tangible assets of the Company are stated at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

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

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



## 2 Accounting principles (cont'd)

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

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

|  |         |
|--|---------|
| Non-current intangible assets  | 3 - 4   |
| Software   | 3       |
| Other non-current intangible assets  | 4       |
| Property, plant and equipment  |         |
| Land   |         |
| Buildings  | 38 - 60 |
| Administrative, industrial and other buildings                                   | 60      |
| Special purpose buildings  | 38      |
| Constructions  | 15 - 30 |
| Pump station   | 30      |
| Operators and temporary buildings and other constructions                        | 18      |
| Pathway, reinforced concrete bridges, yard, fences, gates, communication network | 15      |
| Technological machinery, equipment and systems                                   | 5 - 55  |
| Connecting gas piping  | 55      |
| Rail gantry, containers, storage tanks   | 30      |
| Oil product filters  | 20      |
| Grid system  | 18      |
| Piping systems and fire protection systems                                       | 15      |
| Other gas system of technological equipment, machinery and valves                | 13      |
| Compressors, electric motors   | 13      |
| Fans, heat exchangers, machine and oil pipeline valves                           | 8       |
| Loading/unloading arms and loading equipment                                     | 8       |
| Other technological devices, equipment and systems                               | 5       |
| Furniture  | 4 - 6   |
| Office equipment   | 4       |
| Furniture  | 6       |
| Measuring, controlling devices, tools  | 4 - 10  |
| Chromatograph, gas sampling system and gas accounting system                     | 9       |
| Other measuring devices  | 4       |
| Controlling devices  | 10      |
| Computers and communication equipment  | 4       |
| Vehicles and other tangible assets   | 6       |

### 2.8. Financial assets – initial recognition and measurement

#### Initial recognition and measurement

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

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

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

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

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy;

## 2 Accounting principles (cont'd)

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

#### **Initial recognition and measurement (cont'd)**

- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

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

The Company did not have any financial assets and financial liabilities at fair value through profit or loss as of 31 December 2014 and as of 31 December 2013.

#### Held-to-maturity investments

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

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

#### Loans and receivables

Loans and receivables (which are non-derivative financial instruments) are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit (loss) when the loans and receivables are derecognised or impaired, as well as through the amortisation process (Notes 16).

#### Available-for-sale financial assets

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

The Company did not have any available-for-sale financial assets as of 31 December 2014 and as of 31 December 2013.

### 2.9. Derecognition of financial assets and liabilities

#### **Financial assets**

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

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

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

## 2 Accounting principles (cont'd)

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

#### **Financial liabilities**

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

### 2.10. Employee benefits

#### **Social security contributions**

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

#### **Termination benefits**

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

The present value of defined benefit obligation is determined by discounting estimated future cash flows based on the interest rate of the long-term Lithuanian Government's bonds, expressed in the same currency as the benefits with a repurchase period similar to that of the planned payment period. Actuarial gains or losses are recognised in other comprehensive income directly (Note 15).

### 2.11. Inventories

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

### 2.12. 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 13).

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.

### 2.13. Borrowings

Borrowing costs in relation to loans for acquisition of property, plant and equipment are recognised as part of transaction costs and added to the acquisition cost of the asset accordingly. Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive income over the period of borrowings except for the capitalized part (Notes 4 and 24).

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

## 2 Accounting principles (cont'd)

### 2.13. Borrowings (cont'd)

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

### 2.14. Financial and operating lease

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

#### **Financial lease**

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

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

The Company did not have any finance lease contract as of 31 December 2014 and as of 31 December 2013.

#### **Operating lease**

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

##### The Company as a lessee

Operating lease payments are recognized as expenses in the profit (loss) on a straight line basis over the lease term.

##### The Company as a lessor

Assets leased under operating lease in the statement of financial position of the Company are accounted for depending on the type of assets. Income from operating lease is recognised as other income in the profit (loss) within the lease period using the straight-line method. All the discounts provided to the operating lessee are recognised using straight-line method during the lease period by reducing the lease income (Note 29).

### 2.15. Income tax

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

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

The effective income tax rate applicable for companies of the Republic of Lithuania in 2014 was 15 % (15 % - in 2013) (Note 25).

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

## 2 Accounting principles (cont'd)

### 2.15. Income tax (cont'd)

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

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

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

### 2.16. Dividends

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

### 2.17. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average of ordinary registered shares issued. Provided that the number of shareholders changes without causing a change in the economic resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing profit (loss) per share, there is no difference between the basic and diluted earnings per share (Note 26).

### 2.18. Provisions

#### **General**

Provisions are recognised when the Company has a present legal or constructive obligation in respect of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects the provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Expenditures related to the provisions related to reconcile with recoverable provisions are recognised through the profit (loss).

#### **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 of subsidy of the state and presentation of the state support in the statements". Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held. Costs of allowances are recorded under cost of sales caption in the profit (loss) (Note 19).

### 2.19. Revenue recognition

Revenues are recognized if it is expected that the Company will get economic benefit associated with a transaction and when the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts (Note 21).

#### **Income from oil products handling**

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.

## 2 Accounting principles (cont'd)

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

#### **Income from LNGT services regulated by NCC**

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

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

Prices set for Terminal services are:

- LNG regasification service price is approved by the Company based on LNG regasification service price cap set by NCC on 20 November, 2014 by the resolution No. 03-895.
- LNG reloading service price is set by NCC on 20 November, 2014 by the resolution No. 03-896.

LNG regasification price cap is being adjusted on yearly basis, LNG reloading price is set for 5 years.

#### **Sales of goods**

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

#### **Interest income**

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

### 2.20. 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.

### 2.21. Impairment of assets

#### **Financial assets**

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

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

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



## 2 Accounting principles (cont'd)

### 2.21. Impairment of assets (cont'd)

#### **Non-financial assets**

The Company reviews 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 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.

### 2.22. Use of estimates and judgements

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

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

Information on critical estimates and judgements are detailed below:

#### **Useful lives of intangible assets and property, plant and equipment**

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

#### **Impairment losses of property, plant and equipment**

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

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

## 2 Accounting principles (cont'd)

### 2.22. Use of estimates and judgements (cont'd)

#### **Impairment losses of receivables**

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

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

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

#### **Determining whether an arrangement contains a lease**

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

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

Situations that individually or in combination would normally lead to a lease being classified as a finance lease are (IAS 17-10):

- these lease transfers ownership of the asset to the lessee by the end of these lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

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

On 2 March 2012 the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of Klaipėda at 27 October 2014 and was taken over by the Company on 27 November 2014. Based on the contract, 2013 financial statements of the Company included the statement that the Contract preliminary meets the criteria of financial lease and on 31 December 2013, the total amount of future minimal lease payments totaled to LTL 911,464 thousand. The amount was not included into the Company's 31 December 2013 statement of financial position. However, Hoegh LNG Ltd. has provided certain new information including also on FSRU fair value valuation, whereas, on the Company's view, under IFRS FSRU lease shall be classified as operating lease from Hoegh LNG to AB Klaipėdos Nafta under the Time Charter Party (TCP) entered into between the parties (Note 29).

The following accounts were taken into consideration by the Management of the Company when concluding on the substance of the lease:

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

## 2 Accounting principles (cont'd)

### Current and deferred income tax

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. The assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expenses in the period that such determination is made (Note 25).

### 2.23. Contingencies

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote (Note 29).

### 2.24. 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 31).

### 2.25. Offsetting

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

### 2.26. Fair value

Fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (Note 28).

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:

- a) the specific assets or liability, the fair value of which is determined (together with the appropriate unit of account);
- b) 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);
- c) the principal (or most advantageous) market for the assets or liability;
- d) 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.

**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).

## 2 Accounting principles (cont'd)

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

**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 13th IFRS 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.

## 3 Intangible assets

|   | Software |
|---|----------|
| <b>Acquisition cost:</b>                        |          |
| Balance as of 31 December 2012                  | 3,068    |
| Acquisitions                                    | 177      |
| Transfers from construction in progress         | 67       |
| Sold and written-off property                   | (41)     |
| Balance as of 31 December 2013                  | 3,271    |
| Acquisitions                                    | 799      |
| Transfers from non-current tangible assets      | 498      |
| Reclassification                                | (13)     |
| Sold and written-off property                   | (2)      |
| Balance as of 31 December 2014                  | 4,553    |
| <b>Accumulated depreciation and impairment:</b> |          |
| Balance as of 31 December 2012                  | 1,714    |
| Depreciation for the year                       | 332      |
| Sold and written-off property                   | (41)     |
| Balance as of 31 December 2013                  | 2,005    |
| Depreciation for the year                       | 411      |
| Reclassification                                | (13)     |
| Sold and written-off property                   | (2)      |
| Balance as of 31 December 2014                  | 2,401    |
| Net book value as of 31 December 2012           | 1,354    |
| Net book value as of 31 December 2013           | 1,266    |
| Net book value as of 31 December 2014           | 2,152    |

The amortisation charge of the Company's non-current intangible assets for the year 2014 amounts to LTL 411 thousand (LTL 332 thousand – in 2013). LTL 213 thousand of amortisation charge has been included into cost of sales (LTL 186 thousand - in 2013) and the remaining amount has been included into operating expenses in the Statement of comprehensive income.

#### 4 Property, plant and equipment

|   | 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 2012                  | -    | 442,588                  | 340,226                        | 13,485                   | 52,791                   | 849,090   |
| Acquisitions                                    | 130  | -                        | 184                            | 576                      | 74,652                   | 75,542    |
| Advance payments                                | -    | -                        | -                              | -                        | 23,234                   | 23,234    |
| Retirements and disposals                       | -    | -                        | (2,250)                        | (383)                    | (75)                     | (2,708)   |
| Transfers into intangible assets                | -    | -                        | -                              | -                        | (67)                     | (67)      |
| Transfers into construction in progress         | -    | -                        | (1,084)                        | -                        | 1,084                    | -         |
| Transfers from construction in progress         | -    | 1,663                    | 14,114                         | 3                        | (15,780)                 | -         |
| Balance as of 31 December 2013                  | 130  | 444,251                  | 351,190                        | 13,681                   | 135,839                  | 945,091   |
| Acquisitions                                    | -    | 46                       | 602                            | 2,090                    | 134,434                  | 137,172   |
| Retirements and disposals                       | -    | -                        | (310)                          | (837)                    | -                        | (1,147)   |
| Transfers from inventories                      | -    | -                        | 42                             | 2                        | 546                      | 590       |
| Transfers to intangible assets                  | -    | -                        | -                              | -                        | (498)                    | (498)     |
| Transfers from intangible assets                | -    | -                        | -                              | 13                       | -                        | 13        |
| Transfers from construction in progress         | -    | 35,459                   | 154,471                        | 26,630                   | (216,560)                | -         |
| Balance as of 31 December 2014                  | 130  | 479,756                  | 505,995                        | 41,579                   | 53,761                   | 1,081,221 |
| <b>Accumulated depreciation and impairment:</b> |      |                          |                                |                          |                          |           |
| Balance as of 31 December 2012                  | -    | 176,885                  | 214,925                        | 11,876                   | 693                      | 404,379   |
| Depreciation for the year                       | -    | 13,284                   | 10,684                         | 688                      | -                        | 24,656    |
| Retirements and disposals                       | -    | -                        | (2,249)                        | (382)                    | -                        | (2,631)   |
| Impairment for the year                         | -    | -                        | 37                             | -                        | -                        | 37        |
| Balance as of 31 December 2013                  | -    | 190,169                  | 223,397                        | 12,182                   | 693                      | 426,441   |
| Depreciation for the year                       | -    | 13,793                   | 11,336                         | 636                      | -                        | 25,765    |
| Retirements and disposals                       | -    | -                        | (306)                          | (829)                    | -                        | (1,135)   |
| Impairment for the year (reversal)              | -    | -                        | (1,139)                        | -                        | -                        | (1,139)   |
| Transfers from intangible assets                | -    | -                        | -                              | 13                       | -                        | 13        |
| Balance as of 31 December 2014                  | -    | 203,962                  | 233,288                        | 12,002                   | 693                      | 449,945   |
| Net book value as of 31 December 2012           | -    | 265,703                  | 125,301                        | 1,609                    | 52,098                   | 444,711   |
| Net book value as of 31 December 2013           | 130  | 254,082                  | 127,793                        | 1,499                    | 135,146                  | 518,650   |
| Net book value as of 31 December 2014           | 130  | 275,794                  | 272,707                        | 29,577                   | 53,068                   | 631,276   |

In 2014 the Company revised its property, plant and equipment and reversed impairment of LTL 1,139 thousand for the assets that were previously impaired, but in current reporting period were used for construction of new assets.

In 2014, the Company did not account for the impairment of non-current assets, while in 2013, the Company accounted for the impairment of LTL 37 thousand for non-current assets.

The depreciation of the Company's non-current tangible assets for the year 2014 amounts to LTL 25,765 thousand (LTL 24,657 thousand – in 2013). LTL 155 thousand of amortisation charge was transferred to inventory value (LTL 108 thousand – in 2013), LTL 25,213 thousand of amortisation charge has been included into cost of sales (LTL 24,090 thousand - in 2013) and the remaining amount LTL 397 (LTL 458 – in 2013) has been included into operating expenses in the Statement of comprehensive income.

Part of the Company's property, plant and equipment with the acquisition cost of LTL 84,110 thousand as on 31 December 2014 was completely depreciated (LTL 82,356 thousand on 31 December 2013), however, it was still in operation.

## 4 Property, plant and equipment (cont'd)

Liquefied natural gas terminal project on the 1 December 2014 was partly finished and the assets amounting to LTL 180,267 thousand were entered into operation. The Company will start to count for the depreciation for the mentioned assets from 1 January 2015. So the Company did not count depreciation for the year 2014.

The Company's Liquefied natural gas terminal property, plant and equipment amounting to LTL 229,489 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 2014 (the Company had pledged asset amounting to 98,162 thousand as of 31 December 2013).

Borrowing cost amounting to LTL 546 thousand were capitalized during 2014 (LTL 178 thousand – during 2013) into Liquefied natural gas terminal asset value and borrowing costs amounting to LTL 82 thousand in 2014 were included into operating expenses in the Statement of comprehensive income during the year 2014.

During the year 2014 the Company continued works in the following projects:

- *Liquefied natural gas terminal project.* Strategic project of the Republic of Lithuania, implementation of which will create an alternative source for OAO Gazprom's natural gas in Lithuania. The project shall involve procurement of floating storage and regasification unit, construction of the jetty and installation of superstructure, dredging of jetty's access, building of gas pipeline and all other costs of the project implementation. On December 2014 the Terminal was capable of operating in the manner intended by management, except HDD access, which is intended to be completed per year 2015. As of 31 December 2014 the investments into implementation of LNG Terminal's project amounted to LTL 229,489 thousand. During the twelve months period of 2014 investment amounted to LTL 131,327 thousand.
- *Utilization of carbohydrate vapours from railway trestles.* The hydrocarbon vapour recovery unit has been assembled and set into action. This is an environmental project by which it is aimed to collect hydrocarbon vapours, turn them into liquid and store safely preventing emission of the vapours into the environment. It allows significantly reduce air pollution and prevents the spread of unpleasant smells to surrounding regions. In 2014 the stage II works of the unit are scheduled for completion – adjustment of the vapour recovery unit to HFO handling at railway trestles. The overall cost of the works carried out during 2014 amounts to LTL 1 thousand.
- *The reconstruction of HFO (i.e. heavy fuel oil products) storage tank park involves demolishing of the 4 old storage tanks* with the capacity 5,000 m<sup>3</sup> and construction of 2 new universal storage tanks with the capacity 32,250 m<sup>3</sup>. The aim of this investment is to expand the Company's technological capacity by increasing the Company's overall volume of tanks (a total increase of 44,500 m<sup>3</sup>) and the technological flexibility by enabling the storage of both light and heavy oil and products in new tanks. This increases the flexibility of the terminal as greater amounts of different petroleum products can be handled, as well as its attractiveness to customers because of the possibility to build up larger batches of products for loading onto tankers. During the twelve month period of 2014 the total value of the implemented works amounted to LTL 1,110 thousand.
- *Adaptation of the HFO storage tanks for LFO (i.e. light oil products) loading.* In addition to the HFO park reconstruction project, in 2014 the Company made additional investments in order to adapt two tanks of 20,000 m<sup>3</sup> in operation to LFO handling (up to then it was possible to load only HFO products). These investments are related to the improvement of technological versatility of the tank park as well. The total value of the works carried out during twelve months period of 2014 was LTL 31 thousand.
- *Installation works of diesel fuel loading to tank trucks location.* The goal of this project is to ensure the faster transshipment of the oil product to tank trucks. The total value of the works carried out during twelve months period of 2014 was LTL 452 thousand.
- *Modernization works of fire protection system* – investments for the upgrade of mechanical and automatic sections of the fire protection system. In 2013 the trestle firefighting equipment was upgraded as well as the reconstruction of automatic section initiated. The total value of the works amounted to LTL 3,117 thousand. The overall cost of the works performed during the twelve month period of 2014 amounted to LTL 1,188 thousand.
- *Repairs of treatment plant's.* In order to upgrade the machinery and work performance of the treatment plant, the repairs value of treatment plant's amounted to LTL 444 thousand in 2014.
- *Update of heat generation farm boilers' separation.* In 2014 LTL 67 thousand was invested in the update of heat generation farm boilers' separation.
- *Other investment.* During 2014 there were invested LTL 360 thousand.

## 5 Information about segments

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

- KN – 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 it to Gas Grid.
- SKB – Subačius fuel base in Kupiškis district provides services of long-term storage of oil products and loading of auto-tankers.



## 5 Information about segments (cont'd)

As of 31 December 2014 there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to LTL 115,848 thousand:

Customer A – LTL 59,106 thousand (KNF – LTL 59,106 thousand);  
Customer B – LTL 43,892 thousand (KNF – LTL 43,593 thousand and SKB – LTL 299 thousand);  
Customer C – LTL 20,003 thousand (SGD – LTL 20,003 thousand).

Main indicators of the business segments of the Company included in the statement of comprehensive income for the financial year 2014 and Statement of financial position as of 31 December 2014 are described below:

| For the twelve months period ended 31 December 2014     | SGD     | SKB     | KNF      | Total    |
|---|---------|---------|----------|----------|
| Revenues from external customers                        | 20,003  | 7,483   | 109,848  | 137,334  |
| Profit before income tax                                | (5,138) | 2,363   | 34,087   | 31,312   |
| Segment net profit                                      | (5,245) | 2,412   | 34,796   | 31,963   |
| Interest revenue  | -       | -       | 136      | 136      |
| Interest expense  | (82)    | -       | -        | (82)     |
| Depreciation and amortisation                           | (192)   | (2,808) | (23,021) | (26,021) |
| Impairment and write-off of non-current tangible assets | -       | -       | 1,139    | 1,139    |
| Net profit (loss) part in the associates                | -       | -       | (1,039)  | (1,039)  |
| Acquisitions of tangible and intangible assets          | 133,181 | 1,294   | 4,086    | 138,561  |
| Segment total assets                                    | 228,963 | 53,351  | 483,926  | 766,240  |
| Loan and related liabilities                            | 103,195 | -       | -        | 103,195  |
| Segment total liabilities                               | 149,068 | 591     | 13,324   | 162,983  |
| For the twelve months period ended 31 December 2013     | SGD     | SKB     | KNF      | Total    |
| Revenues from external customers                        | -       | 6,609   | 120,251  | 126,860  |
| Profit before income tax*                               | (5,276) | 1,726   | 41,879   | 38,329   |
| Segment net profit*                                     | (4,907) | 1,605   | 38,951   | 35,649   |
| Interest revenue  | -       | -       | 320      | 320      |
| Depreciation and amortisation                           | (65)    | (2,801) | (22,122) | (24,988) |
| Impairment and write-off of non-current tangible assets | -       | -       | (37)     | (37)     |
| Net profit (loss) part in the associates                | -       | -       | (669)    | (669)    |
| Acquisitions of tangible and intangible assets          | 63,919  | 281     | 34,754   | 98,954   |
| Segment total assets                                    | 115,515 | 49,160  | 511,159  | 675,834  |
| Loan and related liabilities                            | 51,212  | -       | -        | 51,212   |
| Segment total liabilities                               | 85,721  | 2,606   | 15,856   | 104,183  |

\*In order to reveal more accurate segments information of the Company, the Management of the Company decided to reclassify the salary and related costs between segments as of 31 December 2013.

## 6 Investment into subsidiaries

On 17 December 2012 a new subsidiary – a closed stock company – JSC LITGAS (Zvejų st. 14, LT-09310 Vilnius, 302937277), was established and registered, which was to execute the activities of trade and/or supply of the liquefied natural gas. The authorised capital of LTL 1 million (1 million ordinary registered shares) of JSC LITGAS has been formed by monetary contribution of the Company on 13 December 2012.

On 8 October 2013 JSC LIETUVOS ENERGIJA (Zvejų st. 14, LT-09310 Vilnius, 301844044), in accordance with the agreement on subscription of shares concluded on 1 October 2013 between JSC LITGAS, the Company's subsidiary, and JSC LIETUVOS ENERGIJA, fully paid up all newly issued ordinary registered shares (2 million units) of JSC LITGAS.

The authorised capital of JSC LITGAS is regarded as increased upon registration of the amended Articles of Association of JSC LITGAS in the Register of Legal Entities following the procedure established by Lithuanian legal acts.

On 15 October 2013 the amended Articles of Association of JSC LITGAS, the Company's subsidiary, were registered in the Register of Legal Entities of the Republic of Lithuania. From this day on it is considered that the authorised capital of JSC LITGAS has been increased by the monetary contribution of JSC LIETUVOS ENERGIJA. Following the increase in the authorised capital, the Company is entitled to 1/3, and JSC LIETUVOS ENERGIJA – 2/3 of the shares and votes at the General Shareholders' Meeting of JSC LITGAS. Therefore, the Company has lost control in JSC LITGAS, but retains significant influence over the associate.

As of 31 December 2014 and as of 31 December 2013 the Company did not have any subsidiaries.

## 7 Investment into associates

### Sarmatia Sp. z o.o.

On 19 December 2007 the Company acquired 1 per cent of shares in the international pipeline company SARMATIA and purchased 180 shares at a nominal value of PLN 500 each (LTL 86 thousand). In 2010 during the increasing of the authorized capital of SARMATIA the Company additionally purchased 100 shares with the par value of PLN 500 each (LTL 43 thousand). In 2012, during the increasing of authorised capital the Company additionally purchased 120 shares with the par value of PLN 500 each (LTL 50 thousand).

The Company is entitled to appoint one of five board members to the management of SARMATIA, thus it can have significant influence. Therefore this investment was recorded using the equity method. SARMATIA is a private company not listed on the stock exchange.

### JSC "Baltpool"

On 20 April 2011 the Company acquired 33 percent of JSC BALTPPOOL (A. Juozapavičius str. 9, LT-09311, Vilnius, 302464881) shares. The Company purchased 156,627 newly issued ordinary registered shares at LTL 1 par value each. The total price of the new share issue as evaluated by independent appraisers was equal to LTL 260,001 (two hundred sixty thousand and one).

The Company acquired additional shares on 2 December 2013. The Company purchased 52,800 units of the newly issued ordinary registered shares at LTL 1 par value each. The total price of the new share issue as evaluated by independent appraisers was equal to LTL 264,000 (two hundred sixty-four thousand), of which the Company has paid LTL 66 thousand and the remaining part has been paid by other investors.

The Company purchased 198,000 units of the newly issued ordinary registered shares at LTL 1 par value each during the year 2014.

As at 31 December 2014 the Company owns 33 percent of JSC BALTPPOOL shares and their voting rights at the General Shareholders' Meeting of JSC BALTPPOOL.

### JSC "LITGAS"

The Company acquired 1 million ordinary registered shares of JSC LITGAS on 17 December 2012. The Company purchased 14,000 thousand units of the newly issued ordinary registered shares at LTL 1 par value each during the year 2014.

As of 31 December 2014 the Company owns 1/3 (15 million units) of the shares while JSC LIETUVOS ENERGIJA - 2/3 of the shares (30 million units) and votes at the General Shareholders' Meeting of JSC LITGAS.

Financial information regarding the Company's investments into Sarmatia, JSC Baltpool and JSC LITGAS is presented in the table below as of 31 December 2014 and 31 December 2013:

The associate's financial position:

|                         | Sarmatia |       | Baltpool |           | LITGAS    |       | Total     |           |
|-------------------------|----------|-------|----------|-----------|-----------|-------|-----------|-----------|
|                         | 2014     | 2013  | 2014     | 2013      | 2014      | 2013  | 2014      | 2013      |
| Non-current assets      | -        | -     | 110      | 186       | 676       | 160   | 786       | 346       |
| Current assets          | 1,151    | 1,877 | 95,080   | 113,365   | 169,125   | 2,098 | 265,356   | 117,340   |
| Non-current liabilities | (1,074)  | (860) | (8)      | (8)       | -         | -     | (1,082)   | (868)     |
| Current liabilities     | -        | -     | (94,585) | (112,758) | (127,953) | (80)  | (222,538) | (112,838) |
| Equity                  | 77       | 1,017 | 597      | 785       | 41,848    | 2,178 | 42,522    | 3,980     |

The associate's comprehensive income:

|               | Sarmatia |         | Baltpool |         | LITGAS    |       | Total     |         |
|---------------|----------|---------|----------|---------|-----------|-------|-----------|---------|
|               | 2014     | 2013    | 2014     | 2013    | 2014      | 2013  | 2014      | 2013    |
| Income        | 149      | 175     | 756      | 585     | 109,296   | -     | 110,201   | 754     |
| (Losses)      | (1,051)  | (3,250) | (1,545)  | (1,531) | (111,626) | (823) | (114,222) | (5,598) |
| Profit (loss) | (902)    | (3,075) | (789)    | (946)   | (2,330)   | (823) | (4,021)   | (4,844) |

## 7 Investment into associates (cont'd)

Structure of the Company's investments in the associates as at 31 December 2014 and 31 December 2013 was as follows:

|          | Ownership interest (%) |       | Investment value |      | Comprehensive income (loss) |       |
|----------|------------------------|-------|------------------|------|-----------------------------|-------|
|          | 2014                   | 2013  | 2014             | 2013 | 2014                        | 2013  |
| Sarmatia | 1,00                   | 1,00  | 1                | 10   | (9)                         | (75)  |
| Baltpool | 33.00                  | 33.00 | 197              | 259  | (260)                       | (314) |
| LITGAS   | 33.33                  | 33.33 | 13,950           | 720  | (770)                       | (280) |
| Total    | -                      | -     | 14,148           | 989  | (1,039)                     | (669) |

Investments into associates, net value:

|                                    | Sarmatia |      | Baltpool |       | LITGAS |       | Total   |       |
|------------------------------------|----------|------|----------|-------|--------|-------|---------|-------|
|                                    | 2014     | 2013 | 2014     | 2013  | 2014   | 2013  | 2014    | 2013  |
| Book value at start of period      | 10       | 78   | 259      | 507   | 720    | -     | 989     | 585   |
| Acquisitions during the year       | -        | -    | 198      | 66    | 14,000 | -     | 14,198  | 66    |
| Reclassification from subsidiaries | -        | 7    | -        | -     | -      | 1,000 | -       | 1,007 |
| Change in value                    | (9)      | (75) | (260)    | (314) | (770)  | (280) | (1,039) | (669) |
| Book value at end of period        | 1        | 10   | 197      | 259   | 13,950 | 720   | 14,148  | 989   |

## 8 Long-term receivables and accrued income

|                          | 31-12-2014 | 31-12-2013 |
|--------------------------|------------|------------|
| Long-term accrued income | 5,804      | 2,776      |

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

## 9 Inventories

|   | 31-12-2014 | 31-12-2013 |
|---|------------|------------|
| Oil products for sale   | 1,458      | 796        |
| Liquefied natural gas in the connecting pipeline                        | 217        | -          |
| Diesel fuel for the Terminal purpose                                    | 2,530      | 154        |
| Fuel for transport and other equipment                                  | 149        | 83         |
| Spare parts, construction materials and other inventories               | 6,951      | 5,930      |
| Write-down of spare parts, construction materials and other inventories | (5,781)    | (5,808)    |
|   | 5,524      | 1,155      |

As of 31 December 2014 the Company had accounted write-off of inventories in the amount of LTL 5,781 thousand (LTL 5,808 thousand on 31 December 2013), that have been written down to the net realisable value. Write-down has been accounted mostly for construction materials and spare parts, which were not used during the reconstruction (1996 - 2005).

The Company writes off the inventories to the net realisable value if they are not used for more than 6 months and in other occasions, if there's clear evidence that net realisable value is lower.

Reversal of inventories to the net realizable value of LTL 29 thousand for the year ended of 31 December 2014 (31 December 2013 - LTL 360 thousand) are included under operating expenses in the Statement of the comprehensive income.

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. On 31 December 2014 the Company stored 4,865 tons of heavy oil products collected in its Waste Water Treatment Facilities (31 December 2013 - 3,522 tons).

As of 31 December 2014 the Company stores 1.8 thousand MWh natural gas in the connecting pipeline of the Liquefied natural gas terminal to ensure activities.

As of 31 December 2014 the Company stored 196.6 thousand tons of oil products delivered for transshipment in its storage tanks (115.7 thousand tons as on 31 December 2013). Such oil products are not recognised in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights for these products.

## 9 Inventories (cont'd)

As of 31 December 2014 the Company stored 1,087 thousand MWh of natural gas products delivered for transshipment in the Liquefied natural gas terminal. Such natural gas products are not recognised in the Company's financial statements, they are accounted for in the off-balance sheet accounts as the Company has no ownership rights for these products.

## 10 Trade receivables

|   | 31-12-2014 | 31-12-2013 |
|---|------------|------------|
| Receivables for trans-shipment of oil products and other related services | 6,517      | 11,168     |
| Less: impairment allowance  | -          | (116)      |
|   | 6,517      | 11,052     |

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

On 31 December 2014 trade debts to the Company in the amount of LTL 3,809 thousand were denominated in EUR (LTL 8,575 thousand – on 31 December 2013).

The Company has recognized impairment allowance in the amount of LTL 116 thousand on 31 December 2013. However, it were no possibilities to recover this amount, therefore it was written-off during the year 2014. Trade and other accounts receivable are written-off when the management is certain that the amount will not be recovered.

Change in allowance for receivables for the years 2014 and 2013 has been included into operating expenses in the Statement of the comprehensive income.

The age analysis of trade receivables as of 31 December 2014 and 2013 is as follows:

| Trade and other receivables neither past due nor impaired | Trade receivables past due but not impaired |              |              |               |                    | Total  |
|---|---|--------------|--------------|---------------|--------------------|--------|
|   | Less than 30 days                           | 30 – 59 days | 60 – 89 days | 90 – 359 days | More than 360 days |        |
| 2014  | 5,907                                       | 575          | -            | -             | 35                 | 6,517  |
| 2013  | 11,012                                      | 12           | 27           | 1             | -                  | 11,052 |

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

## 11 Short-term receivables and accrued income

|  | 31-12-2014 | 31-12-2013 |
|--|------------|------------|
| Short-term accrued income for storage of oil products                  | 1,942      | 978        |
| Unbilled revenue from natural gas regasification service               | 20,003     | -          |
| Receivable compensation for the Liquefied natural gas terminal project | 2,647      | 1,294      |
| VAT receivable   | 5,070      | 11,127     |
| Other receivables  | 179        | 304        |
|  | 29,841     | 13,703     |

Short-term accrued income has increased per year 2014 in comparison to 2013 mostly due to regulated regasification LNGT activity income.

All receivable amounts from the liquefied natural gas terminal services are pledged to JSC Hoegh LNG Klaipeda for 10 years period (Note 29).

## 12 Other financial assets

|  | 31-12-2014 | 31-12-2013 |
|--|------------|------------|
| Cession of rights in Vnesekonom bank       | 100        | 100        |
| Loan to JSC "Žavesys"                      | 351        | 354        |
| Less: impairment allowance for receivables | (451)      | (454)      |
| Total loans and receivables                | -          | -          |

## 12 Other financial assets (cont'd)

|                              | 31-12-2014 | 31-12-2013 |
|------------------------------|------------|------------|
| Cash deposits                | 28,602     | 30,146     |
| Total other financial assets | 28,602     | 30,146     |

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

| Currency | 31-12-2014 | 31-12-2013 |
|----------|------------|------------|
| EUR      | 28,602     | 17,955     |
| LTL      | -          | 12,191     |
|          | 28,602     | 30,146     |

On 24 January 2003 SC "Naftos terminalas", as a part of settlement for the shares acquired, transferred to the Company the right of demand for the deposit of USD 95,266 thousand (or LTL 277,243 thousand) in the liquidated Vnesekonom bank and the right to the loan provided to JSC "Zavesys". Acquisition cost of the right in the liquidated Vnesekonom bank amounts to LTL 100 thousand. The Company's Management considers the receivables subject to the acquired rights of demand to be doubtful therefore they have been accounted for at cost less 100% allowance.

The Company is implementing new policies of free funds investments of the Company, which aims to make transactions with reliable banking instruments not only in Lithuania but also abroad. The investment policies give priority to investments in Lithuania. The Company has not acquired the securities of the Lithuanian Government during year 2014 and 2013, which the payoff maturity term is longer than one financial year.

As of 31 December 2014 the Company holds cash deposits in banks in the amount of LTL 28,602 thousand (LTL 30,146 thousand - in 2013) with the average redemption term of 120 days (120 days - in 2013) and average interest rate of 0.17% (0.45% - in 2013).

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

## 13 Cash and cash equivalents

|                 | 31-12-2014 | 31-12-2013 |
|-----------------|------------|------------|
| Cash at bank    | 6,750      | 89,895     |
| Cash in transit | 30,892     | -          |
|                 | 37,642     | 89,895     |

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2014 the Company had one night term deposits of LTL 6,307 thousand, and in 2013 had one night term deposits of LTL 8,005 thousand.

The Company has transferred to the Escrow account amount of LTL 6,281 thousand (EUR 1,819 thousand) for the engineering, technical, risk management, safety and environmental advisory services of the Lead Adviser Fluor S.A. (Ribera del Loira 16-18, Madrid, Spain, A-78174315). The Escrow account valid until the Company and Fluor S.A. will sign the final transfer-acceptance deed, but no longer than 31 December 2015.

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

| Currency | 31-12-2014 | 31-12-2013 |
|----------|------------|------------|
| EUR      | 31,082     | 81,620     |
| LTL      | 6,560      | 8,275      |
|          | 37,642     | 89,895     |

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

|      | 31-12-2014 | 31-12-2013 |
|------|------------|------------|
| AA - | 6,316      | 63,682     |
| A +  | 330        | 56,359     |
| A    | 59,598     | -          |
|      | 66,244     | 120,041    |

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

## 14 Issued capital

During the year 2014 and 2013 the authorized capital of the Company did not change (Note 1).

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.

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.

## 15 Employee benefit liabilities

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

The Company does not think that short term provisions for pension benefits has significant impact on the financial statements, therefore do not recognise short term provisions for pension benefits during the year 2014 and 2013.

On 31 December 2014 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were LTL 1,039 thousand (LTL 837 thousand – in 2013) as follows:

|                     | 2014  | 2013  |
|---------------------|-------|-------|
| Start of period     | 837   | 816   |
| Calculated per year | 404   | 129   |
| Paid per year       | (202) | (108) |
| End of period       | 1,039 | 837   |

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

|                         | 31-12-2014 | 31-12-2013 |
|-------------------------|------------|------------|
| Discount rate           | 2.17 %     | 3.69 %     |
| Staff turnover rate     | 5.75%      | 5%         |
| Future salary increases | 3 %        | 3 %        |

## 16 Loan

|                                 | 31-12-2014 | 31-12-2013 |
|---------------------------------|------------|------------|
| European Investment Bank's loan | 103,004    | 51,212     |
| Payable loan interest           | 191        | 134        |
|                                 | 103,195    | 51,346     |

- A credit contract dated as at 9 July 2013 was concluded by the Company with EIB to grant a credit up to EUR 87,000 thousand to implement LNGT project. According to the contract, EIB finances up to 50% of necessary funds for project implementation. According to the contract, credit term is up to 20 years, interest rate is variable or fixed which is close to borrowing market interest rate, and whose norm will be submitted by the EIB in payment offers. The contract also provides that minimum payable credit part is EUR 15,000 thousand, and the whole credit sum must be paid to the Company over no more than 6 payments. The performance of 100% of up to EUR 81,094 thousand of the Company's contractual financial liabilities is ensured by the State Guarantee (Note 29).

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

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



## 16 Loan (cont'd)

The Company has undrawn borrowing facility in the amount of EUR 57,000 thousand from EIB.

European Investment Bank's loan balance includes LTL 580 thousand bank loan administrative fee.

The Company shall ensure that the ratio of EBITDA to Interest in respect of the period of twelve months ending on the last day of each of the Company's financial years shall not fall below 4,0:1,0. The Company complied with financial covenant as of 31 December 2014 and as of 31 December 2013.

Loan repayments:

|                                  | On demand | Less than 3 months | 3 to 12 Months | 1 to 5 years | More than 5 years | Total   |
|----------------------------------|-----------|--------------------|----------------|--------------|-------------------|---------|
| Loan repayments 31 December 2014 | -         | -                  | -              | 5,094        | 98,490            | 103,584 |

- On 6 February 2013 the Company signed with Nordea Bank Finland PLC an overdraft agreement for LTL 120 million. The Company has terminated the Overdraft Agreement of 6 February 2013 concluded with Nordea Bank Finland Plc by mutual agreement as of 16 October, 2014.

The Company did not use the Overdraft during the year 2014 and 2013.

- On 27 November 2014 the Company has concluded the Credit Agreement with the Nordic Investment Bank regarding granting a credit of up to EUR 34,754 thousand for the implementation of the project of the liquefied natural gas terminal.

According to the Loan contract, the term of the credit is up to 20 years, interest: floating, which particular rate will be provided in the NIB disbursement offer. The Loan contract also provides that the minimal payable amount of credit is EUR 7 million, and all the credit amount must be paid to the Company in no more than 5 payments. 100% of the Company's financial obligations under the Loan contract shall be secured by a State guarantee. The Company did not use the loan from NIB during the year 2014.

The EIB loan interest rate is close to borrowing market interest rate.

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

## 17 Trade and other payables

|                                     | 31-12-2014 | 31-12-2013 |
|-------------------------------------|------------|------------|
| Payable to contractors              | 21,378     | 20,140     |
| Payables for FSRU operating leasing | 15,105     | -          |
| Other trade payables                | 2,792      | 2,343      |
| Payable for gas services            | 1,943      | 1,866      |
| Other payments related FSRU         | 1,442      | -          |
| Payable for rent of land            | 654        | 650        |
| Payable for railway services        | 468        | 190        |
|                                     | 43,782     | 25,189     |

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

On 31 December 2014 trade payables of LTL 7,844 thousand were denominated in EUR (LTL 14,785 thousand - in 2013) and LTL 15,496 thousand were denominated in USD (there was no denominations in USD as of 31 December 2013).

## 18 Liabilities related to labour relations

|                          | 31-12-014 | 31-12-2013 |
|--------------------------|-----------|------------|
| Accrued vacation reserve | 2,490     | 1,954      |
| Accrual of bonuses       | 2,308     | 1,862      |
| Salaries payable         | 9         | 15         |
| Income tax payable       | 7         | 6          |
| Social insurance payable | 5         | 940        |
| Payable guarantee fund   | -         | 5          |
|                          | 4,819     | 4,782      |

## 19 Provisions

Companies participating in Greenhouse gas emissions are obliged to report their actual pollution for each calendar year. The first period started from 2005 and ended in 2007, the next period started from 2008 and ended in 2012, the current period 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.

In accordance with national allocation plan for emission allowances for the period of the year 2013, the Company was allocated 21,368 emission allowances for CO2 emission, which are not changed upon changed needs. On 21 February 2014 the Company received 21,368 allocated emission allowances for CO2 emission for the year 2013.

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

Prospective emission allowances allocation and consumption (units) in the year 2013, in the year 2014 and the following periods:

|                                      | 2013     | 2014       | 2015     | 2016     | 2017     | 2018     | 2019     | 2020     | Total     |
|--------------------------------------|----------|------------|----------|----------|----------|----------|----------|----------|-----------|
| Allocated *                          | 21,368   | 19,123     | 16,939   | 14,820   | 12,766   | 10,780   | 8,858    | 7,007    | 111,661   |
| Emission allowance consumed and used | (18,239) | (16,548**) |          |          |          |          |          |          | (34,787)  |
| Planned to be used                   | -        | -          | (18,000) | (18,000) | (18,000) | (18,000) | (18,000) | (18,000) | (108,000) |

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

\*\* Unaudited

As of 31 December 2014 and as of 31 December 2013 the Company did not account for liabilities for emission allowance.

## 20 Other current liabilities

|  | 31-12-2014 | 31-12-2013 |
|--|------------|------------|
| Accrued tax expenses and tax liabilities | 562        | 345        |
| Other accrued expenses and liabilities   | 5,434      | 13,661     |
| Other liabilities                        | 231        | 1,009      |
|  | 6,227      | 15,015     |

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

## 21 Sales income

|  | 2014    | 2013    |
|--|---------|---------|
| Sales of oil transshipment services        | 114,640 | 123,846 |
| Income from LNGT services regulated by NCC | 20,003  | -       |
| Other sales related to transshipment       | 2,691   | 2,912   |
| Sales of inventories                       | -       | 102     |
|  | 137,334 | 126,860 |

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

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

## 21 Sales income (cont'd)

Income from LNGT services regulated by NCC contains income from LNG regasification service, LNG reloading service and Additional Security supplement.

LNG regasification price cap is being adjusted on yearly basis, LNG reloading price is set for 5 years.

| Terminal service  | Price set                  |
|---|----------------------------|
| LNG regasification service price (set for year 2015)          | 0.00 Eur/MWh,<br>excl. VAT |
| LNG reloading service price (set for year 2015-2019)          | 1.14 Eur/MWh,<br>excl. VAT |
| Security supplement to gas transmission tariff                | 2.73 Eur/MWh,<br>excl. VAT |
| Security supplement to gas transmission tariff with discount* | 2.15 Eur/MWh,<br>excl. VAT |

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

Security supplement is not collected at Exit point D, in case it is paid at Entry point A -

Additional Security supplement is applied to Terminal users, who regasify gas via LNG terminal and use gas transmission system. Additional security supplement is set by NCC on November 20, 2014 by the resolution No. 03-895. Mentioned supplement is dedicated to cover fixed operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes regasified and submitted to gas transmission system and necessary to ensure LNG terminal operation. LNG Supplement is calculated according to the formula and methodology set out in NCC Resolution No. 03-367 of September 13, 2013. NCC also set WACC of 6.86% for 2015-2019 year period. On October 17, 2014 the NCC approved the liquefied natural gas terminal project presented by the Company, establishing that the preliminary value of the project was LTL 301 million (EUR 87.2 million).

On 1 August 2014 the Company concluded LNG terminal user's contract with JSC LITGAS (hereinafter, the Terminal User) and therefore has completed LNG terminal capacities allocation procedure, announced on 30 April 2014. The Company entitled the Terminal User to use 401,638 thousand nm<sup>3</sup> of foundation regasification capacities for the first transitional gas year from 1 January 2014 until 30 September 2015.

## 22 Cost of sales

|  | 2014   | 2013   |
|--|--------|--------|
| Depreciation and amortization                | 25,426 | 24,422 |
| Wages, salaries and social security          | 20,621 | 18,594 |
| FSRU rent and other expenses                 | 15,105 | -      |
| Natural gas                                  | 11,413 | 14,555 |
| Electricity                                  | 4,885  | 5,576  |
| Railway services                             | 4,755  | 4,568  |
| Rent of land and quays                       | 3,159  | 2,100  |
| Insurance of assets                          | 1,680  | 1,321  |
| Tax on real estate                           | 1,472  | 1,227  |
| Repair and maintenance of non-current assets | 1,128  | 1,820  |
| Services for tankers                         | 458    | 524    |
| FSRU services related expenses               | 284    | -      |
| Work safety costs                            | 239    | 403    |
| Rent of facilities                           | 98     | -      |
| Emission rights expenses                     | -      | 73     |
| Other  | 1,208  | 906    |
|  | 91,931 | 76,089 |

## 23 Operating expenses

|  | 2014          | 2013          |
|--|---------------|---------------|
| Salary, social security                          | 9,222         | 7,391         |
| Consulting and legal costs                       | 948           | 1,170         |
| Depreciation and amortisation                    | 595           | 458           |
| Communication                                    | 512           | 463           |
| Expenses for Business trips                      | 413           | 274           |
| Representation, advertising                      | 411           | 181           |
| Charity  | 396           | 785           |
| Communication costs                              | 259           | 165           |
| Expenses for refresher courses                   | 153           | 239           |
| Repair and maintenance of non-current assets     | 129           | 163           |
| Expenses related to the management of securities | 96            | 126           |
| Impairment allowance, (reversal)                 | (116)         | 116           |
| Impairment change, (reversal)                    | (1,139)       | 37            |
| Other  | 1,538         | 1,038         |
|  | <u>13,417</u> | <u>12,606</u> |

Operating expenses were mostly increased by LNG terminal administration costs.

## 24 Income (expenses) from financial and investment activities – net

|                                     | 2014         | 2013         |
|-------------------------------------|--------------|--------------|
| Interest income                     | 136          | 321          |
| Fines collected                     | 19           | 354          |
| Income from currency exchange       | 4            | 20           |
| Financial income, total             | <u>159</u>   | <u>695</u>   |
| (Losses) from currency exchange     | (21)         | (99)         |
| Interest (expenses)                 | (82)         | -            |
| Other financial activity (expenses) | -            | (7)          |
| Financial activity expenses, total  | <u>(103)</u> | <u>(106)</u> |
| Financial result, total             | <u>56</u>    | <u>589</u>   |

## 25 Income tax

|   | 2014         | 2013         |
|---|--------------|--------------|
| Payable income tax expense                                | 2,404        | 2,940        |
| Deferred tax expense                                      | (3,055)      | (260)        |
| Income tax (income) expense recorded in the profit (loss) | <u>(651)</u> | <u>2,680</u> |

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 2014 and 2013 is as follows:

|  | 2014           | 2013         |
|--|----------------|--------------|
| Accounting profit before tax                 | 31,312         | 38,329       |
| Applying 15 % profit tax rate of the Company | 4,697          | 5,749        |
| Deductible expenses of income tax (charity)  | (134)          | (118)        |
| Investment projects' relief                  | (2,404)        | (2,939)      |
| Non-deductible expenses of income tax        | 1,515          | 924          |
| Non-taxable income                           | <u>(1,270)</u> | <u>(676)</u> |
| Applying 15% effective income tax            | 2,404          | 2,940        |
| Effective rate                               | <u>7.68%</u>   | <u>7.67%</u> |

## 25 Income tax (cont'd)

Deferred income tax consists of:

|  | Statement of Financial position |          | Statement of Comprehensive income |       |
|--|---------------------------------|----------|-----------------------------------|-------|
|  | 2014                            | 2013     | 2014                              | 2013  |
| Impairment of non-current assets                                   | 1,130                           | 1,220    | 90                                | (5)   |
| Accelerated depreciation for tax purposes                          | 955                             | 937      | (18)                              | 36    |
| Write-offs of inventories to realizable value                      | 867                             | 871      | 4                                 | 54    |
| Accrued annual bonuses   | 316                             | 279      | (37)                              | (106) |
| Accrued emission rights  | -                               | -        | -                                 | 43    |
| Long-term employee benefit liability                               | 156                             | 126      | (29)                              | (4)   |
| Vacation reserve   | 89                              | 70       | (19)                              | (9)   |
| Other temporary differences  | -                               | 18       | 18                                | (15)  |
| Associates' equity method  | 231                             | 75       | (156)                             | (100) |
| Accrued income   | (871)                           | (416)    | 454                               | 311   |
| Investment incentive of non-current assets                         | (9,649)                         | (10,115) | (466)                             | (465) |
| Investment projects' relief  | 2,896                           | -        | (2,896)                           | -     |
| Deferred income tax expenses/ (income) recognises in profit (loss) |                                 |          | (3,055)                           | (260) |
| Deferred income tax assets/ (liabilities), net as at the year-end  | (3,880)                         | (6,935)  |                                   |       |

As of 31 December 2014 the Company did not recognise LTL 68 thousand (LTL 69 thousand – in 2013) of the deferred income tax asset related to the decrease in receivables (Loan to JSC "Zavesys" and cession of rights in Vnesekonombank) as the Management does not expect the income tax asset to be recognised as deductible expenses in the future.

Management's of the Company judgement were not recognize as deferred tax asset amounted up to LTL 16,240 thousand from the investment incentive in amount of up to LTL 108,260 thousand as of 31 December 2014 (amount up to LTL 6,856 thousand from the investment incentive in amount of up to LTL 45,706 thousand as of 31 December 2013) as the Management does not expect the income tax asset to be recognised as investment incentive in the future. Expiry date of this incentive is till 2018.

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 2014 and 2013 the Company has used the income tax rate of 15 %.

## 26 Earnings per share, basic and diluted

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

|   | 2014    | 2013    |
|---|---------|---------|
| Net profit attributable to shareholders               | 31,963  | 35,649  |
| Weighted average number of ordinary shares (thousand) | 380,606 | 380,606 |
| Earnings and reduced earnings (in LTL)                | 0.08    | 0.09    |

## 27 Dividends

|   | 2014    | 2013    |
|---|---------|---------|
| Dividends declared  | (357)   | (410)   |
| Weighted average number of shares (thousand)              | 380,606 | 380,606 |
| Dividends declared per share (expressed in LTL per share) | 0.001   | 0.001   |

The Extraordinary General Shareholders' Meeting held on 30 April 2014 approved profit appropriation for the year 2013 and allotted to the Shareholders dividends in the amount of LTL 357 thousand for 2013.

The outstanding amount of declared dividends to the shareholders, who were not reached from the stated addresses, is accounted for under "Dividends payable" caption in the Statement of financial position "Current amounts payable and liabilities" as of 31 December 2014. As of 31 December 2014 the outstanding amount of dividends not paid during the previous financial year amounted to LTL 157 thousand (LTL 172 thousand as of 2013).

## 28 Financial assets and liabilities and risk management

### Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – SC “Orlen Lietuva” – on 31 December 2014 accounted for approximately 30% (about 17% as of 31 December 2013), “Litasco S.A.”- 57% as of 31 December 2014 (about 77% as of 31 December 2013) of the total Company’s receivables from all its customers. The average payment term for SC “Orlen Lietuva” is 10 calendar days, for “Litasco” S.A. – 7 calendar days, State Enterprise “Lietuvos naftos produktų agentūra” – 20 calendar days, JSC “LUKOIL BALTIJA”, JSC “Neste Lietuva” – up to the 15th of the following month, whereas the usual payment terms for all other customers is 5 days. A possible credit risk for the Company’s customers is managed by a continuous monitoring of outstanding balances.

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

The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the Statement of Financial position. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts and cash and other short-term deposits recognised at the date of Statement of Financial position.

### Interest rate risk

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

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

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

Increase in EURIBOR interest rate by 10 basic points would increase yearly interest amount by LTL 104 thousand.

### Exchange rate risk

The Company is exposed to foreign currency fluctuations primarily related to the euro and the U.S. dollar. Foreign exchange risk arises from future commercial transactions as well as recognized assets and liabilities. Since 27 November 2014 FSRU was delivered into the Seaport of Klaipėda, Klaipėdos Nafta pays FSRU lease on monthly basis, whereas lease is calculated on a daily rate basis. Charter hire element, Opex element and Management fee are denominated in USD and total 146.050 USD/day.

The impact on the Company’s profit before tax due to reasonable changes in USD exchange rates on the monetary assets and liabilities is as follows: increase/decrease of 10% would decrease/increase profit before tax by LTL 1,550 thousand.

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

### Liquidity risk

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

The Company’s liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2014 were 2.05 and 1.95, respectively (3.43 and 3.40 as at 31 December 2013).

The Company’s objective is to maintain a balance between continuity of funding and flexibility. The Company’s activities generate sufficient amount of cash, therefore the Managements’ main responsibility is to monitor that the liquidity ratio of the Company is close to or higher than 1. During the years 2014 and 2013 the Company’s liquidity is high because the Company assumed financial

## 28 Financial assets and liabilities and risk management (cont'd)

### Liquidity risk

Commitments only in the end of 2014 (had no financial commitments in 2013), and accumulates cash funds for the performance of its strategic objectives.

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2014, 2013 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       | 25,189          | -         | 25,012             | 177            | -            | -                 | 25,189  |
| Other current liabilities      | 14,670          | -         | 14,670             | -              | -            | -                 | 14,670  |
| Loan and interest              | 51,926          | -         | 134                | 402            | 2,680        | 55,544            | 58,760  |
| Balance as of 31 December 2013 | 91,785          | -         | 39,816             | 579            | 2,680        | 55,544            | 98,619  |
| Trade and other payables       | 43,782          | -         | 43,782             | -              | -            | -                 | 43,782  |
| Other current liabilities      | 5,665           | -         | 5,665              | -              | -            | -                 | 5,665   |
| Loan and interest              | 103,195         | -         | 150                | 588            | 8,209        | 103,951           | 112,897 |
| Balance as of 31 December 2014 | 152,642         | -         | 49,597             | 588            | 8,209        | 103,951           | 162,344 |

LTL 4,383 thousand of the LTL 43,782 thousand as at 31 December 2014 (LTL 1,635 thousand of the LTL 25,012 thousand amount as at 31 December 2013) 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.

LTL 103,195 thousand of LTL 152,642 thousand as at 31 December 2014 (LTL 51,926 thousand of LTL 91,785 thousand as at 31 December 2013) is repayable EIB loan.

The biggest trade and other payable amounts are to JSC LITGAS, PPS Pipeline System GmBH, SC "BMGS" Klaipėda branch, JSC Hoegh LNG Klaipėda and JSC "Lietuvos dujų tiekimas".

### Fair value of financial assets and liabilities

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

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

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

|                              | Carrying amount |        | Fair value |        |
|------------------------------|-----------------|--------|------------|--------|
|                              | 2014            | 2013   | 2014       | 2013   |
| <b>Financial assets</b>      |                 |        |            |        |
| Cash                         | 37,642          | 89,895 | 37,642     | 89,895 |
| Trade receivables            | 6,517           | 11,052 | 6,517      | 11,052 |
| Short-term accrued income    | 21,945          | 978    | 21,945     | 978    |
| Other financial assets       | 28,602          | 30,146 | 28,602     | 30,146 |
| <b>Financial liabilities</b> |                 |        |            |        |
| Accrued expenses             | 5,665           | 14,670 | 5,665      | 14,670 |
| Loan and interest            | 103,195         | 51,926 | 95,395     | 51,212 |
| Trade payables               | 43,782          | 25,189 | 43,782     | 25,189 |

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

- The carrying amount of cash, current trade accounts receivable, current trade accounts payable approximates fair value.
- 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 and for the purpose of the fair value estimated of this loan the Company applied difference in interest rate on a difference between market and contractual interest rate (Level 2).

The Company did not have any financial asset or financial liabilities measured at fair value as of 31 December 2014 and as of 31 December 2013.



## 28 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.

On 3 July 2012, changed Articles of the Company were registered in the Registry of Legal Entities with increased authorised capital of 380,606 thousand LTL. The Company's authorised capital in the amount of 38,606 thousand LTL was increased by distributing new emission of shares of the Company with par value to the existing shareholders of the Company. There were no changes in the authorised capital during the year 2014.

The Company last 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 2014 and as of 31 December 2013.

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

## 29 Commitments and contingencies

### Operating lease commitments

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

In 2014 the Company's land rent expenses amounted to LTL 2,159 thousand (LTL 2,100 thousand – in 2013).

Total amount of future minimum payments of land rent:

|                        | 31-12-2014    | 31-12-2013    |
|------------------------|---------------|---------------|
| Within one year        | 2,162         | 2,154         |
| From one to five years | 8,648         | 8,616         |
| After five years       | 75,670        | 77,544        |
|                        | <u>86,480</u> | <u>88,314</u> |

- On 2 March 2012 the Company signed Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of Klaipeda at 27 October 2014 and was taken over by the Company on 27 November 2014. Based on the contract and preliminary analysis, 2013 financial statements of the Company included the statement that the Contract meets the criteria of financial lease and on 31 December 2013, the total amount of future totalled to LTL 911,464 thousand. The amount was not included into the Company's 31 December 2013 balance sheet. However, Hoegh LNG Ltd. has provided new information on FSRU fair value valuation, whereas, on the Company's view, under IFRS FSRU lease shall be classified as operating lease from Hoegh LNG to AB Klaipedos Nafta under the Time Charter Party entered into between the parties.

FSRU operating lease payments include such elements:

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

FSRU operating lease costs accounted during the year 2014:

|                      |               |
|----------------------|---------------|
|                      | <u>2014</u>   |
| Charter Hire Element | 13,445        |
| OPEX Element         | 577           |
| Management Fee       | 187           |
| Crew Costs           | 896           |
|                      | <u>15,105</u> |

## 29 Commitments and contingencies (cont'd)

### Operating lease commitments (cont'd)

On 31 December 2014, the total amount of future minimum payments of FSRU operating lease amounted to LTL 1,414,436 thousand:

|                        | 31-12-2014 |
|------------------------|------------|
| Within one year        | 142,674    |
| From one to five years | 571,089    |
| After five years       | 700,673    |
|                        | 1,414,436  |

### Long-term construction agreements

- On 6 May 2013 the Company concluded a contract on engineering, procurement and construction works for natural gas pipeline system (EPC) with German concern PPS Pipeline Systems GmbH, the winner of the "Procurement of engineering, procurement and construction works for natural gas pipeline system (EPC)". The engineering, procurement and construction works for natural gas pipeline system needed for installation of the connection between the LNGT jetty in Klaipeda State Sea Port water area (at the northern part of Kiaules nugara island) and the Lithuanian natural gas transmission system (Jurbarkas – Klaipeda gas transmission pipeline (Taurage – Klaipeda part) near Klaipeda DSS-2, located at Kiskenai village, Dovilai township, Klaipeda district municipality) will be carried out on the basis of the Contract.

The main terms and conditions of the Contract *inter alia* are as follows:

- ✓ the total fixed price for all the works under the Contract shall be LTL 94,840 thousand excluding VAT and LTL 114,756 thousand including VAT. On the Contract conclusion day VAT amounts to 21 percent. The fixed contract price can increase only in the exclusive cases provided for in the Contract. The Company shall pay the indicated fixed price only for actual works performed under the Contract;
- ✓ all the works under the Contract shall be finished till 1 August 2014. The work performance terms may only be extended in the exclusive cases set forth in the Contract.
- ✓ The Contract shall enter into force when it is approved by the General Meeting of Shareholders of the Company as set out in Article 16.10 of the Company's Articles of Association. The Company's Board approved the Contract conclusion possibility on 22 April 2013.

In the end of the year 2014 the Company continued the contract with PPS until the PPS will perform the remaining works related HDD works amounting to LTL 15,471 thousand.

### Legal disputes

- On 17 June 2014 the Company received a ruling of the Court of Appeal of Lithuania in the case according to statement of claim of the claimant JSC Naftos Grupė against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to JSC Naftos Grupė and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004 (the "Contract"), due to the Company's supposed fault.

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

- (i) the provision of the Contract, giving the claimant JSC Naftos Grupė exclusive rights to transshipping vacuum gas oil, was admitted to be invalid while contradicting the imperative norms of Competition Law;
- (ii) damages in the amount of LTL 2,988,341.14 and 6 percent annual interest on the awarded amount for the period from initiation of the proceedings (18 April 2011) till full execution of the court decision were awarded from the respondent (the Company) for the benefit of the claimant, that is only about half of the sum, which was awarded in favour of JSC Naftos Grupė by the decision of the court of first instance and the whole sum, claimed by JSC Naftos Grupė as compensation for loss of business, was fully rejected by the Court of Appeal, also
- (iii) litigations costs were reallocated proportionally between the parties to the proceedings.

On 25<sup>th</sup> July, 2014 the Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by SC Klaipėdos nafta, code 110648893, registered at Burių st. 19, Klaipėda (hereinafter, the "Company") against part of the ruling of the Court of Appeal of Lithuania from 17<sup>th</sup> June, 2014, in the court case according to statement of claim of the claimant Naftos Grupė, JSC, against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company to Naftos Grupė, JSC, and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004 (the "Contract"), due to the Company's supposed fault, as well as, the counterclaim of the Company for invalidation of the Agreement, indemnification for damages and unjust enrichment.

## 29 Commitments and contingencies (cont'd)

### Legal disputes (cont'd)

The Supreme Court of Lithuania had concluded that the cassation appeal lodged by the Company meets the requirements set forth in the Code of Civil Procedure of the Republic of Lithuania, and therefore is to be accepted for consideration. A sitting of the Supreme Court of Lithuania is arranged on 24 April 2015.

Management's opinion is that the Company is unlikely to suffer any additional expenses related to the claim and there is a greater possibility that the Company's cassation appeal should be granted and ruling of the Court of Appeal of Lithuania 17 of June 2014 changed, therefore it is unnecessary to account for the provisions as on 31 December 2014.

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

In its complaint Achema asked to annul the following:

- ✓ Paragraphs 3.1 and 4 of Resolution No. 03-317 of the NCC "Regarding the establishment of the funds for 2013 intended for compensation, in full or in part, for expenses of the construction and operation of the liquefied natural gas terminal, its infrastructure and the connection", dated 19 October 2012. By the said paragraphs the NCC determined the funds for 2013, intended for compensation of the expenses (in full or in part) of the construction of the liquefied natural gas terminal, its infrastructure and the connection (LTL 113,798 thousand) and for covering of the LNGT funds administration expenses (LTL 302 thousand) and established that the NCC has the right to adjust such amounts of expenses in case of changes in essential circumstances, which have a significant effect on the funding and implementation of the SGDT project.
- ✓ Paragraph 2 of Resolution No. 03-330 of the NCC "Regarding the adjustment of the upper limits of the natural gas transmission and distribution prices of SC Lietuvos Dujos and establishment of an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium) for 2013." dated 26 October 2012. By the said paragraph, the NCC established an additional and integral component of the upper limit of the natural gas transmission price (LNGT premium), which is intended for compensation of the expenses of construction of the LNGT, its infrastructure and the connection in 2013 (LTL 37.53 for 1,000 m<sup>3</sup>, value added tax exclusive).

Vilnius Regional Administrative Court on 13 October 2014 has stopped the administrative case, until the Constitutional Court of the Republic of Lithuania examine request to investigate whether regulation set in the Law on the LNG terminal of the Republic of Lithuania does not contradict to the Constitution of the Republic of Lithuania.

- On 23 May 2014 the Company received a notification from Vilnius Regional Court of a claim from JSC Rudesta submitted against the Company for compensation of extra jobs under the construction contract in the amount of LTL 1,089 thousand and penalty in amount of LTL 59 thousand.  
On 20 June 2014 the Company appeal against JSC Rudesta to Vilnius Regional Court of a claim for penalty for late work done under the construction contract in the amount of LTL 582 thousand.

The next court sitting is scheduled on 7 April 2015. Management's opinion is that the Company is unlikely to suffer any additional expenses related to the claim; therefore it is unnecessary to account for the provisions as on 31 December 2014.

### Guarantees

- The Company as the owner the warehouse for storage of custom goods in order to secure due fulfilment of custom tax obligations on 18 December 2014 signed a Guarantee Issuance Agreement dated, with SC SEB bank for the amount of LTL 5,000 thousand and submitted a letter of payment guarantee to the Klaipeda Territorial Customs. The last effective day of the Letter of Guarantee will be 31 December 2015.
- The Company as the owner of excise warehouse in order to secure due fulfilment of tax obligations subject to Guarantee Issuance Agreement dated 5 November 2014, signed with Nordea Bank Finland Plc for the amount of LTL 2,000 thousand has submitted a letter of payment guarantee to the State Tax Inspectorate. The last effective day of the Letter of Guarantee will be 11 November 2015.
- In accordance with requirements of the Order No. 469 of the Minister of the Environment of the Republic of Lithuania on "Procedure of preparation, adjustment and implementation of waste management activity termination plan", the Company has a guarantee from SC SEB bank to present to Klaipeda region environmental department under the Ministry of Environment of the Republic of Lithuania. This guarantee was issued only for ensuring of implementation of measures provided in the Company's waste management activity termination plan; the amount of this guarantee is 1,720 thousand LTL, valid up to 12 January 2016.

## 29 Commitments and contingencies (cont'd)

### Guarantees (cont'd)

- On 13 December 2013 the Ministry of Finance of the Republic of Lithuania signed with EIB a State Guarantee Agreement regarding the credit in the amount of EUR 81 million (LTL 280 million) granted by EIB to the Company. The State Guarantee Agreement is to secure the Company's contractual obligations to EIB under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013. The Company will be able to borrow a total of EUR 87 million (LTL 300 million) under the contract upon the State guarantee for the remaining part of the credit. Thus, up to 50% of the investments related to LNGT project implementation will be financed by EIB under the contract.

The State Guarantee was granted upon fulfilment of all terms and conditions specified in Resolution No. XII-479 on the State Guarantee to the European Investment Bank adopted by the Parliament of the Republic of Lithuania on 2 July 2013, i.e., upon mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project; payment of margin of EUR 81 thousand, and receipt of the approval of the European Commission stating that the State guarantee is a state aid compatible with the internal market.

On 5 December 2013 the Company and the Ministry of Finance of the Republic of Lithuania concluded an Agreement on the Margin Payment and Mortgage of Property as well as a Maximum Conditional and Ordinary Mortgage Agreement. On the basis of the Agreements, the Company has undertaken to make to the Ministry of Finance a margin payment in the amount of EUR 81 thousand and to mortgage for the benefit of the Ministry of Finance (the State) *inter alia* all the future property which will be created during the LNGT project and which will be owned by the Company upon implementation and completion of the LNGT project (in the amount of maximum mortgage of EUR 81million).

- On 29 December 2014 the Company and the Ministry of Finance of the Republic of Lithuania concluded an Agreement on the Margin Payment and Mortgage of Property as well as a Maximum Conditional and Ordinary Mortgage Agreement (hereinafter together – the Agreements). Under the Agreements the Company undertook to make to the Ministry of Finance of the Republic of Lithuania margin payment in the amount of EUR 34.754 thousand and to create second rank mortgage for the benefit of the State, *inter alia*, all the property created and/or acquired during the implementation of Liquefied Natural Gas Terminal project (the amount of maximum mortgage is equal to EUR 34,754 thousand). The Maximum Conditional and Ordinary Mortgage Agreement serves as condition precedent to issue a guarantee to Nordic Investment Bank, securing the undertakings of the Company to the Nordic Investment Bank under the Credit Agreement executed on 27 November 2014.
- On 11 December 2014 the Company concluded an agreement on assignment of claim rights and a maximum pledge agreement with Hoegh LNG Klaipėda, JSC in accordance with the decision of the board of the Company, dated 19 September 2014, and approved by general meeting of shareholders on 15 October 2014.

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 in accordance with the following main terms and conditions:

- (i) Claim rights (subject of the Assignment Agreement and the Pledge Agreement): funds of the liquefied natural gas terminal (for compensation for all or part of costs for the construction and operation of the LNGT, its infrastructure and connection), payable by SC Klaipėdos Nafta in accordance with the Law on the Liquefied Natural Gas Terminal (official gazette Valstybės Žinios, 2012, No. 68-3466) and Agreement No. 14-177-2013 of 29 August 2013 on payment of funds of the liquefied natural gas terminal, the amount of which will be approved by an appropriate decision of the NCC and the NCC's resolution of 9 October, 2012 on approving the description of the procedure for administrating the funds allotted for compensating all or part of costs for the construction and operation of the liquefied natural gas terminal, its infrastructure and connection (Official Gazette Valstybės Žinios, 2012, No. 118-5973).
- (ii) Moment of transfer of claim rights: the claim rights shall be transferred if SC Klaipėdos Nafta breaches the Time Charter Party (Lease of a Floating Storage and Regasification Unit) concluded with Hoegh LNG LIMITED (whose rights have been transferred to Hoegh LNG Klaipėda) on 2 March, 2012 or if another Fault Owner Termination Event, as defined in the Time Charter Party, occurs and AB Amber Grid is notified about the occurrence; for the purpose of notification, SC Klaipėdos Nafta will issue an irrevocable power of attorney for the benefit of Hoegh LNG Klaipėda.
- (iii) Secured obligation: all and any obligations of AB Klaipėdos Nafta arising out of the Time Charter Party, as amended or restated from time to time, both the principal and other obligations or related damages and expenses under the Time Charter Party.
- (iv) Maximum amount of the secured obligation: USD 50,000,000 (fifty million US dollars) per one year of the Time Charter Party. The amount that may be claimed to be transferred by SC Amber Grid to Hoegh LNG Klaipėda shall be reduced by any amount received under other security measures of the Charterer (pledge and bank guarantee, if any) within the respective one year of the Time Charter Party. The security shall be provided for the entire effective term of the Time Charter Party.

## 29 Commitments and contingencies (cont'd)

### Guarantees (cont'd)

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

### Insurance contracts

- On 2 September 2013 the Company signed an insurance contract with JSC DK PZU LIETUVA to insure the Company's risks associated with the LNGT infrastructure construction works (natural gas pipeline and jetty).  
The main terms and conditions of the contract are as follows:
  - Insured property – infrastructure and equipment of the jetty specified in the “LNGT infrastructure engineering, procurement and construction works (EPC)” contract concluded between the Company and AS BMGS on 18 March 2013 (hereinafter – the Jetty EPC Contract), and the “Engineering, procurement and construction works for natural gas pipeline system (EPC)” contract concluded between the Company and PPS Pipeline Systems GmbH on 6 May 2013 (hereinafter – the Pipeline EPC Contract).
  - Insured works – construction, installation and testing works carried out under the Jetty EPC Contract and Pipeline EPC Contract intended for creation of the insured property;
  - Insured activities – activities related to natural gas and (or) the LNG.

## 30 Related party transactions

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

### Transactions with Lithuanian State controlled enterprises and institutions:

|   |      | Purchases<br>from related<br>parties | Sales to<br>related<br>parties | Receivables<br>from related<br>parties | Payables to<br>related<br>parties |
|---|------|--------------------------------------|--------------------------------|--|-----------------------------------|
| State Tax Inspectorate at the Finance Ministry of the Republic of Lithuania   | 2014 | 140,509                              | -                              | 6,479                                  | 4,657                             |
|   | 2013 | 85,382                               | -                              | 14,332                                 | 171                               |
| State Social Insurance Fund Board under the Ministry of Social Security and Labour  | 2014 | 9,744                                | -                              | 1                                      | 5                                 |
|   | 2013 | 8,340                                | -                              | -                                      | 940                               |
| State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation | 2014 | 3,203                                | 56,412                         | 2,577                                  | 654                               |
|   | 2013 | 2,106                                | -                              | -                                      | 650                               |
| SC Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation                            | 2014 | 4,874                                | -                              | -                                      | 469                               |
|   | 2013 | 5,827                                | -                              | -                                      | 190                               |
| SC “Lesto”, owned by the State of Lithuania represented by the Ministry of Energy   | 2014 | 2,334                                | -                              | -                                      | 301                               |
|   | 2013 | 3,085                                | -                              | -                                      | 516                               |
| SC Lietuvos dujos   | 2014 | 9,100                                | -                              | -                                      | 238                               |
|   | 2013 | 14,487                               | -                              | -                                      | 544                               |
| JSC Lietuvos dujų tiekimas  | 2014 | 2,331                                | -                              | -                                      | 1,559                             |
|   | 2013 | -                                    | -                              | -                                      | -                                 |
| SC Amber Grid   | 2014 | 660                                  | -                              | -                                      | 146                               |
|   | 2013 | 678                                  | -                              | -                                      | 524                               |
| PE Lietuvos naftos produktų agentūra  | 2014 | -                                    | 5,029                          | 419                                    | -                                 |
|   | 2013 | -                                    | -                              | -                                      | -                                 |
| JSC LITGAS  | 2014 | 25,653                               | -                              | -                                      | 14,424                            |
|   | 2013 | -                                    | -                              | -                                      | -                                 |
| Other related parties (Lithuanian energy institute, Klaipėda Territorial Customs, JC Klaipėda city sport's center)              | 2014 | 19                                   | 28                             | 0                                      | 1                                 |
|   | 2013 | 7                                    | 34                             | -                                      | 1                                 |
| Transactions with related parties in total:   | 2014 | 198,427                              | 61,469                         | 9,476                                  | 22,454                            |
|   | 2013 | 119,912                              | 34                             | 14,332                                 | 3,536                             |

## 30 Related party transactions (cont'd)

### Remuneration to the Management and other payments

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

|                          | 2014  | 2013  |
|--------------------------|-------|-------|
| Labour related costs     | 6,759 | 5,667 |
| Number of managing staff | 34    | 32    |

During 2014 and 2013 the Management of the Company did not receive any loans, guarantees, and no other paid or accrued amounts or property was transferred.

## 31 Subsequent events

- 1 January 2015 - Introduction of the euro in the Republic of Lithuania Day, so this day and accordingly changed the Company's functional currency. The recalculation of the litas to the euro has been applied in the euro exchange rate of conversion and smooth at 3.45280 for 1 euro, which irrevocably set by the EU Council.
- On 12 January 2015, the Ministry of Finance of the Republic of Lithuania signed a state guarantee agreement with the Nordic Investment Bank regarding the loan of EUR 34,754,402 to be given by the NIB to SC Klaipėdos Nafta. The state guarantee agreement secures the obligations of the Company to the NIB according to the credit facility agreement entered for a term up to 20 years on 27 November 2014 for partial financing of the liquefied natural gas terminal project. The Company will be able to borrow up to EUR 34,754 thousand under the Agreement in total.

The state guarantee has been granted after fulfilment of all the conditions, specified in Resolution No. XIIP-1935 of the Parliament of the Republic of Lithuania "Regarding granting of the state guarantee to the Nordic Investment Bank", dated 8 July 2014: the Company mortgaged (inter alia) all future assets that will be created during the LNGT project and that the Company will become the owner of by developing and completing the LNGT project and for the benefit of the Ministry of Finance (the state), paid a guarantee fee in the amount of EUR 35 thousand.

- On 26 January 2015 the Supervisory Board of SC Klaipėdos nafta approved the resignation of an independent member of the Audit Committee, as well as the Chairman of the Audit committee - Mr. Simonas Rimašauskas as from 31<sup>st</sup> of January, 2015, due to the other business position held. Simonas Rimašauskas has been the member of the Company's Audit committee since such committee had been established in the Company in the year 2011. He also acted as the Chairman of the Audit Committee since 16<sup>th</sup> of June, 2014.
- On 9 March 2015 SC Klaipėdos Nafta concluded the Liquefied Natural Gas Terminal jetty usage agreement with the Klaipėda State Seaport Authority.

The main conditions of the Contract inter alia include the following:

The Agreement is concluded inter alia in accordance with the Decree of the Republic of Lithuania Government No. 864 dated 11 June 2012 "Regarding the Decree of the Republic of Lithuania dated 15 February 2012 No. 199 "Regarding the Construction of the LNGT" Amendment", which 6 clause determined that the execution company of the LNGT project and (or) LNGT operator shall use the jetty for mooring of the liquefied natural gas floating storage unit and shall pay the annual jetty fee calculated in accordance with the requirements of the present decree and other legal acts under basis of agreement with the Port Authority.

The Agreement shall enter into force upon the approval of the general meeting of shareholders of the Company, as provided for in Article 16.10 of the Articles of Association of the Company. On 17 February 2015 the Board of the Company had approved the conclusion of this Agreement.

- On 26 March 2015 the profit (loss) allocation project is not prepared yet.

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



## Confirmation of responsible persons

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Mantas Bartuška, General Manager of SC Klaipėdos Nafta, Marius Pulkauninkas, Director of Finance and Administrative Department of SC Klaipėdos Nafta and Asta Sedlauskienė, Head of Accounting Division, hereby confirm that to the best of our knowledge the above-presented Financial Statements of SC Klaipėdos Nafta for the year 2014, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of SC Klaipėdos Nafta.

General Manager

Mantas Bartuška

Director of Finance and Administrative Department

Marius Pulkauninkas

Head of Accounting Division

Asta Sedlauskienė



**ANNUAL REPORT FOR THE YEAR 2014**



Klaipėda  
26 March 2015

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### Abbreviations:

LNGT – Liquefied Natural Gas Terminal;  
 LNG – Liquefied Natural Gas;  
 SKB – Subacius fuel storage facility;  
 HFO – Heavy Oil Products;  
 LOP - Light Oil Products;  
 OPP – Oil-Processing Plant (refinery);  
 SE KSSA – State Enterprise Klaipeda State Seaport Authority;  
 NCC - National Control Commission for Energy control and prices;  
 EIB – European Investment Bank;  
 NIB - Nordic Investment Bank.

## FOREWORD OF THE HEAD OF SC KLAIPEDOS NAFTA



The year 2014 was extraordinary for SC Klaipėdos nafta. It could be mentioned in Company's history as the year of successful start of operation of the Liquefied Natural Gas (LNG) terminal and its successful implementation. The LNG terminal is important not only for the Company, but for Lithuania as well. LNG terminal vessel INDEPENDENCE which had successfully moored to the jetty on 27 October 2014 became the alternative gas supply resource and the symbol of energy independence of Lithuania.

On 21 July 2010 SC Klaipėdos nafta was entrusted by the Government of the Republic of Lithuania for the strategic importance energy task - construction of the LNG Terminal; what was complex mission in its implementation both for the Company and the parties involved in cooperation. Although, the most important is that we managed to construct the infrastructure necessary for the exploitation of the LNG terminal in time and to commence terminal successful operation. Quality and properly functioning of the entire LNG terminal infrastructure, as well as its compliance with the highest safety standards have been confirmed by local and international specialists involved in technological testing of LNG Terminal.

We made significant efforts and energy when implementing the Liquefied Natural Gas Terminal (LNGT) project, and now we are happy that the results are seen and recognized. LNG Terminal has attracted huge attention from both national and international media, business organizations, and scientific communities and caused considerable political interest at the highest level. The extremely hard work was finally awarded: implementation of the LNG terminal project was recognized "Project of the Year" during the "European Gas conference 2015" which took place in Vienna on 28 January 2015. This award is a one more evidence of both Company's and Lithuania's success. We are proud of LNG Terminal Project which was welcomed within the context of International Gas Market, proved the highest professionalism of all our team and our ability to implement ambitious strategic projects in time.

On 27 November, 2014 the National Control Commission for Prices and Energy (NCC) issued the regasification license to SC Klaipėdos nafta which confirms that the Company was properly prepared for the start of the LNG Terminal operation. Since that date the Company became the operator of the LNG Terminal and the manager of the two terminals (oil terminal and LNG terminal) located on the territory of Klaipėda State Seaport. Accordingly, in 2014 the scope and volume of activities of SC Klaipėdos nafta has expanded: next to the transshipment and storage of oil products we engaged in the LNG transshipment and regasification. In 2014 the LNG terminal has accepted the first two LNG cargos: experimental and commercial. In 2014 for the first time income of the LNG Terminal were earned amounting 20,003 thousand litas.

Oil terminal activity in 2014 was a subject to the direct influence of fundamental changes at the world oil market and in the Eastern Europe. Unfavourable macroeconomic conditions prevailed at the first half-year negatively influenced production and transshipment volumes of our clients. This difficult situation lead to the analysis of Company's processes and subsequent decisions made with the intention for the increase of efficiency of the activity. The global situation improved in the second half-year when flows of oil products have increased, we have attracted new light oil products and additional HFO flows from Russian oil refineries. Finally, at the end of the year 2014 we calculated 5.5 million tons of oil products transhipped through our oil terminal, i.e. 6 per cent decrease comparing with the results of the year 2013 (5,86 million tons).

Under the prevailing conditions the Company was able to maintain high level of profitability in 2014, namely, our net profit reached LTL 31,963 thousand, and EBITDA – LTL 58,314 thousand; although the results are worsened compared to the year 2013.

In 2015 the Company will strive to maintain successful transshipment of oil products' and to ensure efficient operation of the oil terminal. Our objective is to maintain close cooperation with all potential business partners and to look for new opportunities, causing the increase of oil products' transshipment volumes. We do not plan any major changes for Subacius fuel storage activities.

In the LNG terminal we plan to accept and regasify 4 LNG vessel-carriers with almost 374 million m<sup>3</sup> of LNG till the 30 September 2015. We see that execution of LNG Terminal operator's activities will uncover broad business opportunities and will form the base for the development of LNG supply services in the Baltic region. Moreover, we plan that the development of LNG small scale transshipment operations will be the key target in the nearest future, and that our Company will make all efforts in order to initiate construction of the infrastructure for this activity.

**SC Klaipėdos nafta**

GENERAL MANAGER

MANTAS BARTUSKA

## REPORTING PERIOD

The Annual Report for the year 2014 is prepared for the period from 1 January 2014 until 31 December 2014. In this Annual Report, SC Klaipedos Nafta is referred to as the Company.

## DETAILS ABOUT THE COMPANY (ISSUER)

|                                 |   |
|---------------------------------|---|
| Name of the Company:            | SC Klaipedos Nafta  |
| Legal status:                   | Stock Company   |
| Authorized share capital:       | 380,606,184 litas   |
| Date and place of registration: | 27 September 1994 m., State Enterprise Centre of Registers                              |
| Company code:                   | 110648893   |
| Address:                        | Buriu Street 19, 91003 Klaipeda   |
| Register of the Company:        | State Enterprise Centre of Registers  |
| Telephone numbers:              | +370 46 391772  |
| Fax numbers:                    | +370 46 311399  |
| E-mail address:                 | <a href="mailto:info@oil.lt">info@oil.lt</a>  |
| Internet site:                  | <a href="http://www.oil.lt">www.oil.lt</a> , <a href="http://www.sgd.lt">www.sgd.lt</a> |

## MAIN ACTIVITY OF THE COMPANY AND RELATIVE INFORMATION

Activity of SC Klaipedos nafta is constituted of three main directions:

- Activity of Oil and Oil Products terminal (KN);
- Activity of Liquefied Natural Gas Terminal (LNGT);
- Activity of the Subacius fuel storage facility (SKB).

Operation of the LNG terminal was commenced on 27 November 2014 upon the obtainment of natural gas regassification license issued by the National Control Commission for Prices and Energy (NCC).

**The mission of the Company** is to be a reliable import and export terminal of oil products and a LNG import terminal for Lithuania and neighbour countries, also to enable the region's oil refineries to export on a continuous basis their production by tankers through the Company's terminal to the Western European and further markets and ensure supply of alternative natural gas to consumers from Lithuania and neighbour countries.

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

**The strategic objectives** of SC Klaipedos nafta:

- To improve effectiveness of the Company;
- To improve internal processes;
- To assure requirements of safety standards;
- To diversify activities of the Company;
- To become a main Centre of Oil and Gas in Lithuania.

**The Company is a strategic company of Lithuanian national security and energy sectors:**

▪ By reference to the adopted Law of 10 October 2002 regarding companies and equipment and other important companies of strategic value for national security of Lithuanian Republic, the Company was defined as a company of strategic value for national security.

▪ In February 2012, the Government of the Republic of Lithuania assigned the Company to implement a strategic project of construction of LNGT of a high economic importance until the end of 2014, which was successfully mentioned in the end of 2014 upon the commencement of LNG Terminal operation.

- The Company ensures a possibility to import oil and oil products in Lithuania, if necessary.
- The Company was granted storage of the obligatory reserve of oil products of the Republic of Lithuania.

### Information about investment into associated companies:

The Company has invested into the following companies as of 21 December 2014:

| Name of the Company | Address  | Part of Owned Shares in per cents | Activities   |
|---------------------|--|-----------------------------------|--|
| JSC LITGAS          | 14 Zveju str.,<br>LT-092101 Vilnius                    | 33.33                             | Confirmed as an assigned LNG supplier through the LNG Terminal on 10 February 2014.                          |
| JSC BALTPOOL        | 9 A. Juozapaviciaus str.,<br>LT-09311, Vilnius         | 33                                | Development of activity of energy resources (bio-fuel, gas) exchange, administration of PSO funds.           |
| Sarmatia Sp. z o.o. | ul. Nowogrodzka 68, Prima court, 02-014 Warsaw, Poland | 1                                 | Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea. |

### Participation in Associations

The Company has been acting as a member of the following associations as of the end of the year 2014:

- Association of Lithuanian Stevedoring Companies [www.ljkka.lt](http://www.ljkka.lt);
- Gas Infrastructure Europe (GIE) division Gas LNG Europe (GLE) [www.gie.eu.com](http://www.gie.eu.com).

### The oil and oil products terminal

Be The Company is one of the largest oil and oil products terminals on the Baltic States market of oil and oil products transit. The terminal's core activity is to tranship oil products delivered by rail tank-cars from Lithuania, Belarus, Russia and other countries into tankers. Most commonly transhipped oil products are as follows: fuel oil, vacuum gas oil (HFO), gasoline, diesel fuel, jet fuel (LOP). The terminal capacity amounts up to 9 million tons of oil products per year. Shipment batches are stored in onshore storage, overall volume of which amounts 450 thousands m<sup>3</sup>. Loading into tankers is performed at two jetties, each 270 m length.

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

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

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

- ✓ Transhipment of crude oil and oil products from rail tank-cars into tankers;
- ✓ Transhipment of crude oil and oil products from tankers into rail tank-cars and road tankers;
- ✓ Accumulation of crude oil and oil products;
- ✓ Collection of waste water from sea vessels which is contaminated with oil products;
- ✓ Blending of heavy and light oil products;
- ✓ Mooring of sea vessels;
- ✓ Assessment of quality parameters of oil products;
- ✓ Supply of fuel and water to sea vessels.





### The Subacius fuel storage facility

After the approval of the share emission agreement with the Republic of Lithuania on 11 June 2012, the Company started to manage the Subacius fuel storage facility (SKB) in Kunciu village, Kupiskis district. The infrastructure of the Subacius fuel storage facility consists of the following: (1) the park of 338,000 m<sup>3</sup> of storage tanks adapted to store light oil products; (2) the rail access point modernised in 2007 which can simultaneously handle 14 rail tank wagons; (3) modern loading station of rail tank-cars; (4) renovated laboratory able to detect the main quality parameters of oil products; (5) vehicles and other service buildings and equipment.



The Subacius fuel storage facility has been successfully included into SC Klaipėdos Nafta organisational and management structure and became one of its business segments. After taking over the infrastructure of Subacius fuel storage facility, the Company has expanded and diversified its activities and services, adding the service of long-term storage of oil products. The results of activities of Subacius fuel storage facility for 2014 are present in the Explanatory note “Information of segments” of the Company’s financial statements for 2014.

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

### Liquefied Natural Gas Terminal

The National Energy Independence Strategy approved by the 26 June 2012 Resolution of the Parliament of the Republic of Lithuania No XI-2133 and Resolution No X-1046, provides the description of main national strategic provisions and their implementation directions for the time period up to 2025; the Strategy highlights the importance of energy safety and pays considerable attention to the assurance of long-term supply of natural gas. In order to eliminate energy isolation in the gas sector and implement Regulation (EU) No 994/2010 of the European parliament and the Council of 20 October 2010 concerning measures to safeguard security of gas supply all member states of the European Union were obliged to comply with the directive N-1 infrastructure standard and ensure the alternative gas supply resource.

The Law on Liquefied Natural Gas Terminal (further - LNGT) approved by the 12 June 2012 Resolution of the Parliament of the Republic of Lithuania (No XI-2053) on the highest juridical level establishes the requirements for LNGT construction in the territory of the Republic of Lithuania, general principles and requirements for its activities and operation, and forms legal, financial and organisational conditions for the implementation of LNGT Project.

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

The following two independent activities have been developed when implementing the LNG terminal project:

- ✓ The LNG terminal – part of the gas supply infrastructure system to be performed by the Company;
- ✓ LNG import and trade – part of the gas trading and supply market to be performed by the state-controlled supplier JSC LITGAS.

Main functions of the LNG terminal are as follows:

- ✓ LNG storage, regasification, and gas transfer to the national gas system;
- ✓ LNG transshipping.

The LNG terminal supplements and expands the existing natural gas supply infrastructure, provides additional opportunities for supply diversification, eliminates the dependence on the single external supplier of natural gas since 2015, ensures safe natural gas supply, and complies with the requirements of the directive N-1 infrastructure standard, i.e., forms particular assumptions for independent gas supply in Lithuania, required in order to meet the unconventional demand.



About half billion cubic metres of gas are expected to be regasified during the year 2015, while in the future, its annual capacity factually could reach 3 billion cubic metres (maximum capacity 4 billion cubic meters). In 2013 Lithuania consumed almost 2.7 billion cubic meters of gas, which was imported by single supplier – Russian gas concern OAO “Gazprom”. Thus in the future the LNG Terminal's designed capacity would allow to ensure annual volume of natural gas to be consumed in Lithuania and supplied to the markets of Latvia and Estonia.

The results of activities of LNG Terminal for 2014 m. are present in the Explanatory note “Information of segments” of the Company’s financial statements for 2014.

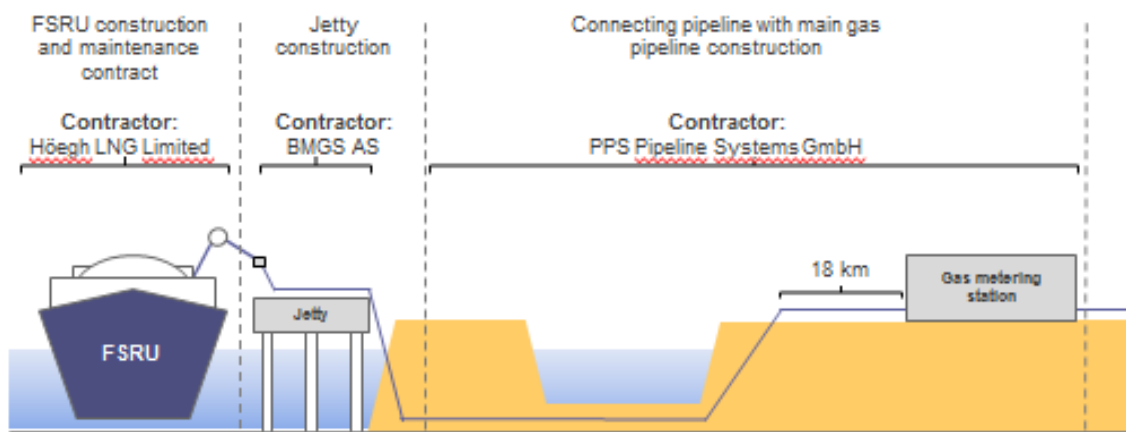
#### Infrastructure of the Liquefied Natural Gas Terminal

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

| Characteristics of the Floating Storage and Regasification Unit* |   |
|--|---|
| TECHNOLOGY   | Floating Storage and Regasification Unit (FSRU)                                     |
| PLACE  | southern part of Klaipeda state seaport, near Kiaules Nugara island                 |
| FSRU SUPPLIER  | Norwegian company “Höegh LNG”   |
| TANK   | 170,000 m <sup>3</sup>  |
| LOADING CAPACITIES   | 9,000 m <sup>3</sup> /h of LNG. Loading from vessel to vessel using flexible hoses  |
| FSRU CAPACITIES  | 2-3 billion m <sup>3</sup> of NG per year (1.5 - 11 million m <sup>3</sup> per day) |
| MAXIMUM LNG FILLING LEVEL  | 98 %, at 70kPag   |
| MINIMUM OPERATIONAL LNG HEEL LEVEL                               | 3,500 m <sup>3</sup> of LNG   |
| GAS FLOW TO THE GAS PIPELINE                                     | 6 million m <sup>3</sup> per day intending to increase the flow in the future       |
| FSRU PRODUCTION DATE   | 2014 year   |
| FSRU LENGTH  | 294 m   |
| FSRU WIDTH   | 46 m  |
| FSRU DRAUGHT   | 12.6 m  |

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

The main parts of the LNG Terminal are provided below:



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

FSRU is an LNG carrier which receives liquefied natural gas in Klaipeda seaport from LNG carriers moored alongside the FSRU. LNG is accumulated and passed through the special devices in order to regasify it into gaseous state. In 2012 SC Klaipėdos Nafta and Norwegian company "Höegh LNG" signed 10-year FSRU lease agreement with a purchase option. FSRU is built by South Korean shipyard "Hyundai Heavy Industries Co., Ltd". The vessel arrived to Klaipeda State Seaport on 27 October 2014.



### Jetty and its Facilities:

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



### Connecting Gas Pipeline of the LNG Terminal:

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

### Advantages and Constraints of the Terminal

#### Advantages:

- ✓ First full scale LNG terminal in the Baltics and Nordic Europe countries;
- ✓ Attractive LNG regasification tariffs shall encourage the development of gas market in the country, and LNG reloading tariffs shall create competitive conditions to work out the small scale LNG activity;
- ✓ Ice-free port of Klaipeda guarantees a smooth shipping and continuous loading operations throughout the whole year;
- ✓ LNG quantity consumed for Terminal technological needs shall be assigned to Terminal users as per the actual consumption data;
- ✓ It is planned, that designated supplier – JSC LITGAS shall import minimum gas quantity, necessary for the uninterrupted Terminal operation, therefore the Terminal shall always be operational;
- ✓ Infrastructure for small scale LNG transshipment activity;
- ✓ Terminal allows reserving the spot LNG regasification and LNG reloading capacities during the current gas year based on the demand and according to the Terminal technical capacity.



#### Constraints:

- ✓ LNG regasification modes are limited by min 57.089 nm<sup>3</sup>/h and max 428.398 nm<sup>3</sup>/h;
- ✓ The Terminal shall be adjusted to accept the particular LNG carriers to perform LNG reloading in 7 months after the demand has been expressed and technical information about estimated LNG Carriers, arriving for LNG reloading, provided;
- ✓ Terminal LNG regasification capacities cannot exceed the max natural gas transmission system capacity set by transmission system operator at the entry point to main gas grid:
  - In 2015 the planned capacity is 165.771 nm<sup>3</sup>/h;
  - Starting 2016, after Klaipeda - Kursenai pipeline is built – 428.398 nm<sup>3</sup>/h.

### The LNG Terminal Services

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

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

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

- ✓ LNG loading – opportunity to deliver LNG cargo by LNG carriers of 65.000 – 160.000 m<sup>3</sup> capacity, to berth them to the jetty and unload LNG into the Terminal over a period of maximum 48 hours;
- ✓ LNG storage at the Terminal until its reloading, but in any case not more than for 60 calendar days.
- ✓ LNG reloading – loading of the LNG quantity set by the Terminal user's schedule into LNG carriers which cannot be smaller than 5.000 m<sup>3</sup> over a period of maximum 48 hours.

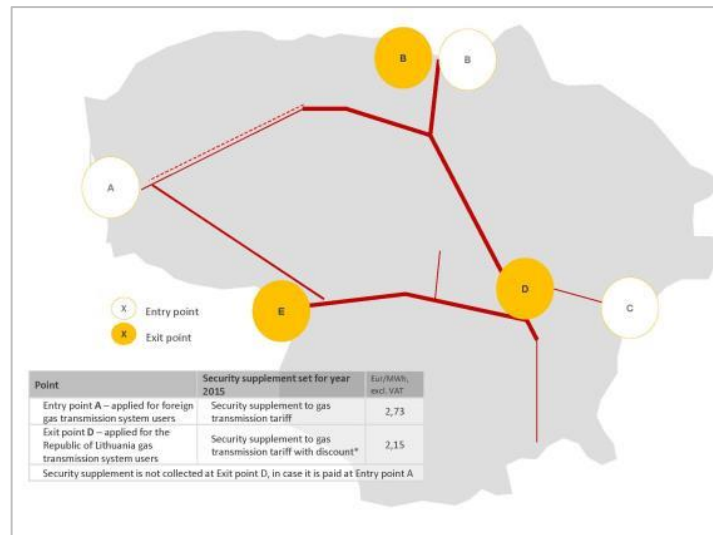
Prices set for Terminal services are:

- ✓ LNG regasification service price (hereinafter referred to as the LNG regasification service), approved by the Company based on LNG regasification service price cap set by the National Control Commission for Prices and Energy (NCC) on November 20, 2014 by the resolution No. O3-895;
- ✓ LNG reloading service price set by the NCC on November 20, 2014 by the resolution No O3-896.

LNG regasification price cap is being adjusted on yearly basis, LNG reloading price is set for 5 years.

| Terminal service                                      | Price set                  |
|---|----------------------------|
| LNG regasification service* price (set for year 2015) | 0.00 Eur/MWh excluding VAT |
| LNG reloading service price (set for year 2015-2019)  | 1.14 Eur/MWh excluding VAT |

\* Additional Security supplement is applied to LNG Terminal users transporting gas via gas transmission system. Additional security supplement is set by NCC on November 20, 2014 by the resolution No O3-895. Mentioned supplement is dedicated to cover fixed operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes regasified and submitted to gas transmission system and necessary to ensure LNG terminal operation.

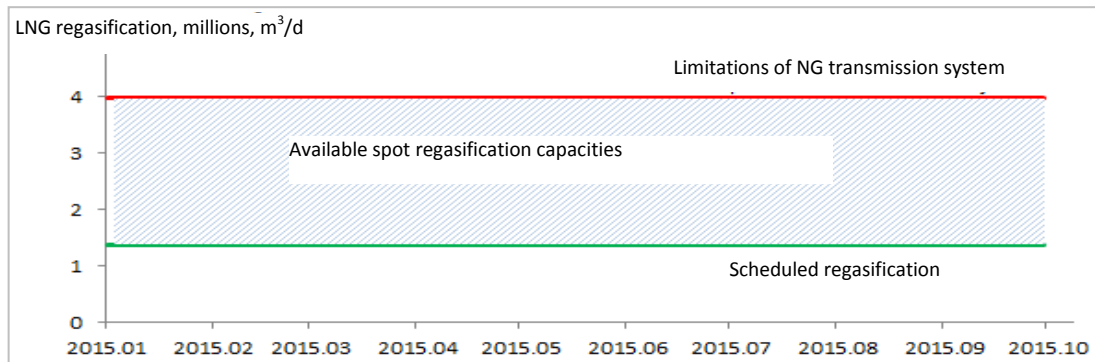


Capacities of the LNG Terminal allocated on the 31 of December 2014:

| Terminal User | Allocated Capacities           | Amount of Allocated Capacities | Period                               |
|---------------|--------------------------------|--------------------------------|--------------------------------------|
| JSC LITGAS    | Main regasification capacities | 373.990.039 nm <sup>3</sup> *  | January 1, 2015 - September 30, 2015 |

NOTE: temperature (combustion/measurement) - 25/0 °C, pressure - 1.01325 bar. At 25/0 °C combustion/measurement temperature the quantity is equal to 401.637.600 nm<sup>3</sup>.

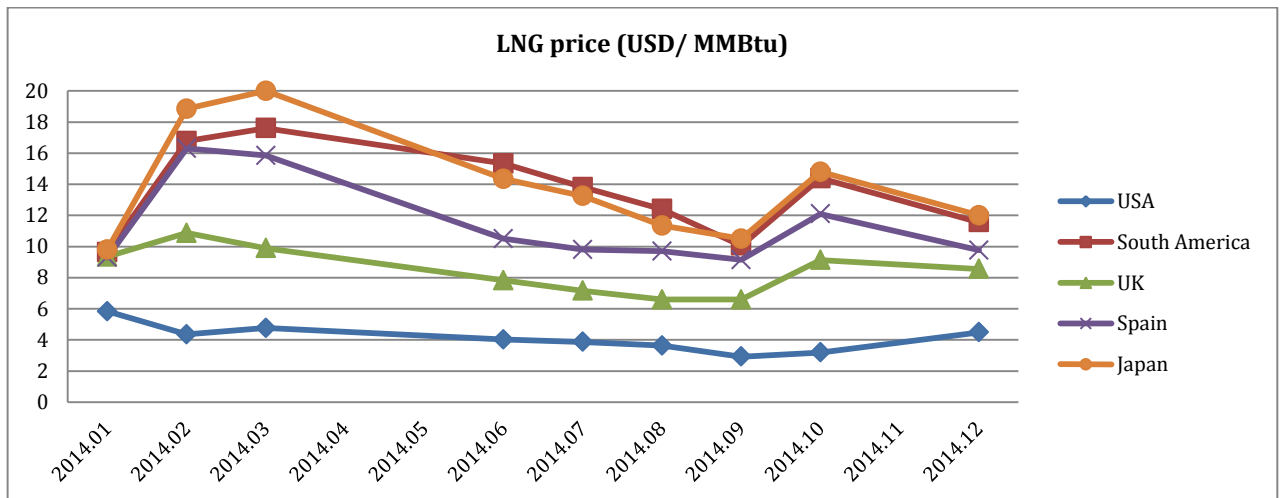
Taking into account the intake capacities of the natural gas transmission system, SC Klaipėdos Nafta announces 0,71 billion nm<sup>3</sup> of available LNG terminal capacities for the period from 1<sup>st</sup> of January 2015 to 30<sup>th</sup> of September 2015.



### LNG Market Analysis and Future Trend Forecast

Over the past few years there has been an increase in LNG demand; moreover the liquefied natural gas industry is expected to continue further growth for 1.9 per cents yearly reaching about 490 Bscf/d (Billion Standard Cubic Feet per day) by 2035. Over the past few years there has been minimum increase in LNG supply – in 2014 the LNG faced the new supply growth. LNG supply, comparing it to the one in 2013, has grown for 5 million tonnes reaching 246 million of tonnes per year. Production of LNG in Papua New Guinea and Nigeria shows significant growth, however, LNG export terms of Egypt and Angola has noticeable decreased LNG production.

In October 2014 the LNG prices have been continuously decreasing – the decrease itself occurred in North America in the first quarter and then (in the second quarter) entered other markets. North America and Canada were subjected to the most significant decrease; the excess supply of shale gas could be named as the main reasons of its occurrence influencing the market along with the oil market crisis the price of which is directly related to the long-term LNG contracts. Northeast Asia market when setting the cap of LNG prices on the basis of the maximum demand has demonstrated significant decrease in prices as well. Since March of 2014 till September the price has decreased for 48 percent (up to 10.4 \$/ MMBtu). The same price has been prevailing at the market prior the Fukushima disaster. At the end of 2014 the price has increased to 11.9 \$/ MMBtu. Along with the price fall on the LNG world market, the decreased demand for LNG caused by relatively warm winter in North-East Asia occurred.



Source: FERC

In the December 2014, comparing with the same time period last year, LNG import to the Great Britain has shown significant growth. It could be said that after the decrease in prices at the Asian market the major part of supply will be directed towards Europe and other Atlantic countries. LNG sales have undergone major globalisation due to the harmonisation of transportation costs both from countries of Atlantic and Pacific Ocean to the North-East Asia. LNG suppliers from the Atlantic arc have shown increased interest in European and South America markets. LNG demand of the South Korea decreased for 9% due to the increased rates of carbon and nuclear energy consumption, demand of China increased for 14%, comparing to 23% increase in 2013. Japan has shown minor increase in demand.

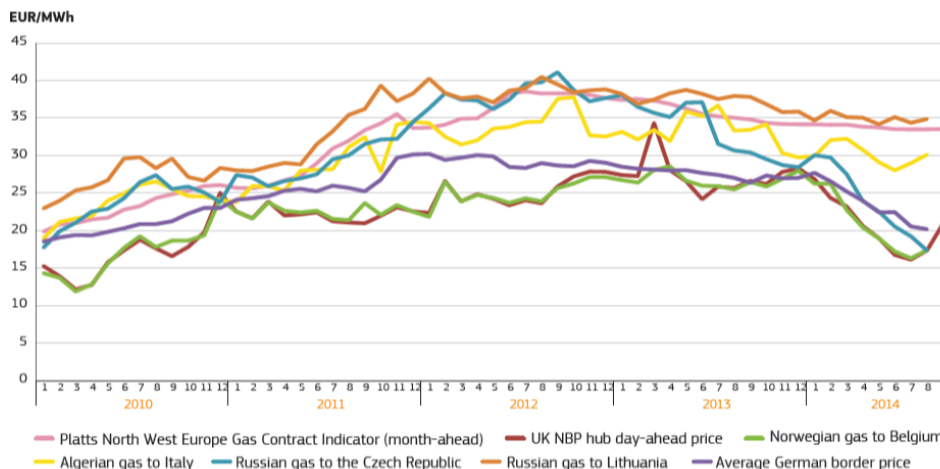
In 2014 there was relatively great number of Investment projects of LNG export terminals, the major share of initiated Projects was taken by USA, where their completion will cause LNG demand increase for about 30 million tonnes per year. In 2014 record number of gas carriers has been ordered – 67 new gas carriers. Increase in ordered number of gas carriers has been predetermined by proposed increase in gas export form the USA.

**Review of Natural Gas Import Prices in Europe**

In 2014 in EU natural gas prices were twice as big as USA Henry hub (HH) prices estimating on an average basis, in previous years such difference between prices was three – four times higher and depended on the falling of oil prices.

The diagram provided herein shows the comparison of quotations of natural gas import from the key exporters, such as Norway, Algeria, and Russia highlighting obvious distinction of natural gas import quotation levels and price fluctuations. Even if the dynamics of natural gas import quotations correlates, the difference of price levels remains unchanged, especially comparing with the price set for supply of gas from Algeria to Spain with 5.6 Eur/MWh, and from Russia to Lithuania with 14 Eur/MWh.

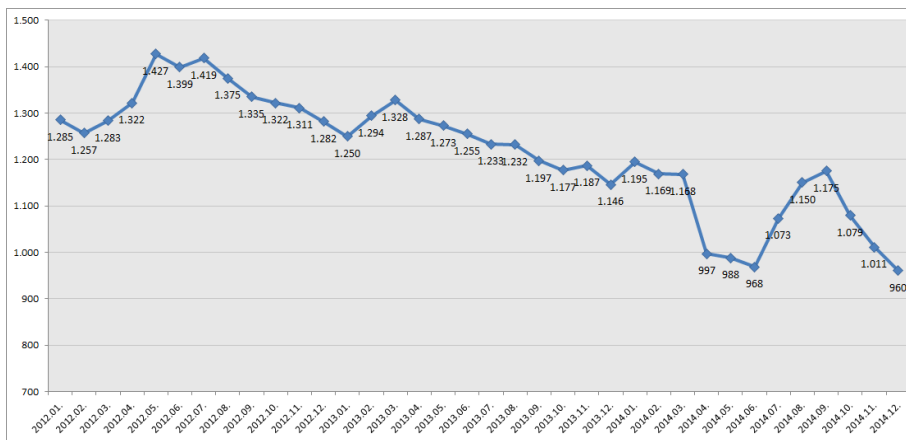
**Comparison of natural Gas Quotations in EU in 2010-2014**



Source: Directorate-General for Energy

Under the agreement signed between Lithuania and natural gas supplier Russian gas concern OAO “Gazprom” the natural gas import prices according to NCC has decreased for 20 per cents starting from the middle of 2014.

Weighted average import price of natural gas entering Lithuania’s market, thousand litas/thousands m<sup>3</sup>



Source: NCC, <http://www.regula.lt/dujos/Puslapiiai/duju-kainos/importo-kainos.aspx>

## SIGNIFICANT EVENTS OF THE REPORTING PERIOD

**19 February 2014** Official naming ceremony of Lithuania's LNG FSRU at "Hyundai Heavy Industries Co., Ltd" shipyard in South Korean city Ulsan. The vessel's christening ceremony was attended by the President of the Republic of Lithuania Dalia Grybauskaitė. The LNG vessel-storage was given a name INDEPENDENCE, symbolising energy independence of the country.

**25 February 2014.** Vilnius Regional Administrative Court by the adopted decision declined the appeal from the owners of a part of plots of land, via which it has been planned to construct the gas pipeline route of liquefied natural gas terminal. The owners asked Vilnius Regional Administrative Court to cancel the Decree Nr. 1-130 of the Minister of Energy of Lithuanian Republic dated 13 June 2013 that confirmed the LNG terminal Special plan of connected infrastructure and pipeline construction, inter alia, providing a possibility to construct the indicated gas pipeline route via the plots of land of the abovementioned owners.

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

**28 March 2014.** Extraordinary General Meeting of Shareholders of the Company accepted the part of rights and obligations to "Höegh LNG Ltd." under the Agreement on the Lease, Operation, and Maintenance (Repair) of the Liquefied Natural Gas Floating Storage and Regasification Unit (FSRU) with the FSRU Purchase Right. The Novation Agreement was entered on 11 April 2014.

**11 April 2014.** The National Commission for Energy Control and Prices decided to approve the Rules for use of the Liquefied Natural Gas Terminal, which establish the procedure and conditions of use of the liquefied natural gas terminal, requirements for persons that intend to use the LNG terminal, their rights, duties and liability, as well as other special requirements, related to the activities of the LNG terminal and its use for bringing LNG and unloading it to the LNG terminal, regasifying LNG and delivering it to the natural gas transmission system or transshipping it into LNG carriers.

The Company, seeking to attract users of the LNG terminal and to satisfy expectations of consumers in the market, has calculated and announced preliminary prices of services to be provided by the LNG terminal. They were calculated according to the Methodology of Setting State Regulated Prices in the Natural Gas Sector approved by Resolution No. O3-367 of the NCC, dated 13 September 2013 (with the latest amendments of 11 April 2014 approved at the meeting of the NCC). The upper limits for prices of the LNG terminal services and specific prices are set and announced by the NCC.

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

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

**18 April 2014.** The Board of the Company decided to approve the main provisions of the Rules for use of the LNG Terminal pre-approved by the NCC). On the same day the Rules were also approved by the General Manager of the Company.

**29 April 2014.** The General Meeting of Shareholders of the Company was held during which:

- ✓ the set of the audited financial statements of 2013 was approved;
- ✓ The Company's distributable profit was distributed, part of which was allocated for dividends – LTL 357 thousand or 0.0009366255 per share;
- ✓ Audit firm JSC Ernst & Young Baltic was appointed to audit financial statements of the year 2014 and review the annual report.

**29 April 2014.** To renew the mandate of the acting Board of Company, consisting of the following Board Members – Valdas Lastauskas, Rokas Masiulis, Rytis Ambrazevicius and Mindaugas Jusius, for the term set forth within the Bylaws of the Company (4 years) or until the time, when the new Board is elected and starts acting.

**30 April 2014.** The Company has announced the first of LNG terminal capacities allocation procedure and invited the potential users of LNG terminal to submit their allocation requests of LNG terminal capacities according to the conditions specified in the invitation.

**11 June 2014.** The Government of the Republic of Lithuania decided to approve the draft resolution of the Parliament of the Republic of Lithuania "On granting a state guarantee to the Nordic Investment Bank" and to present it to the Parliament of the Republic of Lithuania. According to the draft resolution, it is intended to grant the state guarantee for a term up to 20 years of the amount of EUR 34,754 thousand (LTL 120,000 thousand) for a loan to be taken by the Company from the Nordic Investment Bank (the NIB), as the Company seeks to borrow this respective amount from the NIB to finance the project of the LNGT in Lithuania.

**13 June 2014.** The Board of the NIB adopted a decision to grant Company a credit of up to EUR 34.754 thousand (LTL 120.000 thousand) for implementation of the project of LNGT in Lithuania. The term of the credit is up to 20 years. Specified condition of





the credit disbursement is an obligation to submit a State guarantee of the Republic of Lithuania ensuring the Company's monetary obligations under the credit agreement.

**17 June 2014.** The Company received a ruling of the Appeal Court of Lithuania in the case according to statement of claim of the claimant JSC Naftos Grupe against the Company for the indemnification for losses of LTL 17 million allegedly incurred by the claimant, for return of surplus oil products allegedly belonging to the claimant and held by the Company and for recognition the termination of Service Contract No. 12-12-2005, dated 22 December 2004, due to the Company's supposed fault.

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

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

In the evaluation of the management of the Company, that part of the court ruling, which rejects the counterclaim of the Company to JSC Naftos Grupe in the case (on compensation of the losses of LTL 42,627 thousand incurred by the Company while executing the Agreement) and leaves the above indicated amount of damages to be indemnified for by the Company to JSC Naftos Grupe, is groundless. Therefore, the Company has filed a cassation appeal with the Supreme Court of Lithuania. Consequently, on **25 July 2014** The Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by the Company against part of the ruling of the Court of Appeal of Lithuania. The Supreme Court of Lithuania has stated that cassation appeal filed by the Company complied with the requirements established in the Civil Procedure Code and admitted the appeal for its resolution by cassation proceeding.

**26 June 2014.** Extraordinary General Meeting of Shareholders of the Company approved the decision of the Board:

- ✓ To amend Claims Assignment Agreement No. J4-17-2013 entered into on 15 February 2013 on the basis of the Board's decisions dated 22 January 2013 and 6 February 2013, replacing a party to the Claims Assignment Agreement, i.e. the Bank, with the assignee of rights and obligations of the Bank, i.e. the Parent Bank.
- ✓ Along with JSC Lietuvos Energija (code 301844044), which is the other main shareholder of the company JSC LITGAS (code 302937277), to take part in the share capital increase of JSC LITGAS during which no more than 97,000,002 new ordinary shares of the nominal value of 1 litas shares will be issued, the price per share issued equal to 1 litas and paid in cash:
  - On a behalf of Company to sign no more than 32,333,334 of newly issued ordinary shares of JSC LITGAS of nominal value of 1 litas and of the total issue price no more than 32,333,334 litas.
  - To establish that the above mentioned newly issued shares of JSC LITGAS can be signed – either at once by one share capital increase, either in several subsequent share capital increase iterations;
  - To establish that during the increase of the share capital of JSC LITGAS Company shall be entitles to sign any other smaller number of shares, but in all cases it must be guaranteed that the part of shares of Company in the share capital of JSC LITGAS remains no less than 1/3 rd.
  - To establish that Company will sign the newly issued shares of JSC LITGAS after the general shareholders meeting of JSC LITGAS takes appropriate decisions regarding the increase of share capital of JSC LITGAS. Accordingly, if the share capital of JSC LITGAS would be increased in several subsequent iterations, Company will sign the newly issued shares only after the general meeting of JSC LITGAS takes appropriate decisions regarding the particular separate stage of the increase of the share capital of JSC LITGAS.

**30 June 2014.** Client of the Company, Litasco S.A, a company of Lukoil companies group, announced its intention to exercise its right, to extend the services contract with the Company regarding transshipment of dark oil products concluded on 30 August 2012 for another year. The extended services contract regarding transshipment of dark oil products will be effective till the second half of 2015. Under the above-mentioned contract Litasco S.A. should provide the Company for transshipment up to 2.7 million tons of dark oil products per year.

**8 July 2014** The Parliament of the Republic of Lithuania decided:

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

indicated in paragraph 3.1 of this notification, all the obligations, including the rights and duties regarding the loan specified in paragraph 1 of this notification and all the rights to the LNGT funds, are transferred to the above-mentioned subsidiary;

- the Republic of Lithuania maintains direct control over at least 67 percent of the shares of the Company and the Company maintains 100 percent of the shares of the subsidiary specified in paragraph 2.1 above throughout the entire period of the loan specified in paragraph 1.
- ✓ To establish that the state guarantee can be signed when:
  - the Company mortgages/pledges future real property of the LNGT and concurrently related items, i.e. the LNGT link and its technologic commodity, which will be created in the future and/or which will come into the ownership of the Company or the subsidiary specified in paragraph 2.1 above in the future, upon the implementation of the LNGT project, by conditional mortgage (second ranking) to the Ministry of Finance of the Republic of Lithuania for the amount no less than 100 percent of the loan specified in paragraph 1 in order to secure the fulfilment of contractual obligations;

**10 July 2014** Extraordinary General Meeting of Shareholders of the Company approved the decision of the Board:

- ✓ In accordance with the resolution No. 1354 of November 7, 2014, of the Government of the Republic of Lithuania „On the Approval of the Natural Gas Supply Diversification Procedure Description“, resolution No. 03-104, of April 14, 2014, of the National Commission for Energy Control and Prices „On the Change of the Resolution No. 03-367 „On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section“ of September 13, 2013 of the National Commission for Energy Control and Prices“ and taking into consideration the decision of the Company Board made on June 2, 2014 to approve the general special conditions of the supply agreement on liquefied natural gas necessary for the liquefied natural gas terminal commissioning works:
  - The amount of LNG, necessary for the LNGT commissioning works, is up to 170 thousand m<sup>3</sup>.
  - The supply costs directly related to the reasonable costs of LNG necessary for the LNGT commissioning works are up to 112,428 thousand Lt.

**28 July 2014.** The Company together with JSC LITGAS concluded special conditions of the agreement on supply of LNG for the performance of the test works of LNG terminal. The aforementioned Agreement was concluded in accordance with the decisions of the Board and General Meeting of the Shareholders of the Company.

**1 August 2014.** The Company concluded LNG terminal user's contract with JSC LITGAS (Terminal User) and therefore has completed LNG terminal capacities allocation procedure, announced on 30<sup>th</sup> of April 2014. The Company entitled the Terminal User to use 401,637,600 nm<sup>3</sup> of foundation regasification capacities for the first transitional gas year from 1<sup>st</sup> of January 2014 until 30<sup>th</sup> of September 2015. Taking into account the intake capacities of the natural gas transmission system, the Company announces 0.76 billion nm<sup>3</sup> of available LNG terminal capacities for the period from 1<sup>st</sup> of January 2015 until 30<sup>th</sup> of September 2015.

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

- ✓ to recall from the Board Members of the Company Valdas Lastauskas (Company's Board Member since 24<sup>th</sup> May, 2013);
- ✓ to elect Dainius Braziunas as the new Board Member of the Company until the term of office of the acting Board of Company.

**24 September 2014.** The Supervisory Council of Company adopted the following decisions:

- ✓ to recall the Board Members of the Company Rokas Masiulis (he has been the Board Member of the Company since 17<sup>th</sup> of September, 2010);
- ✓ to elect Mantas Bartuska the new Board Member of the Company, starting into office as from 25<sup>th</sup> of September, 2014 and until the end of term of the acting Board of Klaipėdos nafta, AB. The newly elected Board Member of the Company, Mantas Bartuska, had also been elected the General Manager of SC Klaipėdos nafta, from 25<sup>th</sup> of September, 2014.

**29 September 2014.** The Board of the Company approved the latest revision of the special conditions of the Rules for Use of the Liquefied Natural Gas Terminal (the Rules) agreed by the NCC. The General Manager of the Company approved the latest revision of the Rules on 30 September 2014 m. The latest revision of the Rules has been approved after the completion of public consultations announced by the NCC that lasted from 30 July 2014 to 12 August 2014 and consideration of comments and offers provided by concerned parties during the aforementioned period.

**15 October 2014.** Extraordinary General Meeting of Shareholders of the Company was convened. The Meeting approved the following decisions of the Board:

- ✓ To conclude an agreement on assignment of claim rights (the Assignment Agreement) and a maximum pledge agreement (the Pledge Agreement) with Höegh LNG Klaipėda, JSC (Höegh LNG Klaipėda) in accordance with the following main terms and conditions:
  - Claim rights (subject of the Assignment Agreement and the Pledge Agreement): funds of the LNGT (for compensation for all or part of costs for the construction and operation of the LNGT, its infrastructure and connection), payable by SC Klaipėdos Nafta in accordance with the Law on the Liquefied Natural Gas Terminal and Agreement No. 14-177-2013 of 29 August 2013 on payment of funds of the LNGT, the amount of which will be approved by an appropriate decision of the NCC and the NCC's resolution of 9 October, 2012 on approving the description of the procedure for administering the funds allotted for compensating all or part of costs for the construction and operation of the liquefied natural gas terminal, its infrastructure and connection.
  - Moment of transfer of claim rights: the claim rights shall be transferred if SC Klaipėdos Nafta breaches the Time Charter Party (Lease of a FSRU) concluded with Höegh LNG LIMITED (whose rights have been transferred to Höegh



LNG Klaipeda) on 2 March, 2012 (the Time Charter Party) or if another Fault Owner Termination Event, as defined in the Time Charter Party, occurs and SC Amber Grid is notified about the occurrence; for the purpose of notification, SC Klaipedos Nafta will issue an irrevocable power of attorney for the benefit of Höegh LNG Klaipeda.

- Secured obligation: all and any obligations of SC Klaipedos Nafta arising out of the Time Charter Party, as amended or restated from time to time, both the principal and other obligations or related damages and expenses under the Time Charter Party.
- Maximum amount of the secured obligation: USD 50,000,000 per one year of the Time Charter Party. The amount that may be claimed to be transferred by SC Amber Grid to Höegh LNG Klaipeda shall be reduced by any amount received under other security measures of the Charterer (pledge and bank guarantee, if any) within the respective one year of the Time Charter Party. The security shall be provided for the entire effective term of the Time Charter Party.

**16 October 2014.** the Company has terminated the Overdraft Agreement of 6 February 2013 concluded with Nordea Bank Finland Plc as well as the agreement securing the performance thereof (assignment of claim rights). Alternatively, the Company has granted the financing of the LNGT through the EIB and NIB credits.

**17 October 2014.** The NCC took a decision, by which it:

- ✓ approved the LNGT project presented by the Company, establishing that the preliminary value of the project was LTL 301 thousands;
- ✓ established that the above-indicated project value would be used in calculating the additional component of natural gas supply security on the upper limit (cap) of the natural gas transmission price for 2015;
- ✓ obligated the Company to adjust the above-indicated project value after the LNGT project is implemented and, following settlement with the contractors and suppliers, provide the data and information to NCC within 30 days, which shall be used for execution of the audit and clarification of the project value

Thus, with regard to the above-indicated decision, the Company pointed out that the above-indicated project value is tentative, but not final and can change in the course of implementation of the project.

The additional component of natural gas supply security on the upper limit of the natural gas transmission price, which will be calculated by use of the project value set by the NCC s intended for compensation of fixed operational costs of the liquefied natural gas terminal, necessary to ensure operation of the liquefied natural gas terminal. It will be paid in addition to the upper limit of the natural gas transmission price by system users, which transport natural gas by the transmission system.

**27 October 2014.** Liquefied natural gas terminal vessel INDEPENDENCE has entered the Klaipeda sea port and was moored to the jetty. This event and official ceremony symbolised opening of Lithuanian LNG Terminal.

**28 October 2014.** The first LNG cargo was successfully pumped to the FSRU "Independence", part of the cargo was used for Terminal operation testing (about 50 million cubic meters of procured 60 million cubic meters were transferred to the gas transmission system, the remaining part of the load has been consumed for technical needs of the Terminal). Proper functioning of "Independence" system and smooth execution of initial processes has been stated by involved specialists.

**11 November 2014.** The extraordinary general meeting of shareholders of the Company was convened. The Meeting approved the following decisions of the Board:

- ✓ To sign a loan contract with Nordic Investment Bank, according to which:
  - Loan amount – up to 34,754 thousand Euros (120,000 thousand litas);
  - The final repayment date of the loan – till the first half of year 2034;
  - Interest rate: variable interest rate;
  - Established duty of SC Klaipedos Nafta to provide a sovereign guarantee that ensures principal and interest payment obligations of SC Klaipedos Nafta according to the loan contract.
- ✓ To instruct and authorize the general manager of SC Klaipedos Nafta to adopt decisions regarding credit conditions, including but not limited:
  - Decisions regarding loan margin level;
  - Decisions regarding the size of disbursed amount and its repayment conditions.

**12 November 2014.** The Government of the Republic of Lithuania adopted a resolution "On Amendment of Resolution No 199 of the Government of the Republic of Lithuania of 15 February 2012 "On the Implementation of the Law of the Republic of Lithuania on the Liquefied Natural Gas Terminal", which provides that:

- ✓ The unused funds committed for the construction of the LNG terminal, its infrastructure and connection costs, paid or payable by (to be collected from) the payers of the Republic of Lithuania for funding of the construction of the LNG terminal, its infrastructure and connection costs (LNG terminal funds payers) shall be compensated to the LNG terminal funds payers;
- ✓ The aforementioned funds (excluding VAT) shall be compensated by adjusting (reducing) the amount (excluding VAT) of an additional natural gas supply safety component in addition to the upper limit of the natural gas transmission price for the years 2015 and 2016 which shall apply to all LNG terminal funds payers of the Republic of Lithuania;
- ✓ The aforementioned funds shall be compensated in equal parts in proportion to the natural gas amounts transported through the natural gas system in 2015 and 2016 by the LNG terminal funds payers;
- ✓ The administration costs of the LNG terminal funds shall not be compensated to the LNG terminal funds payers;
- ✓ The requirements provided above do not release the LNG terminal funds payers from their duty to pay overdue debts of unpaid funds.

**20 November 2014.** The NCC adopted decisions on setting LNG terminal services prices for 2015-2019. Decisions are relevant for ensuring the compensation of maintenance and operating costs of the LNG terminal infrastructure.

By its decisions and taking into account the procedure for compensating unused funds necessary for covering installation costs of the LNG terminal, its infrastructure and link to funds payers, established by Resolution No. 1251 of the Government of the

Republic of Lithuania of 12 November 2014, the Commission established a reduced natural gas supply safety component in addition to the natural gas transmission price applied to LNG terminal funds payers in the Republic of Lithuania – 7.41 Lt/MWh (2.15 Eur/MWh). The NCC also established a natural gas supply safety component applied on Klaipėda LNG entry point – 9.43 Lt/MWh (2.73 Eur/MWh). The additional natural gas supply safety component is calculated having evaluated fixed operating costs necessary for ensuring the operation of the LNG terminal, its infrastructure and link.

For 2015-2019 the NCC established the variable part of the price cap of the natural gas liquefaction service (VAT excluded) – 0 LTL/MWh (0 EUR/MWh), and the LNG reloading service price (VAT excluded) – 3.94 LTL/MWh (1.14 EUR/MWh), which will enter into force on 1 January 2015.

**20 November 2014.** The NCC approved depreciation rates of the Company' fixed assets used in the natural gas regasification activity. The NCC established annual depreciation norms by groups of fixed assets, provided for in the resolution of the NCC.

**27 November 2014.** The Company has concluded the Credit Agreement with the Nordic Investment Bank regarding granting a credit of up to 34,754 thousand Euros for the implementation of the project of the liquefied natural gas terminal. According to the Loan contract, the term of the credit is up to 20 years, interest: floating, which particular rate will be provided in the NIB disbursement offer. The Loan contract also provides that the minimal payable amount of credit is EUR 7 million, and all the credit amount must be paid to the Company in no more than 5 payments. 100% of the Company's financial obligations under the Loan contract shall be secured by a State guarantee.

**27 November 2014.** The NCC adopted a decision to issue Natural Gas Regasification License to the Company. After evaluation of the Company's technological, financial and management capability, the NCC has decided that the Company has sufficient capabilities to perform natural gas regasification activity according to the legal acts. Natural Gas Regasification License is the final and essential document necessary to launch Liquefied Natural Gas Terminal operations.

**11 December 2014.** The Company, while executing the decision adopted by the Board of the Company on 19 September 2014, which was approved by the extraordinary general meeting of shareholders of the Company on 15 October 2014 concluded an agreement on assignment of claim rights and a maximum pledge agreement with JSC Höegh LNG Klaipėda.

The said agreements are intended to secure obligations of the Company to JSC Höegh 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.

More detailed information on the terms of the maximum pledge agreement and an agreement on assignment of claim rights was provided in the notification, dated 15 October 2014.

**15 December 2014.** The extraordinary general meeting of shareholders of the Company was convened. The Meeting approved the following decisions of the Board:

- ✓ To conclude with the Ministry of Finance of the Republic of Lithuania an Agreement on the Margin payment and mortgage of property, including all its amendments, supplements and other modifications hereinafter, the "Margin Payment Agreement"), relating to the future State guarantee ("State Guarantee"), which the Ministry of Finance of the Republic of Lithuania will issue to the Nordic Investment Bank and which will serve as guarantee for the obligations of SC Klaipėdos Nafta to the NIB in the amount of up to EUR 34,754 thousand under the Loan Contract with the NIB on granting the loan for the co-financing of the LNGT project, to sign it and to undertake and fulfil all the obligations under the Margin Payment Agreement. In addition, to sign, undertake obligations under, and fulfil any other agreements and documents as necessary and desirable in order to obtain the said State guarantee and/or to secure its validity, and to take any other related actions, including making the margin payment in the amount of EUR 34 thousand, as provided for in the Margin Payment Agreement.
- ✓ In ensuring the future obligation of SC Klaipėdos Nafta to repay the Republic of Lithuania (the Ministry of Finance of the Republic of Lithuania) the sums paid by the later to the NIB under the State guarantee (including its amendments, supplements and other modifications), to enter into a mortgage agreement with the Ministry of Finance of the Republic of Lithuania, including all its amendments, supplements and other modifications (hereinafter, the "Mortgage Agreement"), to undertake and fulfil all the obligations (including the insurance and assessment of property, as provided for in the Mortgage Agreement), to sign all related documents and to take any other necessary actions, and to mortgage the property listed below for the benefit of the Ministry of Finance of the Republic of Lithuania (the State) as a second ranking mortgage:
- ✓ and empowered (with the right of reauthorization), on behalf of SC Klaipėdos Nafta and at his discretion, to negotiate and agree on the terms and conditions of all the documents specified in clauses 1 and 2 of this decision and of any related documents, to conclude, sign, register such documents, and to take any other actions required or recommended in order to duly conclude, sign, register (if necessary), and to fulfil the transactions provided for in this decision (including the amendments, supplements and other modifications thereof).

**29 December 2014.** The Company and the Ministry of Finance of the Republic of Lithuania concluded an Agreement on the Margin Payment and Mortgage of Property as well as a Maximum Conditional and Ordinary Mortgage Agreement.

Under the Agreements the Company undertook to make to the Ministry of Finance of the Republic of Lithuania margin payment in the amount of EUR 34,754.40 and to create second rank mortgage for the benefit of the State, inter alia, all the property created and/or acquired during the implementation of the LNGT project (the amount of maximum mortgage is equal to EUR 34,754 thousand).

As it was announced by the Company in its notification on material event of 8 July 2014, the Maximum Conditional and Ordinary Mortgage Agreement serves as condition precedent to issue a guarantee to Nordic Investment Bank, securing the undertakings of the Company to the Nordic Investment Bank under the Credit Agreement executed on 27 November 2014.

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

**12 January 2015.** The Ministry of Finance of the Republic of Lithuania and the NIB concluded the State guarantee Payment Agreement in the amount of EUR 34,754 thousand to the Company. The State guarantee Payment Agreement ensures the Company's monetary obligations to NIB under the credit agreement signed on 27 November 2014 to 20 years for the co-financing of the LNGT project. The total amount to be granted to the Company shall not exceed EUR 34,754 thousand.

The state guarantee shall be granted upon the fulfilment of all conditions set in the 8 July 2014 Resolution of the Parliament of the Republic of Lithuania No. XIIP-1935 "On granting a state guarantee to the Nordic Investment Bank": the Company shall mortgage/pledge future real property of the LNGT and concurrently related items, i.e. the LNGT link and its technologic commodity, which will be created in the future and/or which will come into the ownership of the Company in the future, upon the implementation of the LNGT project and payment of margin in the amount of EUR 35 thousands to the Ministry of Finance of the Republic of Lithuania.

**26 January 2015.** The Supervisory Board approved the resignation of an independent member of the Audit Committee, as well as the Chairman of the Audit committee - Mr. Simonas Rimasauskas as from 31rd of January, 2015.

Simonas Rimasauskas has been the member of the Company's Audit committee since such committee had been established in the Company in the year 2011. He also acted as the Chairman of the Audit Committee since 16th of June, 2014.

There was no new member of audit committee appointed as at the date of the issuance of the financial statements.

**9 March 2015.** The Company concluded the Liquefied Natural Gas Terminal jetty usage agreement with the Klaipeda State Seaport Authority where the main conditions of the jetty rent were agreed.

### Information about public information

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

During 2014 the Company made 64 official announcements about the significant events and other required information at the NASDAQ OMX Vilnius stock exchange.

## RISK FACTORS

### Risk Factors of the Oil Terminal:

- **Competitive Environment Risk Factors**

The main competitors of the Company are the following terminals of Klaipeda 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 flow from Russian and Belorussian companies because of the good reputation of the Company, technological advantages, current market share, long-term agreements with cargo owners, and benefits of ice-free port.

- **Commercial Risk Factors**

The main client of the Company is SC ORLEN Lietuva. Its transshipment volume during the year 2014 comprised 63 per cent (64 per cent in 2013) of the Company's terminal transshipment amount. The Company has signed a long-term transshipment agreement with ORLEN Lietuva which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva. Nevertheless, the Company is enforced to look for other potential clients, flows of shipments and alternative activities because of recently strongly escalated topic on possible closing or suspension of ORLEN Lietuva refinery. Also the Company reviews existing expenses and constantly search for possibilities optimisation.

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

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

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

- **Technological Factors**

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

The facilities of the oil terminal, which are located in 35.7 ha area, allow handling of up to 9 million tons of exported and imported oil products and crude oil per year. Total capacity of all storage tanks amounts to 450 thousand m<sup>3</sup>. Each batch of oil products delivered from different oil refineries is stored separately, i.e., is not mixed with others. This allows preserving the initial quantity and quality of the delivered oil products. Modern laboratory of the oil terminal controls the quality parameters.

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

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

### The Liquefied Natural Gas Terminal Risk Factors:

- **Legal/ Regulative Risk**

The Law of the Liquefied Natural Gas terminal approved on 27 June 2013 by the Parliament of Lithuanian Republic establishes development of the LNGT at the territory of Lithuanian Republic, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT project implementation. Until the start of LNGT exploitation date it is obligatory to create the legal base regulating the LNGT operator activity, to receive all necessary permissions and licenses, to specify all procedures of the activity. The change of the mentioned law and other already adopted laws regulating the construction, activity and exploitation of the LNGT, could result in significant losses concerning the financial and/or legal liabilities that already has been made. The NCC establishes and controls potential operational costs of the Liquefied Natural Gas Terminal. Results of the Company's activities are directly related to the abovementioned regulation proceedings. In order to minimise the impact of arising risks on the overall performance the Company carefully analyses international regulation practices applied to the regulated enterprises, actively participates and cooperates with regulating institutions, makes proposals while developing legal / regulative base, including the Legal base regulating the activities of the LNGT operator's activities, if the need arises.

The Company do its best answering the queries and concerns of various institutions and other persons related to the activity of Liquefied Natural Gas Terminal. The goal is to ensure that all the related institutions and society realize the benefit and importance of the Terminal for Lithuania's gas consumers.

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

- **Legal Compliance Risk Factors**

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

- **Operational / Activity Risk Factors**

Operational / Activity Risk means the risk directly related to the increase of losses and (or) loss of goodwill, and (or) changes in confidence which could be preconditioned by the external factors (for example, natural disasters, disruptions in major suppliers' activities, acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient utilisation of funds, internal control deficiencies, ineffective procedures, malfunctions of information systems, unduly allocation of functions or responsibilities, etc.). Considering that activities of the Liquefied Natural Gas Terminal are new (commenced on 3 December 2014) the aforesaid risk is of a high importance to the Company. When managing this risk the Company intends to implement required organisational measures and procedures as well as information systems to be used for support of business processes that collectively shall ensure proper functioning of internal control system and duly cooperation with the third parties concerned. The Company applies the following means of internal control: sharing 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 re crucial issues, etc.

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



## FINANCIAL RESULTS OF ACTIVITY

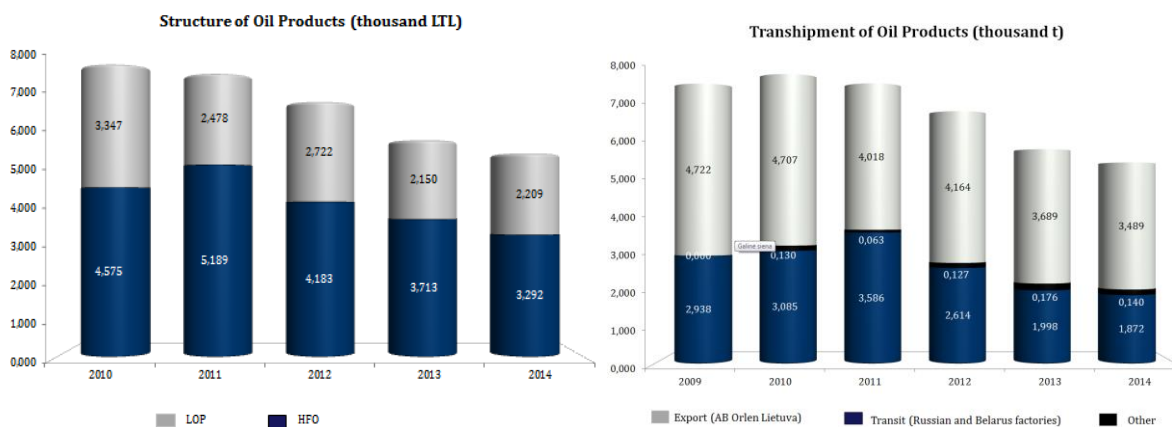
The Company has completed the main objective set for the year 2014 - constructed the infrastructure necessary for the exploitation of the LNG terminal in time and started successful operation of the terminal. Operation of the LNGT was commenced on 27 November 2014. In this respect the Company has gained income from the LNG Terminal for the first time in history; income for the year 2014 comprise LTL 20,003 thousand. Along with the implementation of the Project with a significant importance to Lithuania, in 2014 the Company tried to overcome changes in oil products shipment market and ensure gainful activities of the Oil Terminal. Notwithstanding unfavourable circumstances prevailed at the market in 2014, the Company retained high level of profitability: net profit LTL 31,963 thousand, net profit margin 23 per cent, EBITDA margin 42 per cent.

**Activity of the Oil Terminal** in Klaipeda was the main object that influenced financial results of the Company in 2014. The largest clients of the Company are SC Orlen Lietuva and one of the biggest wholesalers of oil and oil products in the region Litasco S.A. managing the major flows of refineries in Belarus and Russia.

Load ratio of the Oil Terminal along with the income and profitability of the Company depends on the situation at the oil market. Under low refinery margins the refineries are forced to decrease oil refining volumes, i.e., to produce less oil products and reduce volumes of oil products exported via oil terminals of the Company or other enterprises. Consequently, in case of low profitability of refinery and under relatively declined flows of exported oil products the Company is being involved in rather severe competition for the transshipment of oil products, and this, in its turn, affects transshipment volumes and transshipment rates. The inverse processes occur in case of high refinery margins. Positive impulse was gained by the Company at the end of 2014 due to the rapid fall in oil prices and increased refinery margins. The aforesaid global factors have intensified the transshipment of SC Orlen Lietuva oil products in the second half of 2014, and doubled the oil products flow from Belarus NPG (comparing with the same time period in 2013).

Due to the changes at the oil market mentioned herein, in 2014 SC Orlen Lietuva comparing to 2013 transhipped 7 per cent or 269 thousand of oil products less (although in the first half of 2014 SC Orlen Lietuva decreased export through the Company's oil terminal for 27 per cent or 584 thousand tons comparing with the same time period in 2013). It could be noted that flows of light oil products in 2014 have increased due to the extension of the tank park and creation of new technological opportunities for loading greater volumes of LOP.

Favourable technical characteristics of the port and the terminal (ice-free port, powerful own boiler station, capacity of loading equipment, capacity of storage tanks, etc.) could be named as main factors influencing large volumes of HFO transhipped by the terminal, namely – 59.6 per cent (in 2013 – 63.3 per cent.):



Recently refineries of heavy oil products face noticeable decrease in transhipped volumes caused by extremely high competition with other ports. Russian oil products export decreased in all sea ports of the Baltic States since Russia is interested to tranship oil products through its own sea ports, the most actively used for this purpose terminal is Ust-Luga with gradually increasing designed capacity for 25-30 million tons per year.

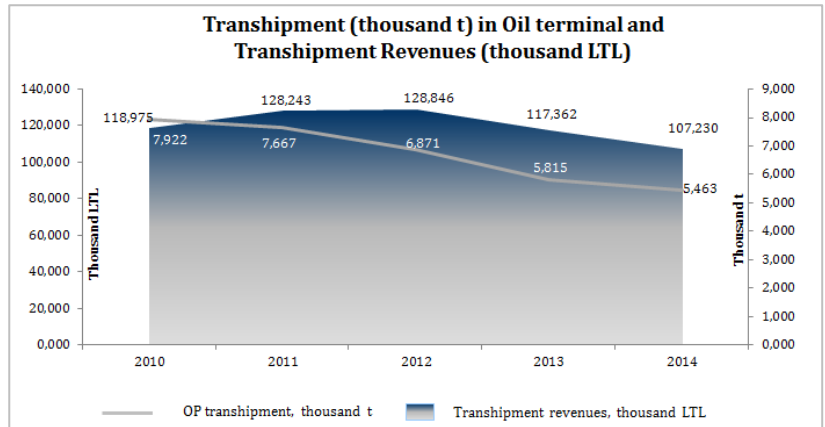
Oil products transit from Belorussia and Russia oil refineries through the Terminal comprised 1,872 thousand t, comparing with 2013 (1,998 thousand t), they decreased for 6 per cent (in the first half of 2014 these flows have decreased for 43 per cent.). In 2014 the Company and Litasco S.A. has extended the services contract (till the 30 September 2015) regarding for transshipment up to 2.7 million tons of dark oil products per year with applying "take-or-pay" conditions. In case of unstable oil products market, the Company applying "take-or-pay" conditions ensures its stable revenue from the main activity, even if transshipment is not performed or storage tanks are not loaded with oil products. By applying this principle the Company seeks to negotiate the maximum quantity to be delivered at the terminal and also addressing the guarantees that, if products are not delivered as agreed, the certain fee has to be paid by the client.

At the end of 2014 the Company concluded the agreement with the same client on the transshipment of additional HFO product - vacuum gasoil through the Company's terminal; the product is delivered from Russia OPP; for the last time it was loaded at the beginning of the year 2013. Total volume of vacuum gas oil transhipped to vessels in 2014 reached 62 thousand t.



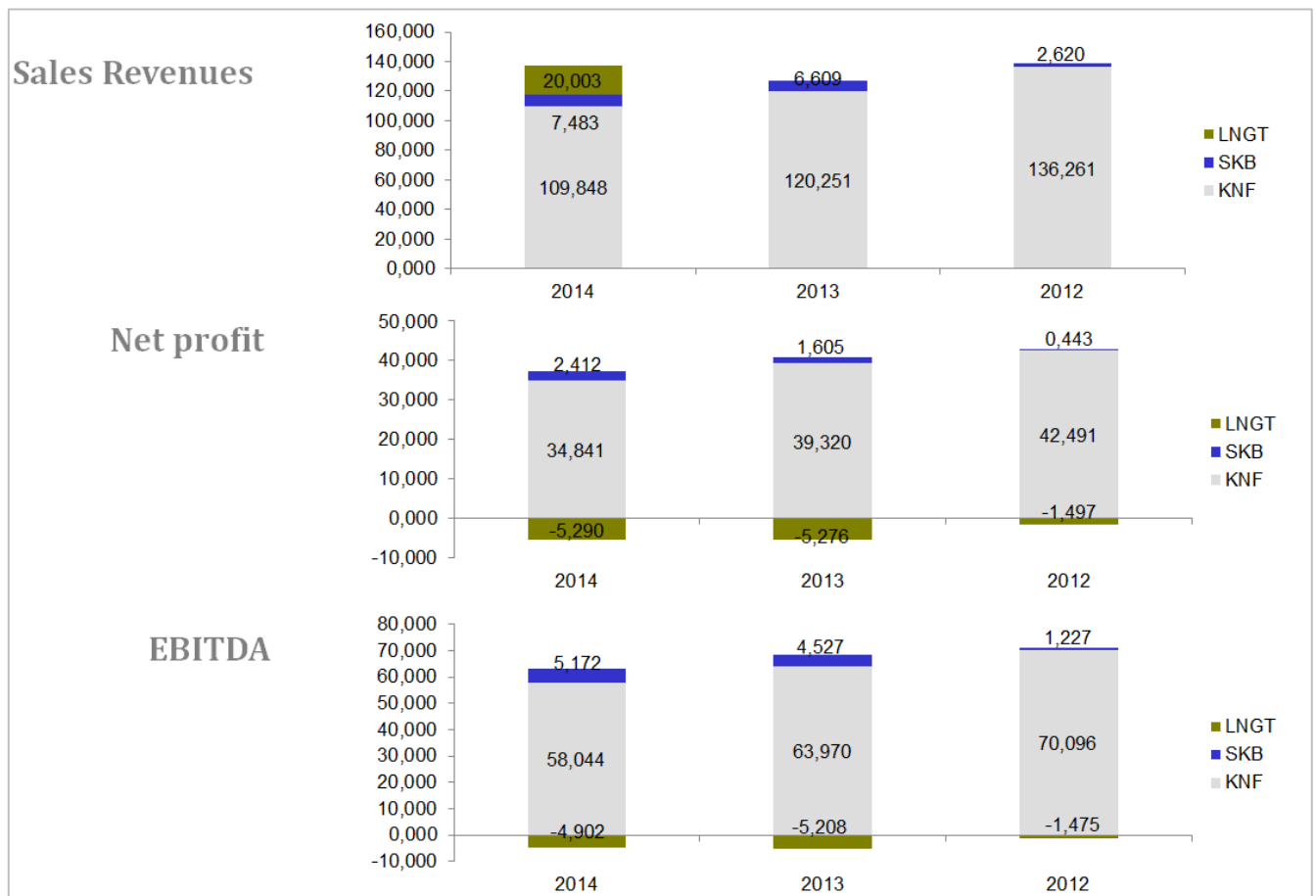
Sales revenues of the Company in 2014 amounted to LTL 137,334 thousand, comparing with 2013 (LTL 126,860 thousand), and increased for LTL 10,474 thousand (or 8 per cent) due to the LNGT operating income. Without LNGT incomes, overall decrease of revenue in 2014 (due to decreased transshipment of oil products) comprised 7.5 per cent or LTL 9,529 thousand.

Revenues of Oil terminal decreased by LTL 10,403 thousand, the decrease amounted to LTL 10,132 thousand was caused by the decreased transshipment of oil products in 2014 comprising LTL 107,230 thousand (in 2013 – LTL 117,362 thousand). Other transshipment related revenues decreased by LTL 273 thousand (due to declined number of vessels reduced mooring and other income).



During the period up to the end of the December 2014, the Liquefied Natural Gas (LNG) terminal has accepted two LNG carriers delivered 109 thousand t (241 thousand m<sup>3</sup>) of LNG, regasified and transmitted to the natural gas transmission system 45 million nm<sup>3</sup> of natural gas. Revenues of the LNG terminal amounted to LTL 20,003 thousand; these revenues include minimum operating costs of the LNG terminal and partial recovery of investment in the LNG terminal's infrastructure.

As mentioned before the activity of SC Klaipedos Nafta is divided into the segments: Oil terminal (KNF), Subacius fuel storage facility (SKB), and the Liquefied Natural Gas Terminal (LNGT). Importance of each segment in the achieving of particular financial results of Company's activities is provided herein:

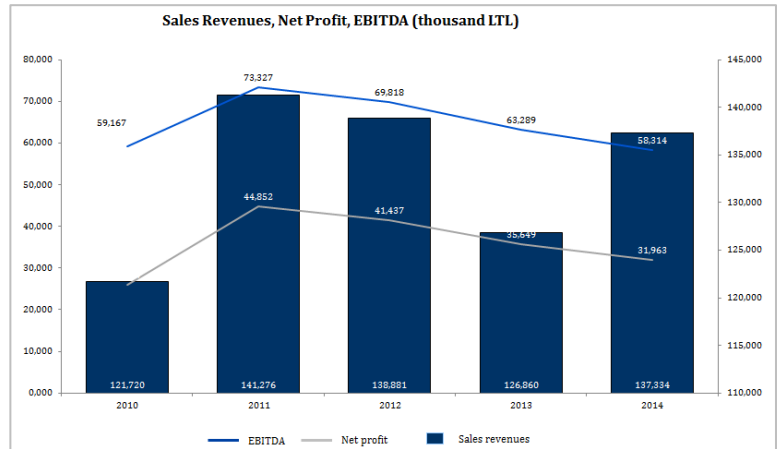


Sales revenues of the SKB in 2014 increased by 13 per cent (LTL 874 thousand) caused by the increase in accrued revenue, although the activity of the SKB has not changed. Due to the reorganizational changes, related to the takeover of fire safety functions and additional personnel, repair and other costs increased in 2014.

Nevertheless the first income gained from LNG Terminal operation, total results still remains negative. The main reason of its occurrence is rather short profitable operation of the LNG terminal (slightly exceeding one month) and particular expenditures faced during the preparation LNGT operation when no income received. Information about the services of the LNG terminal operator is provided in the part dedicated to the LNG terminal.

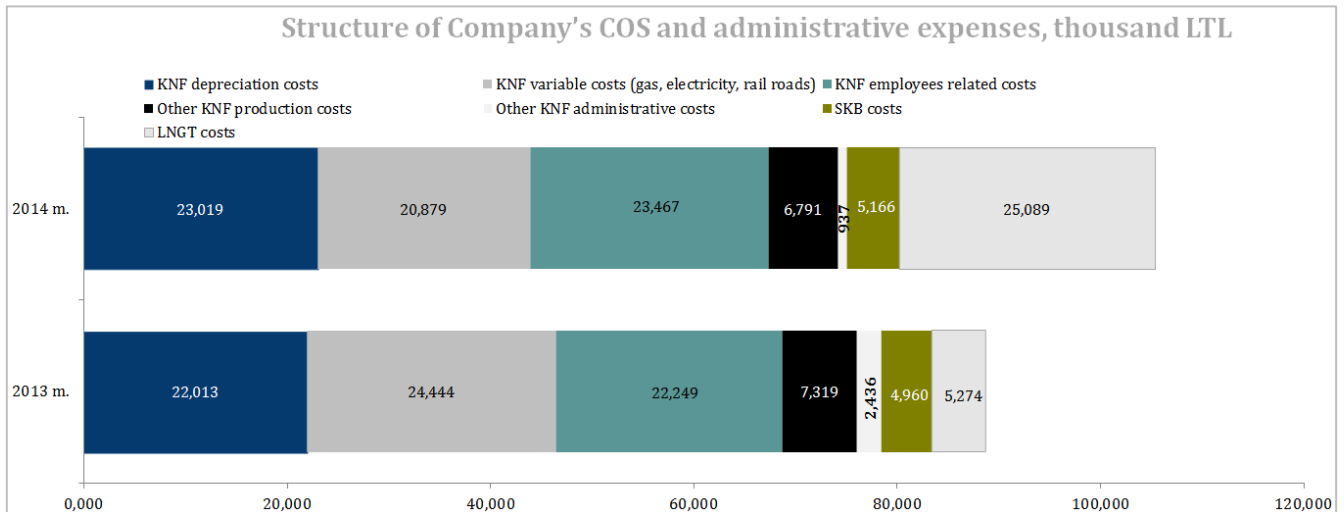
Net profit of SC Klaipedos Nafta for 2014 amounted to LTL 31,963 thousand a decrease of 10 per cent or LTL 3,686 thousand comparing with the net profit for 2013 (LTL 35,649 thousand). Decreasing of net profit in 2014 was influenced by the main factor - less oil transshipment and storage revenue. All transshipment and storage revenue of Klaipeda oil terminal decreased LTL 10,130 thousand.

Profit of the 2014 before taxes, interest margin, depreciation and amortization (EBITDA) seeks LTL 58,314 thousand and decreased 8 per cent or LTL 4,975 thousand compared to the 2013 (LTL 63,289 thousand). Lt. However, the EBITDA margin remained at a rather high level in spite of increased income - 42.5 per cent (in 2013 - 50 per cent)



Cost of sales in 2014 (LTL 91,931 thousand) increased 21 per cent or LTL 15,842 thousand comparing with 2013 (LTL 76,089 thousand) due to the commencement costs of the LNGT operation at the very end of 2014.

Major LNGT costs in 2014 comprised lease payments for the LNG vessel-storage (FSRU) "Independence", wage costs, land and jetty rental costs; the overall LNGT costs in 2014 increased up to LTL 25,089 thousand. The figure below demonstrates detailed information about changes in costs faced by the Company.



Depreciation costs of oil terminal have slightly increased in 2014 (LTL 1,004 thousand or 4.6 per cent) and comprised LTL thousand 23,019; the increase of costs is directly related to the investments implemented in 2013-2014 m. Gas, electricity and rail costs (main variable costs of the Company) decreased for LTL 3,565 thousand or 14.6 per cent (under the 6 per cent transshipment decrease). This major decrease in 2014 has been preconditioned by the decreasing transshipment of HFO requiring larger energy resources, also reduced gas price, cost control and other factors. Despite the increased wage and other employees related costs (+5.5 per cent of LTL 1,218 thousand) in 2014, the Company expects reduction of these costs in the future. During the last year the oil product volumes were subjected to noticeable decrease, for this reason management of the Company introduces particular means in order to boost the efficiency of terminal operations oriented towards the minimisation of oil terminal costs. Consequently, prime costs and administrative costs of the Company were reduced.

Overall operating expenses of all three segments of the Company increased by LTL 811 thousand (6 per cent) and comprises LTL 13,417 thousand.

The result (loss) of financing and investment activities of the Company reached LTL -983 thousand (including the share of the associate's net loss), i.e., result on the financing and investing activities decreased by LTL 903 thousand due to the negative result of the associated companies accounted under the equity method. Loan interest expenses have been capitalized on the value of the construction in progress.

Summarizing financial results of the Company's activity in 2014 they are considered to be very good although a little worse compared to 2013. However, commencement of new activity (operator of the LNG Terminal) shall be considered as an opportunity to raise economic benefits as late as in 2015. The net profit margin (in spite of increased revenues) reached 23 per cent, the gross profit margin - comprise 33 per cent (in 2013 - 40 per cent), profit margin before taxes and interests comprise 24 per cent (in 2013 - 30 per cent). Earnings per share is LTL 0.08 Lt/share (in 2013 - LTL 0.09 /share).

Due to the decrease of deferred tax liability recorded for the 2014, the corporate income tax costs have turned to the positive ones and formed LTL 651 thousand (in 2013 costs reached LTL 2,680 thousand). Corporate income tax of the current year amounts to LTL 2,828 thousand.

Return on capital of the Company in 2014 comprises 5.4 per cent, return on assets – 4.4 per cent. The decrease in return on assets is related with the significant investments made into the LNG terminal.

In 2014 the Company increased its non-current assets to LTL 653,380 thousand; the growth is LTL 129,699 thousand or 24.8 per cent. The main reason of changes occurred is an increase in volume of non-current assets (property, plant and equipment) related to the LNGT Project. In 2014 property, plant and equipment increased for LTL 112,626 thousand up to LTL 631,276 thousand. In total the Company invested in the fixed assets of the LNG terminal LTL 132,636 thousand, less investment amount were dedicated to oil terminal and SKB, LTL 4,050 thousand and LTL 1,874 thousand accordingly.

In 2014 investment in associated companies increased LTL 13,159 thousand and reached LTL 14,148 thousand due to the investment in dedicated LNG supplier – JSC LITGAS.

Current assets in 2014 decreased by LTL 39,293 thousand due to cash balance reduction and comprised LTL 112,860 thousand (minus 25.8 per cent) as at reporting period end. Category ‘other receivables’ stands apart all categories of current assets, because it comprises accrued income of the LNG terminal for the December 2014. Notwithstanding the decrease of current assets, total liquidity ratio shows particular growth and forms 2.05, i.e., exceed current assets for more than 2 times. Current assets comprise 14.7 per cent (while cash and cash equivalents 4.9 per cent) of the total assets of the Company as at 31 December 2014.

Calculated turnover of receivables at the end of the year – 17 days and less, which is lower than the value set for 2013 (32 days), since calculation of the ratio exclude LNGT incomes form the receivables (LTL 20,003 thousand) which has been added at the very end of the year.

Changes in equity in 2014 were related to the payments of dividends for the past year, reallocation of reserves and transfer of the result of previous year being the unallocated profit. Unallocated profit as of the end of 2013 has been distributed as dividends (LTL 357 thousand), statutory reserve and other reserves. Equity at the end of 2014 was 78.7 per cent of the overall assets of the Company (in 2013 - 85 per cent). Detailed information about share capital provided in the chapter “INFORMATION ABOUT SHAREHOLDERS AND SHARES OF THE COMPANY”.

Long-term liabilities of the Company at the end of 2014 increased up to LTL 107,923 thousand (in 2013 LTL 58,984 thousand) due to the increased value of a loan granted by the European Investment bank. At the end of the year loan value was LTL 103,004 thousand (at the end of 2013 – LTL 51,212 thousand).

Changes in current liabilities of the Company is directly related to the increase of debts to suppliers and takes LTL 55,060 thousand by the end of the year (at the end of 2013 – LTL 45,199 thousand). Trade debts and other short-term payable sums and obligations (which are basically deemed as payable for services with not received invoices) on 31 December 2014 the total amount was LTL 50,009 thousand and showed LTL 9,805 thousand increase. Those debts are mainly related to the procurement of test cargo for the LNG terminal and debts of FSRU leasing payments.

## Key financial and operating figures

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

| <b>Operating figures</b>  | <b>2014 12 31</b> | <b>2013 12 31</b> | <b>2012 12 31</b> |
|---|-------------------|-------------------|-------------------|
| Transshipment of oil products (thousand tons)                           | 5,501             | 5,863             | 6,905             |
| Investments (acquisitions of PP&E including transfers from inventories) | 138,561           | 98,954            | 35,073            |
| <i>Oil terminal</i>   | 4,086             | 34,754            | 12,655            |
| <i>Liquefied natural gas terminal</i>                                   | 133,181           | 63,919            | 22,418            |
| <i>Subacius fuel storage facility</i>                                   | 1,294             | 281               | -                 |
| <b>Financial figures</b>  |                   |                   |                   |
| Sales revenue   | 137,334           | 126,860           | 138,881           |
| Gross profit  | 45,403            | 50,771            | 57,545            |
| EBITDA  | 58,314            | 63,289            | 69,818            |
| EBIT  | 32,295            | 38,409            | 46,919            |
| Financial and investment activities                                     | (983)             | (80)              | 1,839             |
| Profit before taxation  | 31,312            | 38,329            | 48,758            |
| Net profit  | 31,963            | 35,649            | 41,437            |
| Fixed assets  | 653,380           | 523,681           | 447,650           |
| Current assets  | 112,860           | 152,153           | 112,360           |
| Total assets  | 766,240           | 675,834           | 560,010           |
| Shareholders' equity  | 603,257           | 571,651           | 536,412           |
| <b>Profitability</b>  |                   |                   |                   |
| Return on assets (ROA)  | 4.4%              | 5.8%              | 7.7%              |
| Return on equity (ROE)  | 5.4%              | 6.4%              | 15.3%             |
| Gross profit margin   | 33%               | 40%               | 41%               |
| EBITDA margin   | 42%               | 50%               | 50%               |
| EBIT margin   | 24%               | 30%               | 34%               |
| Net profit margin   | 23%               | 28%               | 30%               |
| <b>Turnover</b>   |                   |                   |                   |
| Accounts receivable. days   | 17                | 32                | 36                |
| Accounts payable. days  | 66                | 49                | 20                |
| <b>Financial structure</b>  |                   |                   |                   |
| Debt ratio  | 0.27              | 0.18              | 0.04              |
| Capital to assets ratio   | 0.79              | 0.85              | 0.96              |
| Gross liquidity ratio (current ratio)                                   | 2.05              | 3.37              | 11.69             |
| <b>Market value ratios</b>  |                   |                   |                   |
| Share price to earnings per share ratio (P/E). times                    | 12.7              | 10.8              | 11.7              |
| Net profit per share (EPS). LTL   | 0.08              | 0.09              | 0.11              |

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

EBIT = earnings before interest and taxation.

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

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

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

Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

## Key figures of the last 5 years

| <b>Operating figures</b>                    | <b>2014 12 31</b> | <b>2013 12 31</b> | <b>2012 12 31</b> | <b>2011 12 31</b> | <b>2010 12 31</b> |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Transshipment of oil products (thousand, t) | 5,501             | 5,863             | 6,905             | 7,667             | 7,922             |
| Sales revenue                               | 137,334           | 126,860           | 138,881           | 141,276           | 121,720           |
| Net profit                                  | 31,963            | 35,649            | 41,437            | 44,852            | 26,067            |

## ACTIVITY PLANS AND FORECASTS

Goals of SC Klaipedos nafta for 2015 are related to the implementation of Company's strategy. The following goals are set for the upcoming year:

- To conduct safe, efficient activities of the LNG Terminal operator;
- To maintain high oil products transshipment and profitability level in 2015;
- To seek to operate in a safe and proper manner, ensuring maximum compliance with the requirements set for the operation of terminals;
- To accelerate implementation of LNG low capacity distribution plant project in 2015 (see the description of the LNG low capacity distribution plant project implementation);
- To continue investment in mobility and efficiency of the Company and safety of the Terminal.

At the end of 2014 when the operation of first Liquefied Natural Gas Terminal in Baltic States has been commenced, SC Klaipedos Nafta gained the status of the LNG terminal operator. Since then Lithuania and neighbour countries occurred an opportunity to get required quantities of natural gas through the terminal, and the gas market players to use the LNG terminal for LNG transshipment and regasification. The main goal of the Company to be achieved in 2015 while conducting activities of the LNG operator is to ensure safe, smooth and efficient transshipment and regasification of minimum LNG quantities of the appointed natural gas supplier (planned quantity for January – September 2015 is 373,990,039 nm<sup>3</sup>). The Company is willing to transship and regasify LNG of all concerned clients to the extent acceptable to the technical capacities of the terminal.

In 2015 the Company is going to continue active participation at the oil market, implementation of technically and economically sound investment policy. In case of unstable oil products market in 2015 the Company will make efforts in order to keep the same level of oil products transshipment as in 2014. Main oil products transshipment revenues will be gained under the long-term agreement with SC Orlen Lietuva (up to 2024 m.) and the results of the year will be based on the production volumes of this company at most. The agreement with Switzerland Company Litasco S.A valid through 30 September 2015 will ensure at least minimum revenues as well as extended for additional two years (up to the end of 2016) cooperation with JSC Neste Lietuva, representing Finnish corporation Neste Oil regarding the transshipment of gasoline and diesel fuel.

In order to maintain the same level of oil product transshipment the Company will look for new opportunities to keep stable high level incomes. It is determined that in 2015 the Company will negotiate with potential clients about oil product transshipment, paying special attention to the LOP. Particular one time transshipment services under the short-term agreements will be provided. The Company will focus on Companies managing oil products from Belarus refiners. From the other side, the Company will continue to look for possibilities for optimization of the activity in order to adapt to transshipment flows as much effectively as possible and to maintain the high level of profitability.

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

In 2015 the Company plans to invest about LTL 30 million distributing them as follows:

- ✓ To invest LTL about 16 million in the initiation of construction of LNG low capacity distribution plant project;
- ✓ To invest LTL about 5 million in the procurement of additional technical and operational facilities for LNGT (procurement of protection, document management, production management systems);
- ✓ To invest LTL about 8 million in the procurement of equipment for the oil terminal (installation of fire protection system hydrocarbon detectors, HFO heat exchangers, installation of additional pipe junctions, procurement and renovation of IT systems/programmes, etc.);
- ✓ To invest LTL about 1 million in renovation of fire protection equipment and measures and reconstruction of control equipment of Subacius fuel storage facility.

### Works of LNG Distribution Station Project Implementation

Interest of market players paid to the opportunity to load LNG from Klaipeda LNG terminal to LNG auto carriers has forced SC Klaipedos Nafta to initiate new infrastructure project – LNG distribution station. It is anticipated that LNG distribution station will be constructed along the 1 and 2 jetties of the oil terminal by the end of 2016. It is planned that maximum capacity of the LNG distribution station will be equal to 5,000 m<sup>3</sup>.

LNG transported in auto carriers could be used for the following purposes:

- ✓ as an energy source to be supplied to consumers that are not connected to the natural gas distribution grid;
- ✓ as a fuel for heavy ground transport (trucks, buses, etc.);
- ✓ as a ship fuel.

### Performed Works

In July 2014 SC Klaipedos Nafta received the support granted by the European Union under the financing programme TEN-T "Motorways of the Sea" for the execution of preparatory works within the scope of LNG distribution station construction project, included:

- ✓ technological concept, including conceptual risk analysis preparatory works;
- ✓ technical specification of contractual works including development of preliminary design solutions and preparatory works for qualitative analysis;
- ✓ development of environmental impact assessment documentation and preparatory works for detailed plan corrections.



In August 2014 SC Klaipėdos Nafta initiated public market consultations on LNG distribution station capacity requirements. 11 companies from Lithuania, Latvia, Estonia, Poland and Germany applied for market consultations. 7 companies submitted preliminary proposed volumes for future transshipment. According to the data gained in the course of market consultations, the LNG distribution station within first four operation years could transship up to 270,000 m<sup>3</sup> of LNG.

On 8 December 2014 SC Klaipėdos Nafta signed the agreement with Sofregaz S.A. and JSC Baltic Engineers for the execution of preparatory works.

#### Works planned for 2015

- It is planned that in June 2015 the Company would complete the development of predesign solutions of the LNG distribution station.
- In June – July 2015 the Company plans to obtain support from the European Union under the financing programme TEN-T “Motorways of the Sea” to be allocated for the infrastructure of the LNG distribution station.
- In August – October 2015 it is planned to sign an agreement with a contractor for execution of construction works.

## INVESTMENTS IN 2014

### Investments in Oil Terminal and Subacius Fuel Storage Facility

The main focus in 2014 was directed to the completion of ongoing projects. Total investments in 2014 reached LTL 4,086 thousand:

- In 2014 finished reconstruction of the storage tank park of HFO tanks park: construction of the two new universal storage tanks each 32,250 m<sup>3</sup> instead of the existing 4 old tanks. This investment allowed to expand technological capacities of the Company by increasing the Company’s overall capacity of tanks (a total increase is 44,500 m<sup>3</sup>) and to enlarge technological flexibility by enabling to store both light and heavy oil products in the new storage tanks. Moreover, new tanks are environment-friendly and reduce electric energy consumption. Total amount of investments in 2014 reached LTL 1,110 thousand.



- LTL 1,188 thousand was assigned for continuation of automatic works of modernisation of fire safety system. This Project is intended for upgrading and modernisation of mechanical and automatic parts of the fire safety system in order to get as much reliability of operation of fire safety system as possible.
- In 2014, SC Klaipėdos Nafta implemented important project for petroleum products import and distribution by auto vehicles – new additional loading arm at technologic point for fuel filling into auto vehicles has been installed. Due to this additional equipment it is possible to fill in vehicles with fuel much faster and quantity of imported fuel into Lithuanian market through Klaipėda terminal might be increased significantly if necessary. Value of the investment amounted to LTL 452 thousand. The terminal of the company is now able to fill in 3 fuel vehicles at one time and to load more than 2000 t of fuel into auto carriers within one day.
- The Company also invested LTL 1,336 thousand in reconstruction and acquisition of other machineries and production equipment (procured/updated hardware, software, cesspoolage truck, pumps, other production equipment).

While implementing environment protection and fire safety requirements as well procuring new equipment at Subacius fuel storage facility in 2014 investments to the amount of LTL 1,294 thousand were made:

- In the 2<sup>nd</sup> half of 2014 the Company invested in reconstruction of cleaning facilities: new and effective cleaning facilities were built, metering equipment connected and new pipelines installed. This investment will ensure the required purification level of discharged water and removal of oil particles and other pollutants. The Company has submitted an application form for granting this investment from the Environmental Protection Investment Fund of the Republic of Lithuania under the waters protection financing programme. Total value of the investment in 2014 amounted to LTL 444 thousand; the overall value of this project will reach LTL 500 thousand.



- From 2014, in accordance with legal acts the Company is obliged to establish departmental forces for implementation of SKB fire safety functions on its own account. Previously these functions have been performed by the Subacius team of the Panevezys region Fire Protection and Rescue Department. Therefore, in 2014 it was necessary to acquire fire safety vehicles with hoses and foam formers and other fire safety mechanisms, and the total expenses amounted to LTL 478 thousand.
- Other investments in SKB include the modernisation of tanks-storages, repair of protection systems, dosing equipment for oil product additives and amounts to LTL 372 thousand.

#### Works of LNGT project implementation

Within 12 months of 2014 investments into the non-current assets of LNGT amounted to LTL 133,181 thousand (in total up to 31 December 2014 invested LTL 229,489 thousand). Construction works at the terminal's jetties and at four (out of five) gas pipeline sections were completed. Works are ongoing at the second pipeline section, including section of the gas pipeline laid under the bottom of Curonian lagoon from the terminal to the shore of Curonian lagoon. This section of the gas pipeline is being constructed applying horizontal directional drilling technology, it is anticipated that construction works will be completed by the end of 2015. While carrying out the abovementioned construction works functioning of the terminal is ensured by temporary gas pipeline section laid applying trenching. Up to the completion of construction works (within 2015) the Company plans to invest about LTL 20 million in the construction of the second segment.

Main works related to implementation of LNGT project in 2014 included:

|                  |   |
|------------------|---|
| 25 February 2014 | LNGT pipeline construction permit for construction from LNG ship – storage unit to high pressure arms was issued.   |
| 28 February 2014 | HDD drilling from jetty to Kiaules nugaros island and immersing of 600 m gas pipeline string.   |
| 27 March 2014    | 178 piles for gas metering station were installed.  |
| 28 March 2014    | Jetty mooring base system (Quick release hooks, Berthing AID display board and components of automatic system).   |
| April 2014       | Mounting of facade plates of jetty's service platform was completed.  |
| 10 April 2014    | 600 m HDD works under Wilhelm channel for installation of optical cable were completed.   |
| 10 April 2014    | Wall traveling crane is delivered to construction site.   |
| 11 April 2014    | Novation agreement of LNG vessel – storage unit with Höegh LNG was signed.  |
| 12 April 2014    | After all testing works at shipyard and elimination of defects were completed, on 12 of May, Höegh LNG officially took over FSRU ship from Hyundai Heavy Industries shipyard. |
| 18 April 2014    | Rules for Terminal usage were approved.   |
| 30 April 2014    | Start of capacities distribution procedure.   |
| 13 May 2014      | HDD pilot drilling (600 m distance under Wilhelm channel) for gas pipeline drill hole was completed.  |
| 15 May 2014      | 2032 m HDD for installation of optical cable was drilled (total 2300 m length).   |
| 15 May 2014      | 16.7 km from 18 km of connective gas pipeline pipe was welded and fixed into entrenchment.  |
| 21 May 2014      | Completed top slab of Service platform (SP).  |
| 24 May 2014      | High pressure loading arms (HPLA) are delivered to construction site.   |
| 4 June 2014      | Valve stations No.1 and No.2 connected to the gas pipeline.   |
| 9 June 2014      | Completed installation of casings - closed trench (19 pcs.) under roads.  |
| 10 June 2014     | 2270 m HDD FOC Pipe was pulled in (total 2300 m length)..   |
| 19 June 2014     | Two diesel-eletric generators delivered to the construction site.   |
| 26 June 2014     | Atmospherical steel tanks, foam concentrate tanks and Ship-Shore Link are delivered to the construction site.   |
| 27 June 2014     | High Pressure Loading Arms are prepared for transportation to the installation place on High pressure gas platform (HPGP).  |
| 1 July 2014      | Completed top slab of HPGP.   |
| 14 July 2014     | Installed two High Pressure Loading Arms on High Pressure Gas Platform.   |
| 17 July 2014     | HDD gas pipeline pilot drilling was completed (connecting gas pipeline segment of 2400 m).  |
| 19 July 2014     | Completed 28" intermediate 600 m HDD gas pipeline borehole reaming under Wilhelm canal.   |
| 22 July 2014     | Completed top slab of mooring dolphin MD-4.   |
| 23 July 2014     | Completed floor concreting on High Pressure Gas Platform.   |

|                        |   |
|------------------------|---|
| 28 July 2014           | The Company signed special terms of the LNG supply agreement with JSC LITGAS.   |
| 1 August 2014          | The Company signed the LNGT service agreement with JSC LITGAS and completed LNGT capacity allocation process.   |
| 13 August 2014         | Completed infrastructure works of Valve stations No.1 and No.2.   |
| 13 August 2014         | Completed 42" 600 m HDD gas pipeline borehole reaming under Wilhelm canal. Ongoing borehole calibration works.  |
| 16 August 2014         | Installed monitor tower with access gangway system.   |
| 19 August 2014         | 600 m HDD gas pipeline pull in under Wilhelm canal.   |
| 20 August 2014         | Completed top slab of mooring dolphin MD-5 and MD - 6.  |
| 22 August 2014         | Installed engines of firefighting pumps and Wall traveling Jib Crane.   |
| 26 August 2014         | Completed 30" intermediate 2300 m HDD gas pipeline borehole reaming.  |
| 29 August 2014         | Completed floor concreting on mooring platforms BD - 1, BD - 2 and BD - 3.  |
| 16 September 2014      | On the jetty installed firefighting foam tanks and navigation sign.   |
| 21 September 2014      | Completed top slab concreting of mooring dolphin MD - 1 and MD - 2.   |
| 22 September 2014      | Team of production staff (20 persons) have successfully completed training and was certified in accordance with the certification scheme for categories of personnel in energy sector approved by the State Energy Inspectorate under the Ministry of Energy. |
| 24 - 25 September 2014 | Organised practical training on navigation of LNG vessels in Klaipeda port using real-time simulator in Lithuanian Maritime Academy.  |
| 25 September 2014      | NCC approved new revision of Rules for Use of the Liquefied Natural Gas Terminal.   |
| 27 September 2014      | Connected flange connection between the underwater and HDD gas pipeline parts.  |
| 28 September 2014      | Installed transition bridges between all facilitates of hydrotechnical part.  |
| 30 September 2014      | Installed mooring systems, quick release hooks, mooring platforms and dolphins.   |
| 30 September 2014      | Organised Emergency management and rescue training in SC Klaipedos Nafta LNG terminal.  |
| 1 October 2014         | Main equipment installed on a jetty.  |
| 6 October 2014         | Agreed recommendations of work group of the Ministry of Economy regarding the accounting of imported liquefied natural gas.   |
| 10 October 2014        | Performed mechanical fastening of quick release hooks.  |
| 10 October 2014        | Agreed and approved Annual Service Schedule sent to JSC LITGAS for signing.   |
| 14 October 2014        | Approved general annual regasification schedule of the Terminal for 2015 Gas Year and Available Instant Terminal Capacities uploaded to the Web-site www.sgd.lt.  |
| 14 October 2014        | State Energy Inspectorate issued SC Klaipedos Nafta a certificate providing the right to operate the natural gas facilities.  |
| 16 October 2014        | Connected to the main gas pipeline grid (to the SC Amber Grid).   |
| 20 October 2014        | Performed partial mechanical testing on the jetty.  |
| 21 October 2014        | Received construction completion statement for the jetty.   |
| 27 October 2014        | FSRU Independence entered and moored to the LNG jetty.  |
| 27 October 2014        | Organised international conference in order to celebrate LNG Terminal's opening procedure and increase dissimulation of information on LNG importance to region and country.  |
| 28 October 2014        | Golar Seal gas carrier delivered LNG load.  |
| 28 October 2014        | New revision of the Description of Natural Gas Accounting Procedure, approved by the Decree No. 1-255 of the Minister of Energy on 14 October 2014 became efficient.  |
| 31 October 2014        | Draft of JSC LITGAS monthly schedule was received and its approval initiated.   |
| 31 October 2014        | Completed LNG transshipment works. 100.000 m <sup>3</sup> of LNG loaded to the terminal.  |
| 12 November 2014       | Corrected JSC LITGAS monthly schedule was received.   |
| 24 November 2014       | Final testing by filling FSRU was performed.  |
| 25 November 2014       | Jetty was entered into operation.   |
| 25 November 2014       | Received KTP 1 and KTP 3 construction completion statements.  |
| 3 December 2014        | Performed elimination of minor defects and system adjustment works at separate gas pipeline sections KTP 1, KTP 3, KTP 4 and - KTP 5  |

| 4 December 2014  | Received KTP 4 and KTP 5 construction completion statements.  |   |
|--|---|---|
| Legal acts adopted for implementation of LNGT project during 2014: |   |   |
| Date   | Legal act   | Effect on the LNGT project  |
| 31 January 2014  | The NCC Resolution No. 03 - 35 "On coordination of rules for usage of SC Amber Grid natural gas transmitting system"  | Guidelines for communication of LNG system's operator with PSO and information exchange provisions are provided.  |
| 10 February 2014   | Resolution of the Minister of Energy on assignment of JSC LITGAS as assigned supplier.  | JSC LITGAS was approved as assigned supplier, who will have to ensure continuous activity of LNGT. JSC LITGAS will supply to LNGT minimum required amount of natural gas, i.e. 540 million cubic meters per year, which is necessary for maintaining continuous activity of LNGT.   |
| 17 February 2014   | Resolution of the Minister of Communications No.3 - 70 -(E) "On approval of rules for usage of Klaipeda State Seaport Authority"  | Requirements for LNGT were established.   |
| 7 April 2014   | Resolution on replacement of the order of the Minister of Communication of the Republic of Lithuania No. 3-246 "On application of rules for charges of Klaipeda State Seaport Authority" dated 30 June 2008   | A charge for floating LNG storage unit mooring at the jetty lasting longer than one month and a charge of tonnage of floating LNG storage unit payable monthly is included.   |
| 8 April 2014   | Replacement of Resolution No. 534 "On approval of provisions of real estate cadastre" (Registry of Legal Acts, 07/04/2014, No. 2014 -04139)   | After provisions of Real estate cadastre were replaced, it became more simpler to register special conditions of land usage into the Registry of Real estate  |
| 14 April 2014  | NCC Resolution No. 03 - 103 "On coordination of Rules for Use of the Liquefied Natural Gas Terminal" (Registry of Legal Acts, 15/04/2014, No. 2014 - 04458)   | Rules establish the procedure and conditions of use of the liquefied natural gas (hereinafter referred to as LNG) terminal, requirements for persons that intend to use the LNG terminal, their rights, duties and liability, as well as other special requirements, related to the activities of the LNG terminal and its use for bringing LNG and unloading it to the LNG terminal, regasifying LNG and delivering it to the natural gas transmission system or transshipping it onto LNG carriers. |
| 14 April 2014  | NCC Resolution No. 03 - 104 "On Resolution No 03-367 "On the Change of the Resolution No. 03-367 „On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section“ of September 13, 2013 of the National Commission for Energy Control and Prices" (Registry of Legal Acts, 15/04/2014, No. 2014-04457) | Principles and order of determination of natural gas liquefaction price upper limit were specified in this methodology. Besides, methodology is supplemented with order and provisions of calculation of natural gas terminal transshipment service price, which regulate order of price calculation of assigned supplier's natural gas.  |
| 23 April 2014  | Resolution of the Government No. 372 "On dividends of stock company Klaipedos nafta (Registry of Legal Acts, 29/04/2014, No. 2014 - 04922)  | The Ministry of Energy as Manager of the Company's shares was assigned to entitle its representative at the General Meeting of Shareholders to propose a decreasing of a part of the 2013 Company's distributable profit dividends to 1 percent and to vote for it.   |
| 23 April 2014  | Resolution of the Minister of Energy No. 1-94 "On the Change of the Resolution of the Minister of Energy of the Republic of Lithuania No. 1-245 December 27, 2013 "On the Approval of accounting policies of natural gas"   | Resolution clarifies provisions on natural gas accounting related to LNGT activity.   |
| 29 April 2014  | NCC Resolution No. 03 - 111" On coordination of conditions of standard contracts on energy producers and assigned supplier" (Registry of Legal Acts, 30/04/2014, No. 2014 - 04937)  | This Resolution coordinates Natural gas purchase-selling contracts conditions of energy producers and assigned supplier, on the grounds of which energy producers first of all purchase an amount of natural gas transported through LNGT, corresponding LNGT required amount. This Resolution establish rights and obligations of the parties, order and conditions  |

| Date         | Legal act  | Effect on the LNGT project  |
|--------------|--|---|
|              |  | of distribution of LNGT required amount for energy producers, order of price establishment and payment for supplied gas.  |
| 22 May 2014  | Resolution of the Government No. 463 "On the Change of the Resolution of the Government No. 543 May 11, 2011 "On the conclusion of the commission for the liquefied natural gas project implementation" (Registry of Legal Acts, 26/05/2014, No. 2014-05653)   | This Resolution changes the conclusion of commission of liquefied natural gas terminal project implementation and clarifies functions of it.  |
| 26 May 2014  | Resolution of the Minister of Energy No. 1-138 on "On the Resolution of the Minister of Energy of the Republic of Lithuania No. 1-194 October 4, 2013" "On approval of quality requirements of natural gas"  | This Resolution changes the provisions of quality of natural gas.   |
| 18 June 2014 | Resolution of the Minister of Energy No. 1-160 "On the Approval of admissible loss calculations in liquefied natural gas terminal" (Registry of Legal Acts, 23/06/2014, No. 2014-09063)  | Resolution determines calculation of admissible loss rate of liquefied natural gas terminal and general conditions of assignment.   |
| 7 July 2014  | Resolution of the Minister of Communications No. 3-274-(E) "On the Change of Resolution of the Minister of the Communications No. 3-327 September 10, 2008 "On approval of rules for usage of Klaipeda State Seaport Authority" (Registry of Legal Acts, 07/07/2014, No. 2014-09869)   | Necessary regulation of provisions implementing LNGT and LNG gas carrier in Klaipeda State Seaport.   |
| 22 July 2014 | Resolution of the Government "On the Change of the Resolution of the Government No. 199 February 15, 2012 "On the Change of the Law of liquefied natural gas of the Republic of Lithuania implementation" (Registry of Legal Acts, 28/07/2014, No. 2014-10564)   | It was stated that all questions related to implementation of LNGT project have status of urgency, also seeking implementation of LNGT purposes and continuity of the project, organisational conditions were approved in order to ensure LNGT will effectively work from the start of operation.                             |
| 22 July 2014 | Resolution of the Government No. 724 "On the Change of Resolution of the Government No. 534, April 15, 2002 "On approval of provisions of real estate cadastre of the Republic of Lithuania" (Registry of Legal Acts, 25/07/2014, No. 2014-10536)  | The result of the change of provisions of real estate cadastre was that it was easier to perform procedures of real estate measurements and registration at real estate cadastre.   |
| 28 July 2014 | NCC Resolution No. 03-353 "On the Change of the Resolution of NCC No. 03-294 October 9, 2012 "On the Approval of the description of the procedure for administration of the funds designated for compensation of the LNGT's infrastructure and the link and for compensation of all or part of operation costs of the LNG terminal" (Registry of Legal Acts, 29/07/2014, No. 2014-10562) | Resolution changes the amount from Litass to the amount in Euros.   |
| 28 July 2014 | NCC Resolution No. 03-226 "On the Change of the Resolution of NCC No. 03-316 July 18, 2013 "On the Approval of Natural gas companies accounting separations, allocations of costs and description of requirements related to accounting separations" (Registry of Legal Acts, 28/07/2014, No.2014-10569)   | Natural gas companies accounting separations, allocations of costs and description was supplemented by provisions related to implementation of natural gas diversification procedure.   |
| 28 July 2014 | NCC Resolution No. 03-349 "On the Change of the Resolution of NCC No. 03-367 September 13, 2013 "On the Approval of the Price Establishment Methodology of the State Regulated Prices of Natural Gas Section" (Registry of Legal Acts, 29/07/2014, No. 2014-10626)   | Methodology is supplemented by provisions regulating the order of appointed supplier's natural gas price calculation which is sold to the producer, the order of calculation of price for LNGT overloading services, also settlement of principles and order of liquefaction upper limit of natural gas price were clarified. |
| 28 July 2014 | NCC Resolution No. 03-440 "On the Change of the Resolution of the NCC No. 03-445 October 11, 2013 "On the additional component of the security of natural gas supply added to the natural gas  | The Resolution expresses additional component in Litass.  |

| Date              | Legal act  | Effect on the LNGT project   |
|-------------------|--|--|
|                   | transmission price“.   |  |
| 26 September 2014 | NCC Resolution No.03-810 “On the Change of the Resolution of the NCC No. 03-103 April 14, 2014 “On the approval of the Rules for Use of the Liquefied Natural Gas Terminal”.   | Approved new revision of the Rules for Use of the Liquefied Natural Gas Terminal.  |
| 17 October 2014   | NCC Resolution No. 03-859 “On the Approval of Liquefied Natural Gas Terminal Project”  | Approved Liquefied Natural Gas Terminal Project submitted by the Company, which determines preliminary value of the Project to the amount to LTL 301 million which shall be used for calculation of the increment for safe natural gas supply to be added to the upper limit of natural gas transmission price set for 2015. |
| 12 November 2014  | Resolution of the Government of the Republic of Lithuania “On the Change of the Resolution of the Government of the Republic of Lithuania No. 199 February 15, 2012 “On the Implementation of the Law of the Republic of Lithuania on the Liquefied Natural Gas Terminal”. | Determined that funds of the LNGT payers, allocated as LNGT infrastructure and connection installation costs shall be compensated to the LNGT payers.  |
| 20 November 2014  | NCC Resolution No. 03-895 “On the Determination of the Upper Limit of Natural Gas Liquefaction Price (the additional component of the security of natural gas supply added to the natural gas transmission price) for 2015-2019”   | NCC set the variable component of the upper limit of natural gas liquefaction price for 2015-2019 (excluding VAT) – 0 Lt/MWh (0 Eur/MWh) to become effective on 1 January, 2015.   |
| 20 November 2014  | NCC Resolution No. 03-896 “On the Price of Liquefied Natural Gas Transshipment Services for 2015-2019”.  | NCC set the price of liquefied natural gas transshipment services for 2015-2019 (excluding VAT) – 3.94 Lt/MWh (1.14 Eur/MWh), to become effective on 1 January, 2015.  |
| 20 November 2014  | NCC Resolution No. 03-897 “On the Approval of Depreciation Norms for Fixed Assets of SC Klaipedos Nafta Used When Executing Liquefied Natural Gas Activities”.   | Agreed depreciation rates for fixed assets of SC Klaipedos Nafta used when executing liquefied natural gas activities. NCC set annual assets’ depreciation norms in accordance with the particular groups of assets.   |
| 27 November 2014  | NCC Resolution No. 03-907 “On the Issuance of Natural Gas Liquefaction Licence to SC Klaipedos Nafta.  | NCC established that the Company has sufficient capacities for execution of natural gas liquefaction activities in accordance with the provision of efficient legal acts. Natural Gas Liquefaction Licence is the last main document required in order to commission the LNG terminal.                                       |



## INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY

## Shareholders and Shares of the Company

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

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

## Shareholders of the Company

As at 31 December 2014 all the shares of the Company were owned by 1,871 shareholders (on 31 December 2013 – 1,820). All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General meeting of Shareholders.

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

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

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

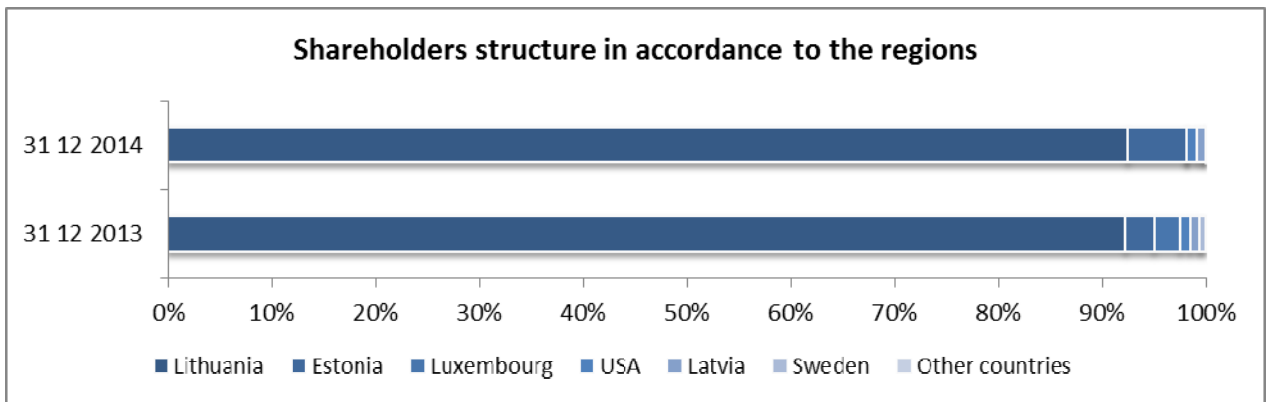
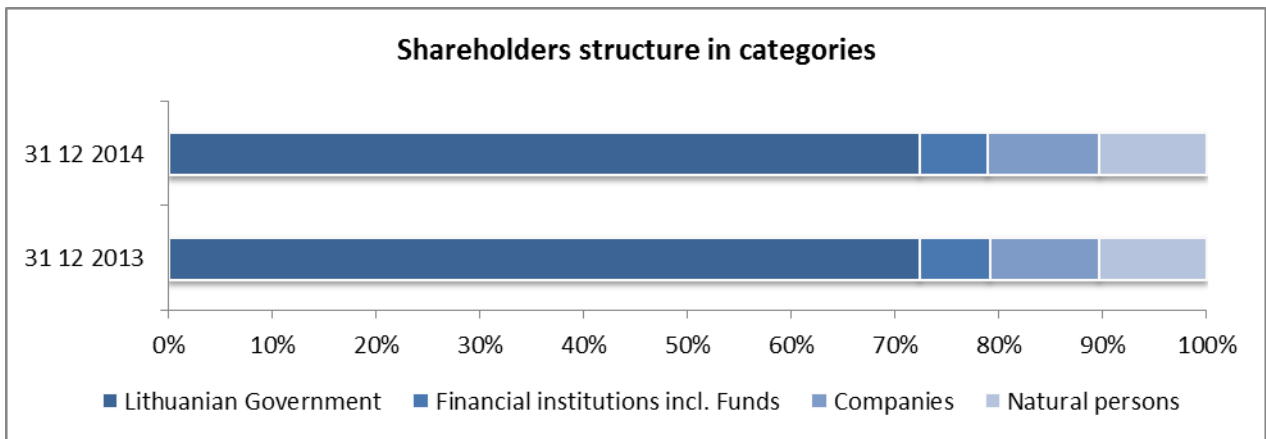
1. to attend the General Shareholders' Meetings and to vote according to voting rights carried by their shares (unless otherwise provided for by the laws);
2. to receive information on the Company to the extent allowed by the imperative norms of the valid laws;
3. to file a claim with the court for reparation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

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

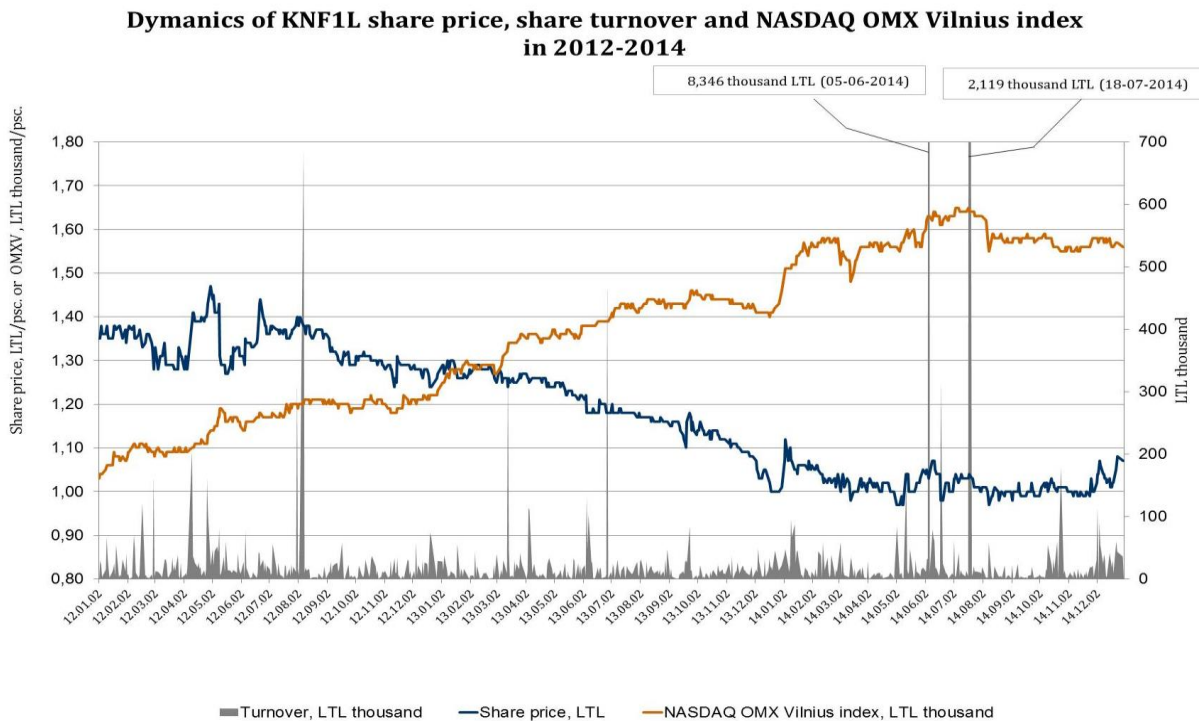
Major shareholders of the Company who have more than 5% of shares of the Company as 31 December 2014 and 2013:

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





Dynamics of the share price at NASDAQ OMX Vilnius during 2012 – 2014



|   | 2014 m.    | 2013 m.   | 2012 m.   |
|---|------------|-----------|-----------|
| Highest share price in LTL              | 1.12       | 1.32      | 1.47      |
| Lowest share price in LTL               | 0.97       | 1.00      | 1.24      |
| Share price at the end of period in LTL | 1.07       | 1.01      | 1.27      |
| Average share price in LTL              | 1.02       | 1.19      | 1.33      |
| Trade volume in LTL                     | 14,454,031 | 3,644,550 | 4,061,889 |
| Turnover in LTL thousand                | 14,916     | 4,314     | 5,482     |
| Capitalisation in LTL thousand          | 408,695    | 383,727   | 484,924   |

### Authorized capital of the Company

The Company's authorized share capital amounted to LTL 380,606 thousand as of 31 December 2014 (the same amount LTL 380,606 thousand as of 31 December 2013). In 2012 following the shareholders decisions the Company issued additional 380,606,184 shares which nominal values is one litas and at the end of 2012 share capital comprised LTL 380,606 thousand. All the shares of the Company are fully paid and no restrictions on the transfer of securities are applied to them. The authorized capital is divided into 380,606,184 (three hundred eighty million six hundred six thousand hundred and eighty-four) ordinary shares with a nominal value of 1 LTL. The Authorized capital has not altered during the reporting period. The nominal value of the ordinary shares has not changed during the reporting period. The Company did not acquire own shares in 2014.

### Dividends

On 29 April 2014, the ordinary General Meeting of Shareholders was held which approved the audited financial reports and profit distribution of 2013. The Company allocated to the Shareholders dividends to the amount LTL 357 thousand or LTL 0.001 for one share from the 2013 profit (in 2012 the Company allocated for payment of dividends LTL 410 thousand or LTL 0.001 for one share). Dividends were paid to the shareholders in funds.

Dividends for the financial results of the Company are allocated based on the overall financial position of the Company, its further prospects for the stable continuation of the activity and the demand of cash for the implemented strategic projects. So in order to ensure the smooth implementation of the LNGT and to ensure the Company's possibility to finance the LNGT project from its own and borrowed funds it was determined to allocate to the Shareholders minimum amount from the 2013 profit.

|                                | 2009   | 2010 | 2011   | 2012  | 2013  |
|--------------------------------|--------|------|--------|-------|-------|
| Dividends in LTL thousand      | 16,400 | -    | 56,981 | 410   | 356   |
| Dividends per one share in LTL | 0.050  | -    | 0.170  | 0.001 | 0.001 |
| Net profit per 1 share in LTL  | 0.11   | 0.08 | 0.13   | 0.11  | 0.10  |
| Dividends for net profit, LTL  | 0.45   | 0.00 | 1.26   | 0.01  | 0.01  |

### Agreements with intermediaries of public securities trading

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

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

## MANAGEMENT OF THE COMPANY

### Information on adherence to the Governance Code

The Company, in general, follows the Governance Code of SC NASDAQ OMX Vilnius for the companies listed on the regulated market. Refer to the Appendix No 1 to the Annual Report for the compliance report.

### Management structure

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

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

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

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

The head of the Company who is also a member of the Board 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.

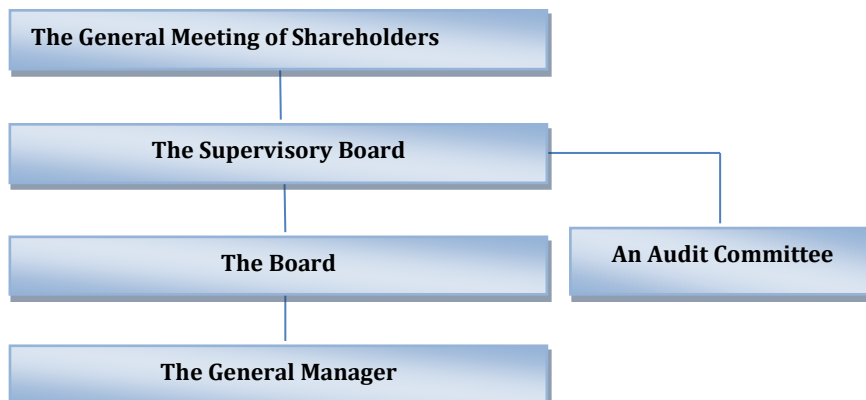
**The Supervisory Board** is a supervisory body formed of 4 (three) members, elected for the period of four years in the General Meeting of Shareholders according to the procedure established by the Law on Stock Companies. The number of the terms of office a member may serve on the Supervisory Board is not limited. The General Manager of the Company, a member of the Board of the Company and a person, who under the legal acts is not entitled to serve in this office, shall not serve on the Supervisory Board. The Supervisory Board is a collegial body supervising the activities of the Company, its status, competence and functions have been defined by the Law on Stock Companies and the Articles of Association of the Company. Functions, rights and duties of the Supervisory Board are detailed in the Working Regulations of the Supervisory Board.

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

**The Board** is a management body of the Company consisting of 5 (five) members, who are elected by the Supervisory Board for the period of 4 (four) years. (Note: During the period of time from 20 March 2013 till 31 December 2014 including, in the Company 4 out of 5 Board members were acting). The Board members elect the Chairman of the Board (Note: During the period of time from 20 March 2013 till 31 December 2014 including, the Company constant Chairman of the Board has not been elected, therefore, every time by ad hoc principle the Chairman of the Board was elected from the Board members). The number of the terms of office a member may serve on the Board is not limited. A person who is a member of the Supervisory Board of the Company, who under the legal acts may not serve in this office shall not be elected or serve as member of the Board. The powers of the members of the Board and activities of the General Manager have been determined by the Law on Stock Companies and the Articles of Association of the Company.

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

Organisational management structure:



### Members of the Supervisory Board as at 31 December 2014



#### Agne Amelija Petravičienė

(born in 1982) – Chairman of the Supervisory Board of the Company, elected for the term of 4 years at the extraordinary general meeting of shareholders held on 11 February 2013. Education: Lithuania University of Law, law and management studies program, bachelor in law (2004), Mykolas Romeris University, law and management studies program, master (2009). Employment – Head of Legal department of Ministry of Energy of the Republic of Lithuania. Participation in the activity of companies and organizations – member of the Board of SC Amber Grid from 30 June 2014, member of the Board of state enterprise Ignalina Nuclear Power Plant. Has no direct interest in the share capital of the Company.



#### Romas Svedas

(born in 1970) - Member of the Supervisory Board of the Company, elected for the term of 4 years at the extraordinary general meeting of shareholders held on 11 February 2013. Education: Vilnius University faculty of law, qualification - lawyer (1993), Umea University (Sweden) – political democracy (1991), World Trade Organization (Switzerland) – foreign trade policy (1993), International Law Institute (Washington, USA) – negotiations for the international trade contracts (1994), Baltic Institute of Corporate Governance: executive program of corporate governance (2010). Employment: Vilnius University Institute of international relations and political science - lecturer, independent consultant, head of MB Romas Svedas ir partneriai, European Union Agency for the Cooperation of Energy Regulators – member of the Administrative Board. Has no direct interest in the share capital of the Company.



#### Eimantas Kiudulas

(born in 1970) - Member of the Supervisory Board of the Company, member of Audit Committee. Was elected as a member of Supervisory Board at the extraordinary general meeting of shareholders held on 11 February 2013 for the term of 4 years. Education: Vilnius University, faculty of economics (1994), ISM University of Management and Economics, module – management accounting: value analysis (2010). Employment - Klaipeda Free Economic Zone Management Company, CEO, member of the Board. Participation in the activity of other companies – owner of Eimantas Kiudulas individual enterprise, JSC “LEZ projektu valdymas” member of the Board, JSC “PO7” director, JSC “Quantum capital” member of the Board, JSC “Metalo valdymo projektai” head manager since 6 January 2014, JSC “Pro BioSanus” member of the Board since 15 September 2014. Has no direct interest in the share capital of the Company.

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

### Members of the Audit Committee as at 31 December 2014



#### Eimantas Kiudulas

(born 1970) – Member of the Supervisory Board of the Company, member of Audit Committee (Chairman of the Supervisory Board up to 13 June 2014), re-elected by Supervisory Board on 18 March 2013 for the new term of four years. See above for more details.



#### Simonas Rimasauskas

(born 1979) - Member of Audit Committee and chairman of the audit committee (from 16 June 2014) elected by the Supervisory Board on 18 March 2013 for a term of four years. Education: Vilnius University, faculty of economics, Master in economics (2003); Baltic Institute of Corporate Governance: executive program of corporate governance (2013). Employment – JSC BAIP, financial director; JSC ERPRO 100% shareholder. Has no direct interest in the share capital of the Company.

**On 26 January 2015** m. the Supervisory Board approved the resignation of a Member of Audit Committee Simonas Rimasauskas from 31 January 2015 due to another post taken.



#### Linas Sasnauskas

(born 1971) - Member of Audit Committee, elected by the Supervisory Board on 18 March 2013 for a term of four years. Education: Vilnius University, Bachelor in economics (1994), “Baltic Management Institute”, master in business management (2000). Baltic Institute of Corporate Governance, companies management program (2014). Employment: “Ad ventum” chairman of the Board, SC “Lietuvos pastas” member of the Board. Has no direct interest in the share capital of the Company.

During 2014 the calculated remuneration the Audit Committee members S. Rimasauskas and L. Sasnauskas for the work in the Audit Committee amounts to LTL 50 thousand. Members of the Audit Committee did not receive any loans, guarantees or assets. The members of the Audit Committee are remunerated according to the Remuneration payment order for the activity of independent audit committee members of SC Klaipėdos nafta, determined by the Supervisory Board.

#### Members of the Board as at 31 December 2014



##### **Rytis Ambrazevičius**

(born 1967) - Member of the Board of the Company since 24 October 2011. Education: Kaunas University of Technology, faculty of mechanics - engineer diploma (1989), International Business School at Vilnius University - MBA in international trade (2003), Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2012). Participation in the activity of other companies: from the 28 January 2014 the head manager and shareholder of JSC "Vadeksa", by 28 February 2014 member of the Board of JSC "Baltik vairas". Has no direct interest in the share capital of the Company.



##### **Mindaugas Jusius**

(born 1979) - Member of the Board of the Company since 24 October 2011. Education: Vilnius University, Master in Banking (2003), ISM University of Management and Economics, EMBA (2008). London Business School, leadership programme (2008), Baltic Institute of Corporate Governance: chairman program of corporate governance (2013) and executive program of corporate governance (2010). Employment: Swedbank Life Insurance SE, CEO, member of a managing Board. Has no direct interest in the share capital of the Company.



##### **Dainius Braziunas**

(born 1983) - Member of the Board of the Company since 25 August 2014. Education: Vilnius Gediminas Technical University, Bachelor in energy (2005). Employment - head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania. Participation in the activity of other companies: SC "Amber Grid" Board member since 30 June 2014, JSC BALTPPOOL Board member. Has no direct interest in the share capital of the Company.



##### **Mantas Bartuska**

(born 1984) - Head manager of the Company and Board member since 25 September 2014. Elected by the Supervisory Board until the term of office of the acting Board of Company. Earlier was employed as Director of Finance and Administration Department (since 18 May 2010). Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). Participation in the activity of other companies: Chairman of the Board of JSC BALTPPOOL. Has no direct interest in the share capital of the Company.

**25 August 2014.** The Supervisory Board of Company adopted the decision to recall from the Board Members of the Company Valdas Lastauskas and to elect Dainius Braziunas as the new Board Member of the Company until the term of office of the acting Board of Company.

**24 August 2014** the Supervisory Council of Company adopted the decision to recall from the Board Members of the Company Rokas Masiulis and to elect Mantas Bartuska as the new Board Member of the Company from the 25 September 2014 until the term of office of the acting Board of Company.

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

Independent member of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. During 2014 the calculated remuneration for independent members of the Board M. Jusius and R. Ambrazevičius for work in the Company's Board amounted to LTL 85 thousand. Member of the Board M. Bartuska and former Board member (recalled on 24 September 2014) R. Masiulis received remuneration associated only based with the employment relationship; additionally for work in the Board he has not been paid. Members of the Board did not receive any loans, guarantees or assets.



## The Directors of the Company as at 31 December 2014

**Mantas Bartuska**

(born 1984) – Head manager of the Company and Board member since 25 September 2014. Earlier was employed as Director of Finance and Administration Department (since 18 May 2010). See the Board member chapter for more details.

**Osvaldas Sabaliauskas**

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

**Marius Pulkauninkas**

(born 1978) - Director of Finance and Administration Department (by 24 September 2014 this position was run by Mantas Bartuska). Works in a Company since 20 October. Education: Vilnius University Faculty of Economy, Bachelor in Business administration and management (2000) master in the same fields (2002). Marius Pulkauninkas has no direct interest in the share capital of the Company.

**Gediminas Vitkauskas**

(born 1957) – Director of Department of Oil products terminal. Works at the Company since 16 October 1995. Education: Kaunas university of Technology, diploma of mechanical engineering (1980), Vilnius University, diploma of philologist, English lecturer (1987). No participation in other companies management. Gediminas Vitkauskas has 3.600 shares of the Company, that comprise 0,00001 per cent of share capital and voting rights.

**Rolandas Zukas**

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

Note: Tadas Matulionis was elected as the Director of the LNGT terminal on 17 February 2015 (earlier was employed as a deputy director of the LNGT terminal department).

**Darius Turcinskis**

(born 1977) – acting Director of the Commercial Department (by 12 September 2014 this position was run by Sigitas Zakalskis). Works at the Company since 16 December 2013. Education: Klaipeda University, bachelor in chemical engineering (technological processes of oil) (1999) master in the same field (2001). No participation in other companies management. Darius Turcinskis has no direct interest in the share capital of the Company.

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



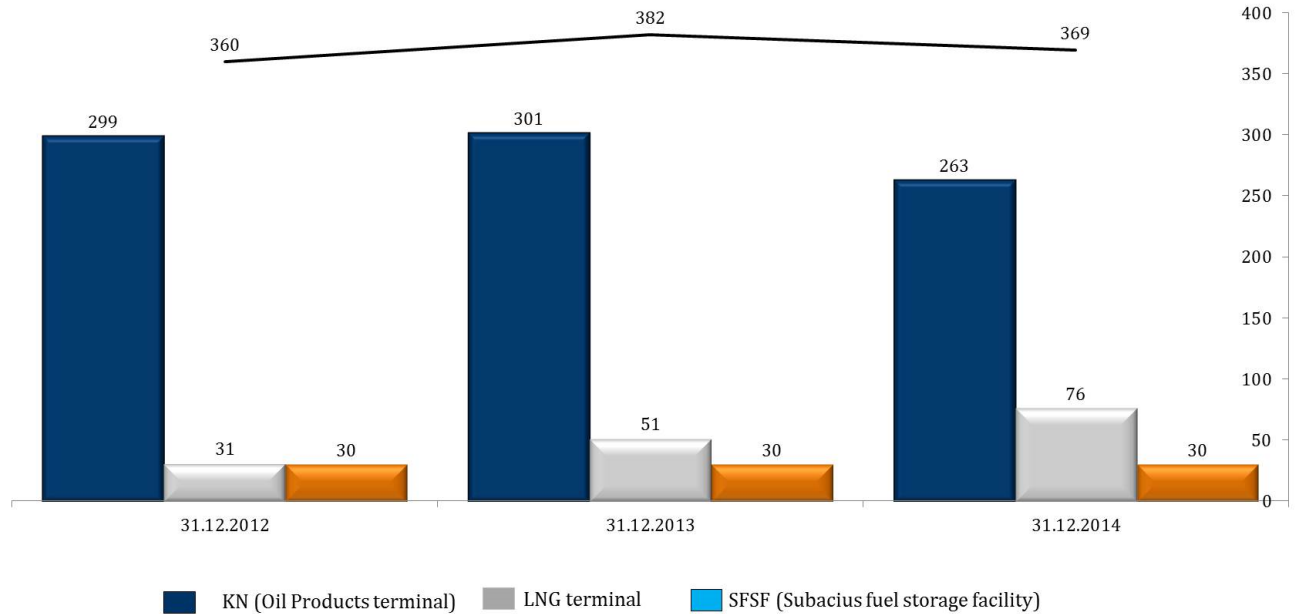
## INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

## Personnel

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

The average number of employees in 2014 (total number 374) has an increase by 6 employees or 1.6 per cent compared with 2013. Increase in the number of employees resulted to the formation of LNGT personnel.

## Number of Employees by the end of the Year



NOTE: Number of personnel shown in Figure reflect the performed functions both in Oil terminal and LNG terminal.

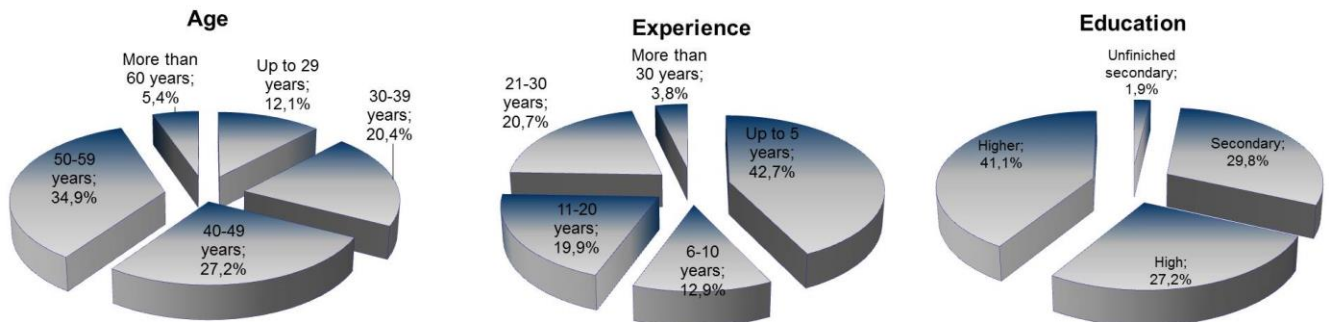
According to the average number of employees in 2014 (the table below) workers accounted for 56 per cent (in 2013 – 61 per cent), specialists for 35 per cent (in 2013 – 30 per cent), managers for 9 per cent (in 2013 - 9 per cent.) of all employees of the Company. Increase in the number of employees resulted to the expansion of the Company and commencement of LNG terminal.

## Employees of the Company according to categories

| Employee category      | Average number of employees |            | Change in per cent |
|------------------------|-----------------------------|------------|--------------------|
|                        | 2014                        | 2013       |                    |
| Managers <sup>1)</sup> | 34                          | 32         | 6.3                |
| Specialists            | 130                         | 108        | 20.4               |
| Workers                | 210                         | 228        | -7.9               |
| <b>Total</b>           | <b>374</b>                  | <b>368</b> | <b>1.6</b>         |

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

As at 31 December 2014 in the Company were employed 73 per cent of males and 27 per cent of females (correspondingly 71 and 29 per cent as of 31 December 2013). The average ages of the Company's employees – 44 years (in 2013 – 45 years), the Company shows the decrease in average age of its employees. Detailed information about employees' age, work experience and education are provided in Figures herein.



### Payroll system

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

Average monthly salary according to employee groups

| Employee group                | Average monthly salary (gross), LTL |              |
|-------------------------------|-------------------------------------|--------------|
|                               | 2014                                | 2013         |
| Managers <sup>1)</sup>        | 11,819                              | 11,402       |
| Specialists                   | 5,478                               | 5,207        |
| Workers                       | 3,595                               | 3,528        |
| <b>Average of the Company</b> | <b>4,316</b>                        | <b>4,084</b> |

Notes:

<sup>1)</sup> The Company's managers include: General Manager, Deputy Manager, Heads of Divisions and their deputies, Heads of Divisions. The following sums were calculated for the remuneration to the Company's managers in 2014: LTL 6,759 thousand (taxes paid by the employer included LTL 1,604 thousand) when in 2013 – LTL 5,667 thousand (including LTL 1,345 thousand of taxes paid by the employer); on the average LTL 199 thousand to each manager of the Company per year (in 2013 LTL 177 thousand for manager).

<sup>2)</sup> The average monthly salary includes accumulated annual bonuses.

Employee's remuneration consists of: i) payable fixed compensation for the work done - monthly salary; ii) lump sum payment – remuneration to particular employees for execution of additional works or for the quantity of works done; iii) variable part of remuneration, paid according to the Collective Agreement. Variable part of remuneration of the Company's employees consists of two parts: the part directly related to personal results of the employee and the part, related to the results of the entire Company and its activity. General variable part of remuneration shall not exceed 30 per cent of fixed compensation- monthly salary. Annual bonuses and lump sum benefits could be allocated as well as other forms of cash and non-monetary benefits.

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

For the last three 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 2014 revealed that 72.85 per cent of employees are satisfied with their work environment, the Company and its culture (the increase reaches 2.37 per cent comparing to the results of 2013 and 6.18 per cent comparing to 2012). The overall average employee satisfaction index in Lithuanian manufacturing companies is about 50-55 per cent. The research results showed that people highly value the quality of relationships with co-workers and supervisors. Within the past year number of involved personnel increased.

### The Company's Directors payroll system

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

The Board approves the provisions for payroll and bonuses for the General Manager, his Deputy, and Heads of Divisions. The Board of Company also approves the monthly fixed part and a variable part for the Company's management. According to the current arrangements, the variable part of the salary is paid based on the quarterly basis and only if set financial goals of the Company, such as transshipment revenues and profit are achieved. A variable part to be paid to directors directly in charge of

project implementation (e.g. of the LNG department) shall be calculated based on the achievement of overall financial results and project implementation status (costs control and completed project works). Total amount of variable part to be paid to Directors shall not exceed 50 per cents of the determined fixed salary.

The annual bonuses to the Company's General Manager, his Deputy, and Directors of departments are calculated in accordance with the board approved procedures for bonuses for managerial employees. Following this procedure, the size of the annual bonus for these employees depends on both the Company's financial and personal achieved results. Fund of annual bonuses to be paid by the Company to the managers shall be determined in accordance with the exceeded share of annual financial results (net profit and EBITDA) however, maximum amount of annual bonuses to be paid to all directors shall not exceed two average monthly salaries.

There are no compensation agreements for the General Manager, his deputy and Directors of the Company departments that could be paid in case they leave the Company. There are no additional payments in the form of shares or other compensations for execution of duties or in case of retirement. The Company has not established any periodicity for introduction of changes in salaries.

### The Collective Agreement

The Company has signed new edition Collective Agreement on 23 September 2014. The Collective Agreement is concluded between the Employer (the Company) and the Employees; it establishes conditions applicable to work, payment for work, time for work and rest, personnel training, health and safety and other social and economic guarantees. The main purpose of the Agreement is to form proper conditions for the development of economic and business activity and ensure the standards of working conditions higher than required by the legal acts of the republic of Lithuania.

The Collective Agreement provided the following additional social guarantees:

- An annual one-time allowance equal to 2.5 MM is paid before the school year on 1 September to an employee raising three or more children under the age of 18;
- Funeral allowance is paid to the employees of the Company after the death of a family member (spouse, parent, child, adopted child);
- A one-time funeral allowance is paid to the family of a deceased employee;
- A one-time allowance equal to 2 MM is paid to an employee for the birth of a child on a day of his/her birth;
- Anniversary allowances equal to 1 MM are paid to the employees of the Company on anniversary occasions (50th, 60th, 70th anniversaries);
- Other allowances are paid based the decisions of Administration in the following cases: employee's difficult material situation, the employee suffered losses due to natural disasters, fire, flood, etc.
- SC Klaipėdos Nafta supports cultural, sport and tourist activities of its employees, different events and other social activities which could be attended by all employees of the Company without any limitations or discrimination.

Within the year 2014 56 employees has used these social benefits.

### Development of Competencies

The Company organizes the following types of trainings for employees:

- ✓ The employees of the Safety and Health Department and the Fire Safety and Environmental Protection Department of the Company conduct Introductory Safety and Health, Fire Safety and Civil Protection Instructions. Heads of Divisions of the Company instruct their employees on-site at least once per year.
- ✓ External personnel carrying out works at the territory of the Company shall be acquainted (instructed) with Safety and Health, Fire Safety and Civil Protection Instructions applicable at the site. In 2014 the Company instructed 233 external employees.
- ✓ The Company continually instructs and certifies employees in safe working methods. In 2014 the Company instructed and/or certified 191 employees.
- ✓ The Company organizes periodical trainings intended to the development of emergency response practical skills. In 2014 the Company organized 22 trainings.
- ✓ The general trainings for the development of competencies of employees are performed by sending staff to the seminars and conferences organized by external parties.

## SOCIAL RESPONSIBILITY OF THE COMPANY

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

First of all, the Company could be named as the major supporter in the region. The funds allocated for support first of all are diverted to support cultural, infrastructural, health and social security projects associated with the region, where the Company conducts its activities. During the first six month of 2014 the Company allocated LTL 148 thousand for the support purposes (during the same period of 2013 – LTL 464 thousand). When allocating funds the Company follows the order of funds allocation procedure applied to the distribution of funds for public benefit purposes. The Company supports the following public sectors and activities:

1. environmental protection;
2. health care;
3. social protection and labour;
4. preservation of cultural, religious and ethical heritage;
5. informal and civic education;
6. sports;
7. improvement of public policy;
8. other public benefit purposes and selfless activities selected yearly by the Board of the Company.

In 2014 m. the Company allocated LTL 446 thousand (in 2013 – LTL 785 thousand). In 2014 the Company sponsored significant cultural centers of Klaipeda region – libraries, Drama and Musical theatres. It is primary and long term lasting sponsor of the main events of the city of Klaipeda, such as the Sea Festival, Klaipeda jazz festival. Special attention is paid to the organizations that are located near the Company's territory: kindergarten "Giliukas", baby care home for kids with special needs, Klaipeda children's activity center, Klaipeda Children Hospital, Seamen's Hospital. The Company also supports the local sportsmen: encourages and stimulates activities of disables sportsmen; organization of championships and other cultural, sports, and education initiatives, support religion communities.

In 2013 Vytautas Grubliauskas, Klaipeda city major, presented Rokas Masiulis, general manager of the Company with a Christmas Star as a reward for being the most socially responsible company in Klaipeda district in 2013.

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

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

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

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

The Company gives significant importance to occupational safety. The work places are being modernized and additional funds are allocated for individual safety means which are provided for in the Collective Agreement. Safety training sessions are organised; accident prevention and work supervision is constantly performed. The Company puts efforts to create a safe and healthy work environment.

### Health of employees

The Company is one of the few companies in Lithuania that has a licensed health center. It provides the first aid and initial preventive practical and theoretical health support. A range of physiotherapy treatments are provided based on the doctor's referral. Physical medicine and rehabilitation room with modern and approved practice-proven equipment is set in the health center. Employees are provided with free vaccines against tick-borne encephalitis, typhoid, flu and other illnesses – in 2014 111 employees were vaccinated. In its health center the Company organizes preventive – rehabilitation treatment to the employees that work in the increased pollution conditions. During 2014 these services were used by 69 employees.

According to the data provided by the Department of statistics there are 40 professional diseases in Klaipeda city. There are no professional diseases determined in the Company. In 2014 one (1) minor work accidents occurred (50 calendar days were spent on sick leave due to the accidents).

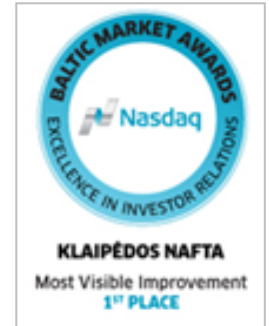
## ACHIEVEMENTS AND AWARDS



On 6 May 2014 Mantas Bartuska, former Director of Finance and Administrations Department, was awarded with the title „Director of Finances of the year 2014“ in the event organised by daily newspaper „Verslo zinios“ and by the Association of Financial Analysts.

Electing the best finance manager of the year much attention was paid to strategic thinking of the Finance Manager, assigned responsibilities, implemented projects and sociability.

On 22 January 2015 “Nasdaq” group announced the Company as a winner in the category “The Most Visible Improvement over the Year” at the annual Baltic Market Awards.



On 28 January 2015 The Company won the Project of the Year award at the 8th annual European Gas Conference 2015, in Vienna (Austria). Along with the Company there were 3 companies, including such well-known enterprises as “Shell”, “Total Gas & Power” nominated for the award.

On 16 February 2015 on the occasion of the Day of Restoration of Lithuania's Independence the President of the Republic of Lithuania Dalia Grybauskaitė awarded executors of successful Liquefied Natural Gas Terminal Project Mantas Bartuska, General Manager of the SC Klaipėdos Nafta and Rolandas Zukas, former Director of the Liquefied Natural Gas Terminal Department of the SC Klaipėdos Nafta with the Medal of the Order of the Lithuanian Grand Duke Gediminas for their merits to the Republic of Lithuania and promotion of the name of Lithuania in the world.

According to the President of the Republic of Lithuania Dalia Grybauskaitė, the true partnership and strategic project of Liquefied Natural Gas Terminal is significant not only for Lithuania but for the whole Baltic region. Ship Independence became the icebreaker of out energy freedom.





## ENVIRONMENT PROTECTION

In order to eliminate environmental impact and ensure the compliance of Company's equipment with the requirement of their operation the Company performing its activities must follow the legal acts on environment protection, fire safety, occupational safety and requirement set forth in the licenses of integrated prevention and control of pollution (PIPC) issued by Klaipeda regional department of environment protection.

In order to reduce the environmental risks, the Company implemented the systems of automatic fire detection and extinguishing, computer-assisted loading process control, and technologies for air, soil and water protection from pollution in accordance with the EU standards. The management of systems for extreme situations, fire protection and territory protection comply with the requirements of the Republic of Lithuania institutions of fire protection, labour security, civil safety, environment protection, port control. The inspectors of competent institutions carry out the danger and risk analysis and evaluation of terminals and LNGT yearly. Managers of the Company take note of provided recommendations and develop risk minimization plans that are involved in Company's investment plans.

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

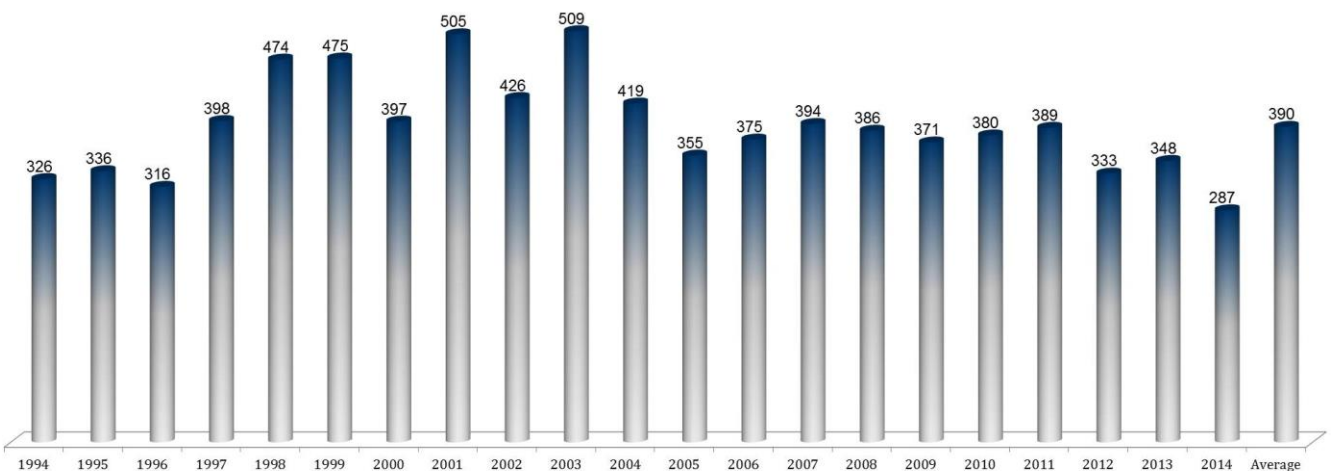
The Company approved safety management policy the main purpose of which is to ensure rational utilization of natural resources, implement pollution minimization measures set in the licenses of integrated prevention and control of pollution.

In 2014 finished reconstruction of the storage tank park of HFO, namely the construction of the two new universal storage tanks with pontoons each 32,250 m<sup>3</sup> instead of existing 4 old tanks without pontoons 5,000 m<sup>3</sup> each performed as a required pollution minimization measure. Pontoons enabled the Company to minimize the emission of volatile organic compounds (hereinafter referred to as the VOC). In 2014 the Company prepared biological treatment facilities A and B for the repair and C and D facilities for the routine maintenance. In 2014 the Company initiated reconstruction project of LNG discharge water purification facilities. During 2014 the Company did not experience any accidents or malfunctions which could affect environment.

The Company performs constant environmental monitoring under the Environmental monitoring programme agreed with the Klaipeda regional department of environment protection:

- ✓ Testing of emitted pollutants, i.e. the Company carries out treatment of domestic industrial, surface sewages, drainage sewages and waste waters from vessels as well as ballast waters up to the limit values set for the Curonian Lagoon.

**Volume of waste treated by treatment facilities, thousand m<sup>3</sup>**



- ✓ Analysis of stationary sources of air pollution. According to the results of research performed in 2014, comparing them with the normative values approved in PIPC, the Company has not exceeded permissible limits of pollutants discharges into environment.
- ✓ Monitoring of impact on ambient air. In the course of implementation of the programme of monitoring of ambient air quality performed in 2014, the Company has not exceeded permissible limits of volatile organic compounds concentration in the ambient air, monitored concentrations are lower than ones, provided as reference in the Order No. D1-329/V-469 of the Minister of Environment dated 1 June 2007 "On the Approval of Pollutants in the air in quantities is limited by national criteria and a list of limit values for environmental air pollution".
- ✓ Monitoring of impact on waters. By execution of these activities the Company supports monitoring of the Curonian lagoon status.
- ✓ Monitoring of underground water (pollution formed during the operation of old terminal is decreasing).

In 2014 Oil terminal collected and handled 14,690 t (in 2013 – 10,850 t) of hazardous waste (bilge oils, water polluted with oil products), and 1,430 t of biologically treated sludge. The Company transferred to other companies 260 t ( in 2013 – 292 t) of separated waste, collected 26 t (in 2013 – 88 t) of secondary raw materials (metals and paper). In 2014 LNG delivered 33 t (in 2013 – 11 t) of accumulated waste to waste processors, 27 t of which were delivered to the oil terminal for further handling.

In order to decrease volume of consumed paper and costs of documents management, the Electronic documents management system (DocLogix ) was installed in the Company, which allows managing and archiving all documents in electronic way. This ensured significant saving of the Company in 2014.



In 2014 the expenses for environment protection amounts of LTL 3,291 thousand (in 2013– LTL 3,127 thousand). Additionally LTL 108 thousand (in 2013 - 85 thousand) were allocated for different environmental studies (investigation of pollutants and etc.) and LTL 24 thousand (in 2013 – LTL 24 thousand) of pollution tax was paid.

#### 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 2014. In 2014 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).

#### OTHER INFORMATION (PROCEDURES FOR AMENDING THE ARTICLES OF ASSOCIATION)

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

#### INFORMATION ABOUT THE AUDIT

During the General Meeting of Shareholders of the Company which took place on 29 April 2014 of the Company, the shareholders have appointed JSC Ernst & Young Baltic to audit financial statements of the year 2014, assess the annual statement and perform the audit report. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of auditing services of total value equal to LTL 54.000 (fifty four thousand litas) excluding VAT excluding travel and accommodation costs of auditors. Audit Company was proposed for the financial statements audit for the year 2014 (as well as previous year) based on the public tender results. The selection criteria of the tender – the lowest price, but only the independent well recognized international audit firms are invited in the tender. JSC KPMG Baltics performed the audit of financial status reports and related reports on changes in common incomes, authorized capital and cash flows for the time period 2008-2013 as well as for the accounting policies and other supplementary notes.

#### 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 Mantas Bartuska, General Manager of SC Klaipedos Nafta, Marius Pulkauninkas, Director of Finance and administration department of SC Klaipedos Nafta and Asta Sedlauskiene, Head of Accounting Division of SC Klaipedos Nafta, hereby confirm that to the best of our knowledge the above-presented Annual Report of SC Klaipedos Nafta for 2014 gives a true and fair view of the business development and performance, description of the Company.

General Manager

Mantas Bartuska

Director of Finance and Administration Department

Marius Pulkauninkas

Head of Accounting Division

Asta Sedlauskiene

## Annex to the annual report

## AB KLAIPĖDOS NAFTA DISCLOSURE CONCERNING THE COMPLIANCE WITH THE GOVERNANCE CODE IN 2014

AB Klaipėdos Nafta following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 24.5 of the Listing Rules of the SC NASDAQ OMX Vilnius (approved during the SC NASDAQ OMX Vilnius Board meeting on 25 May 2012< Minutes No. 12-51) discloses its compliance with the Governance Code (hereinafter referred to as the Governance Code), approved by the VSE for the companies listed on the regulated market, and its specific provisions.

| 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. The 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 SC Klaipėdos nafta have been set up in its internal documents (Annual Report placed publicly on the website of SC NASDAQ OMX 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.<br>In accordance with requirements of the resolution by the Government No. 655 of 06 06 2012, the company's articles were supplement, providing which the Company's objectives are long-term (strategic) and short-term (tactical), and establishing that one of the main objectives of the Company is the adequate return of the invested capital of the shareholders.<br>The Articles of Association of the Company are publically announced on AV NASDAQ OMX Vilnius Stock Exchange'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, influencing optimization of the shareholder value (separation of the functions of Company's operation, establishment of subsidiaries, other actions optimizing effectiveness of the Company's operation and its profit). During the year under review, the General Meeting of Shareholders of the Company and the Board adopted a number of decisions ensuring the adequate implementation of the primary implemented objective of the Company with strategic meaning for national security – the construction and preparation for operation of the liquefied natural gas (LNG) terminal. This project is also focused on the creation of additional value for shareholders' property. During the year under review, the Company also adopted decisions to additionally invest into increase of the authorized capital of JSC BALTPPOOL.<br>The Company's Supervisory Board and its advisory body, Audit Committee have ensured active monitoring and supervision of the Company's activity. |
| 1.3. The 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   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
|   |                              | management and supervisory bodies, and regular supervision and control carried out by the supervisory bodies additionally ensure the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders. If necessary, general meetings are organized, where the members of the Company's Board, Supervisory Board, and Audit Committee are invited.   |
| 1.4. The 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 LNG terminal project investment financing plan provided within it;</li> <li>3. suppliers – the Company's Boards adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association;</li> <li>4. clients –the Company's Boards adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association;</li> <li>5. Other persons (local company) – by the resolution of general shareholders meeting part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the annual support budget, including the projects plan which is made based on the principles that the prioritized support for Klaipeda 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 Meeting of Shareholders and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes                          | The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, was also created within the Company.   |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate   | 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  |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
| governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.   |                              | <p>members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief Executive Officer; submits proposals and comments to the General Meeting of Shareholders regarding the strategy of the Company's operation, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts).</p> <p>The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation; approves the annual budget, annual policy plan and operational objectives, funds investment procedure, adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, significant transactions, realization of rights of the Legal Entity's member within the companies under control, different commitments, etc.).</p> <p>The Company's Audit Committee performs the assigned by the Supervisory Board separate supervisory functions (monitors and supervises the preparation of Company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).</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.  | Not applicable               | The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.  |
| 2.4. The collegial supervisory body to be elected by the General Meeting of Shareholders should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. | Yes                          | <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>   |
| 2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.  | Yes                          | <p>The Board of the Company is comprised of five members elected by the Supervisory Board<sup>1</sup>.</p> <p>The Supervisory Board is comprised of three members elected by the General Meeting of Shareholders of the Company.</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>  |

<sup>1</sup> Note: During the period from 20/03/2013 to 31/12/2013 and including, 4 and 5 Board members were elected and acting in the Company.

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| <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.</p>  | 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> |
| <p>2.7. Chairperson of the collegial body elected by the General Meeting of Shareholders 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 chairperson 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 chairperson of the collegial body elected by the General Meeting of Shareholders. 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> | Yes                          | <p>The Chief Executive Officer of the Company is also a member of its Board. But the chairperson of the Company's Board and the Chief Executive Officer of the Company is not the same person<sup>2</sup>. The Chief Executive Officer of the Company has not been a chairperson of the Company's General Meeting of Shareholders elected by the collegial body.</p> <p>The chairperson of the Company's Supervisory Board or its members has never been Board members or the General Managers of the Company.</p> <p>One of the members of the Supervisory Board was The chairperson of the Company's Audit Committee by the 2014-06-13.</p>   |
| <p><b>Principle III The order of the formation of a collegial body to be elected by a General Meeting of Shareholders</b><br/> <b>The order of the formation a collegial body to be elected by a General Meeting of Shareholders 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 Meeting of Shareholders (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. 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>  |

<sup>2</sup> During the period from 20/03/2013 to 31/12/2013 and including, a permanent chairperson of the Board was not elected in the Company, therefore, every time one of the Board members is elected as the chairperson of the Board under the principle *ad hoc*, the Company's Chief Executive Officer was four times elected as the chairperson of the meeting *ad hoc*.



| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
| <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 Meeting of Shareholders 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 SC NASDAQ OMX 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 month interim report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies.</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 composition and particular competences of individual members which are relevant to their service on the collegial body.</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 specific directly related competences of their members was publicly disclosed to the shareholders on 24 05 2012 on SC NASDAQ OMX Vilnius Stock Exchange website by distributing the circular about the additional shares of SC Klaipedos Nafta providing the information indicated above and in the Company's report of 2012. The company anticipates the improvements of the means of information distribution to the investors additionally.</p>   |
| <p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>   | Yes                          | <p>The collegial body ensures that its members are competent however periodic evaluation is not performed. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit were appointed questioning if Audit Committee, acting collegially, shall have recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.</p>   |
| <p>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.</p>  | Not applicable               | <p>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.</p> <p>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</p>  |



| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY   |
|--|------------------------------|--|
|  |                              | Board with their duties, corporate organization and activities and to organize annual examinations. However, the Company's chief executive officers personally inform and introduce the Company's organization and activity to the new members of the collegial bodies.  |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members.  | Yes                          | Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, whenever possible, during the elections of the Supervisory Board, at least 1/3 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent.<br>During the year under review, the Company's Board had 2 independent members (out of 4), Audit Committee had 2 independent members (out of 3), and the Supervisory Board had 1 independent member (out of 3).  |
| 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:<br>1) He/she is not an executive director or member of the board (if a collegial body elected by the General Meeting of Shareholders is the supervisory board) of the company or any associated company and has not been such during the last five years;<br>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;<br>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 | Yes                          | The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies, however, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by NASDAQ OMX Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the Independency Criteria defined by the Requirements for Audit Committees (with later amendments and supplements) that were approved by the Resolution No. 1K-18 of the Lithuanian Securities Commission on 21 August 2008. The independent members of the collegial bodies are, too, appointed (elected) in compliance with the provisions of the paragraph 64 of the Procedure description of the Implementation of the State Proprietary and Non-proprietary Rights in State-owned Companies (approved by the Government decision No. 665 of 06 06 2012).<br>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.<br>The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content but not the form. |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
| <p>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 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 Meeting of Shareholders 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 Meeting of Shareholders 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. 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> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
|---|------------------------------|--|
| 3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent. | Not applicable               | Refer to the comment submitted regarding the item 3.6 above.<br>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.   |
| 3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.  | Yes                          | There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information.<br>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<br>The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.   |
| 3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The General Meeting of Shareholders should approve the amount of such remuneration.  | Yes                          | Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings. A fixed monthly remuneration is paid, which depends on the actual time spent, but is limited to a maximum payable amount.<br>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.<br>The General Meeting of Shareholders has a right to reward (pay tantiemes) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association. |
| <b>Principle IV: The duties and liabilities of a collegial body elected by the General Meeting of Shareholders<br/>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the General Meeting of Shareholders, 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>   |                              |  |
| 4.1. The collegial body elected by the General Meeting of Shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.  | Yes                          | The Company's Board approves the business strategy of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board, too, analyses and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, and other significant information.<br>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  |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY  |
|---|------------------------------|---|
|   |                              | <p>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.</p>  |
| <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).</p> | Yes                          | <p>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.</p>   |
| <p>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.</p>   | Yes                          | <p>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.</p>  |
| <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>   | Yes                          | <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 they are approved by the General Meeting of Shareholders.</p> <p>All significant Company's events are publicly available according to the procedure prescribed by law for the Company's shareholders on the website of SC NASDAQ OMX Vilnius Stock Exchange. 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</p>   | Yes                          | <p>According to the general practice of the Company, the</p>  |

| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY  |
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| <p>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>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. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.</p>  | Yes                          | <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 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,</p> | Yes                          | <p>The advisory body, i.e. Audit Committee, formed by the Supervisory Body acts within the Company. The Supervisory Body determined its functions, rights, obligations and remuneration procedure. The Company's Audit Committee has been assigned with advisory functions related to the audit control and assessment and covering supervision of financial reports preparation and audit execution process, examination of its effectiveness and implementation of recommendations, analysis of need of internal audit functions and so on, observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.</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 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 Board members</p> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| operation, and transparency) should apply, where relevant, to the collegial body as a whole.  |                              | 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 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 (audit committee)        | Refer to the comment submitted regarding the item 4.7 above.   |
| 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.  | Yes (audit committee)        | Refer to the comment submitted regarding the item 4.7 above.<br>The advisory body, the Audit Committed, formed by the Supervisory Board, comprises of three members. Two of this body's members are independent and one member of the Supervisory Board was also the chairperson of the Audit Committee by the 2014-06-12.   |
| 4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion. | Yes                          | Refer to the comment submitted regarding the item 4.7 above.<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>The main information about the Company's Audit Committee and its composition is published in the Company's annual report. |



| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY  |
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| <p>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. Chairperson 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.</p>   | Yes                          | <p>Refer to the comment submitted regarding the item 4.7 above.</p> <p>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.</p> |
| <p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> <li>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;</li> <li>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;</li> <li>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</li> <li>4) Properly consider issues related to succession planning;</li> <li>5) Review the policy of the management bodies for selection and appointment of senior management.</li> </ol> <p>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 Meeting of Shareholders 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.</p> | Not applicable               |   |
| <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</li> </ol>  | Not applicable               | <p>Refer to the comment submitted regarding the item 4.7 above.</p>   |

| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY  |
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| <p>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;</p> <p>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;</p> <p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>4) 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);</p> <p>5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members 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> <p>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;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the meeting of the shareholders;</p> <p>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.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairperson 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>4.14. Audit Committee<br/>4.14.1. Key functions of the audit committee</p>  | 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>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 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;</li> <li>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the General Meeting of Shareholders) 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;</li> <li>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;</li> <li>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</li> </ol> <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</p> |                              |            |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY |
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| <p>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 centres and/or activities carried out through special purpose vehicles (organisations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairperson of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</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> |                              |            |

| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY  |
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| 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 organisation 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 organisation and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities. | No                           | The internal documents of the Company do not 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. During the year under review, the Company also did not practice the indicated information about the internal organization of the collegial bodies and publicity of the activity procedures.<br>Decisions on the Company's activities are made by the Board of the Company which reports to the Supervisory Board and the Company's General Meeting of Shareholders. |
| <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>  |                              |   |
| 5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial <i>bodies</i> ' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.                                   | Yes                          | A chairperson of the collegial body of supervision - the Supervisory Board and a chairperson of the collegial body of management - the Board implement this provision in the Company. <sup>3</sup> .  |
| 5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.   | Yes                          | The documents of the operation of the Company provides that the meetings of the Company's Supervisory Board are convened at least once in a quarter according to need, and the ordinary meetings of the Company's Board are carried out according to the schedule approved by the Board, which during the reporting period provided frequency of the Board meetings, i.e. once in a calendar month or more often, thereby ensuring continuous solution of the essential Company's management issues.  |

<sup>3</sup> During the period from 20/03/2013 to 31/12/2013 and including, a permanent chairperson of the Board was not elected in the Company, therefore, every time one of the Board members is elected as the chairperson of the Board under the principle *ad hoc*, the Board meeting was convened at the discretion of the Board members according to the procedure established by the Company's Articles of Association.

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| 5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution. | Yes                          | The Company observes provisions stated in this recommendation. The members of the collegial body together with the convocation to the meeting receive a notice on the agenda of the meeting convened. According to the procedure and the terms provided in the documents of the operation of the Company, the Company's collegial bodies receive according to the set form written information about the matter under consideration when the decision is adopted, and when information is submitted only to collegial body's knowledge – on demand.<br>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.  |
| <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>  |                              |  |
| 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 Meeting of Shareholders. All shareholders should be furnished with equal opportunity to familiarise 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 Meeting of Shareholders 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 meeting of shareholders should not hinder wide attendance of the shareholders. Prior to the   | Yes                          | All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of SC NASDAQ OMX VILNIUS Stock Exchange and on the Company's website ( <a href="http://www.oil.lt">www.oil.lt</a> ).  |



| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY   |
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| meeting of the shareholders, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the General Meeting of Shareholders and receive answers to them.   |                              | Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them.  |
| 6.5. It is recommended that documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance. It is recommended that the minutes of the General Meeting of Shareholders 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 familiarise with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes                          | Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of SC NASDAQ OMX VILNIUS Stock Exchange and it is planned to place them constantly on the website of the Company <a href="http://www.oil.lt">www.oil.lt</a> . The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of SC NASDAQ OMX VILNIUS Stock Exchange and it is planned to place them constantly on the website of the Company ( <a href="http://www.oil.lt">www.oil.lt</a> ). Information indicated and the documents are published in the information disclosure system of SC NASDAQ OMX VILNIUS Stock Exchange in Lithuanian and English languages. |
| 6.6. Shareholders should be furnished with the opportunity to vote in the General Meeting of Shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.   | Yes                          | The shareholders of the Company can implement their right to participate at the meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts. The Company also furnishes its shareholders with the opportunity to vote in advance in written by completing and submitting to the Company the general voting ballot.   |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at meetings of the shareholders, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch meetings of the shareholders by means of modern technologies.  | Not applicable               | 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 OMX Vilnius Stock Exchange) and the opportunity to vote in advance, there is no necessity to additionally install costly system of IT, which would give the opportunity for the shareholders to vote during the meeting of the shareholders using telecommunication terminal equipment.  |
| <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>  |                              |  |

| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY  |
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| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.  | Yes                          | 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.<br>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.<br>During the reporting period, there are no cases identified of conflict of interests between the Company and the member of its supervisory and management. |
| 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 Meeting of Shareholders or any other corporate body authorised by the meeting.   | Yes                          | Refer to the comment submitted regarding the item 7.1 above.  |
| 7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5. | Yes                          | 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.  |
| 7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.  | Yes                          | The members of the Company's Board have been familiarised with these provisions and they oblige to observe these recommendations.<br>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.   |
| <b>Principle VIII: Company's remuneration policy</b><br><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 to secure the publicity and transparency of the remuneration policy of the company and managers</b>  |                              |   |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.  | Yes                          | The Company has no formal remuneration policy as it is not required by the legal requirements, but there are remuneration regulations in the collective agreement which key principles are described in the annual report, article about the employees.<br>The information about the key principles of the  |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY  |
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|   |                              | Company's Directors remuneration, bonuses payments rules and other related information is revealed in the annual report of the year under review.<br>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.oil.lt">www.oil.lt</a> . |
| 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.   | Not applicable               | Refer to the comment in item 8.1 above.<br>The Company's directors' remuneration policy for the subsequent years has not been provided in the annual report. The annual 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'.  |
| 8.3. Remuneration statement should leastwise include the following information:<br>1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration;<br>2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration;<br>3) Sufficient information on the linkage between the remuneration and performance;<br>4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits;<br>5) A description of the main characteristics of supplementary pension or early retirement schemes for directors. | Yes                          | The information is presented in the annual report.  |
| 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, <i>inter alia</i> , information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.   | Yes                          | The information is presented in the annual report (if there was any such case).   |
| 8.5. 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 annual General Meeting of Shareholders.   | Not applicable               |   |

| PRINCIPLES / RECOMMENDATIONS   | Yes and NO<br>Not applicable | COMMENTARY                                       |
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| <p>8.6. Without prejudice to the role and organisation 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 annual General Meeting of Shareholders. Remuneration statement should be put for voting in annual General Meeting of Shareholders. The vote may be either mandatory or advisory.</p>  | Not applicable               |  |
| <p>8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. 8.7.1. 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 Meeting of Shareholders;</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 1-5 points.</li> </ol> <p>8.7.2. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> <li>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</li> <li>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;</li> <li>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</li> </ol> | No                           | Refer to the comment in items 8.1 and 8.2 above. |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY  |
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| <p>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>8.7.3. 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>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p> |                              |   |
| <p>8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of annual General Meeting of Shareholders 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 annual General Meeting of Shareholders. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>   | Not applicable               | <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> |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| <p>8.9. The following issues should be subject to approval by the annual General Meeting of Shareholders:</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.</li> </ol> <p>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.</p> | Not applicable               | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>  |                              |  |
| <p>8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the annual General Meeting of Shareholders.</p>  |                              |  |



| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| <p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, the shareholders must be provided an opportunity to familiarise 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><b>Principle IX: The role of stakeholders in corporate governance</b><br/> <b>The corporate governance framework should recognise 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>   | Yes                          | <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>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> |
| <p>9.3. 9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>   |                              |  |
| <p><b>Principle X: Information disclosure and transparency</b><br/> <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:<br/> The financial and operating results of the company;<br/> Company objectives;<br/> Persons holding by the right of ownership or in control of a block of shares in the company;<br/> Members of the company's supervisory and management bodies, chief executive officer of the</p>  | Yes                          | <p>Performance and corporate governance is regularly disclosed by distributing press posts about material events on SC NASDAQ OMX 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</p>   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| <p>company and their remuneration;<br/>Material foreseeable risk factors;<br/>Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;<br/>Material issues regarding employees and other stakeholders;<br/>Governance structures and strategy.<br/>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.<br/>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.<br/>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.<br/>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.</p> |                              | <p>publishes other important information about the Company's activity.<br/>The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC NASDAQ OMX VILNIUS Stock Exchange.</p>  |
| <p>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.</p>  | Yes                          | <p>The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of SC NASDAQ OMX 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/>In its practice the Company focuses on publication of notifications about essential events before or after Vilnius Stock Exchange trading session.</p> |
| <p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the</p>   | Yes                          | <p>Refer to the comment in item 10.5 above.<br/>Similarly to published information in the system of SC NASDAQ OMX VILNIUS Stock Exchange, information is also published on the Company's website.<br/>Access to information in the system of SC NASDAQ OMX VILNIUS Stock Exchange and on the Company's website</p>   |

| PRINCIPLES / RECOMMENDATIONS  | Yes and NO<br>Not applicable | COMMENTARY   |
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| 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.   |                              | 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 takes into account this recommendation and places the information on the Company's website.  |
| <b>Principle XI: The selection of the company's auditor<br/>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 statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.  | Yes                          | The Company observes this recommendation, annually, an independent firm of auditors conducts an audit of the Company's annual financial statements and report according to the International Accounting Standards and submits an independent auditor's report concerning financial statements.   |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the General Meeting of Shareholders.   | No                           | The Company's Board proposes a candidate firm of auditors to the General Meeting of Shareholders taking into account the results of Public Procurement of acquiring audit services.<br>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. |
| 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 Meeting of Shareholders. | Yes                          | The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Boards as much as they consider it to be important.  |