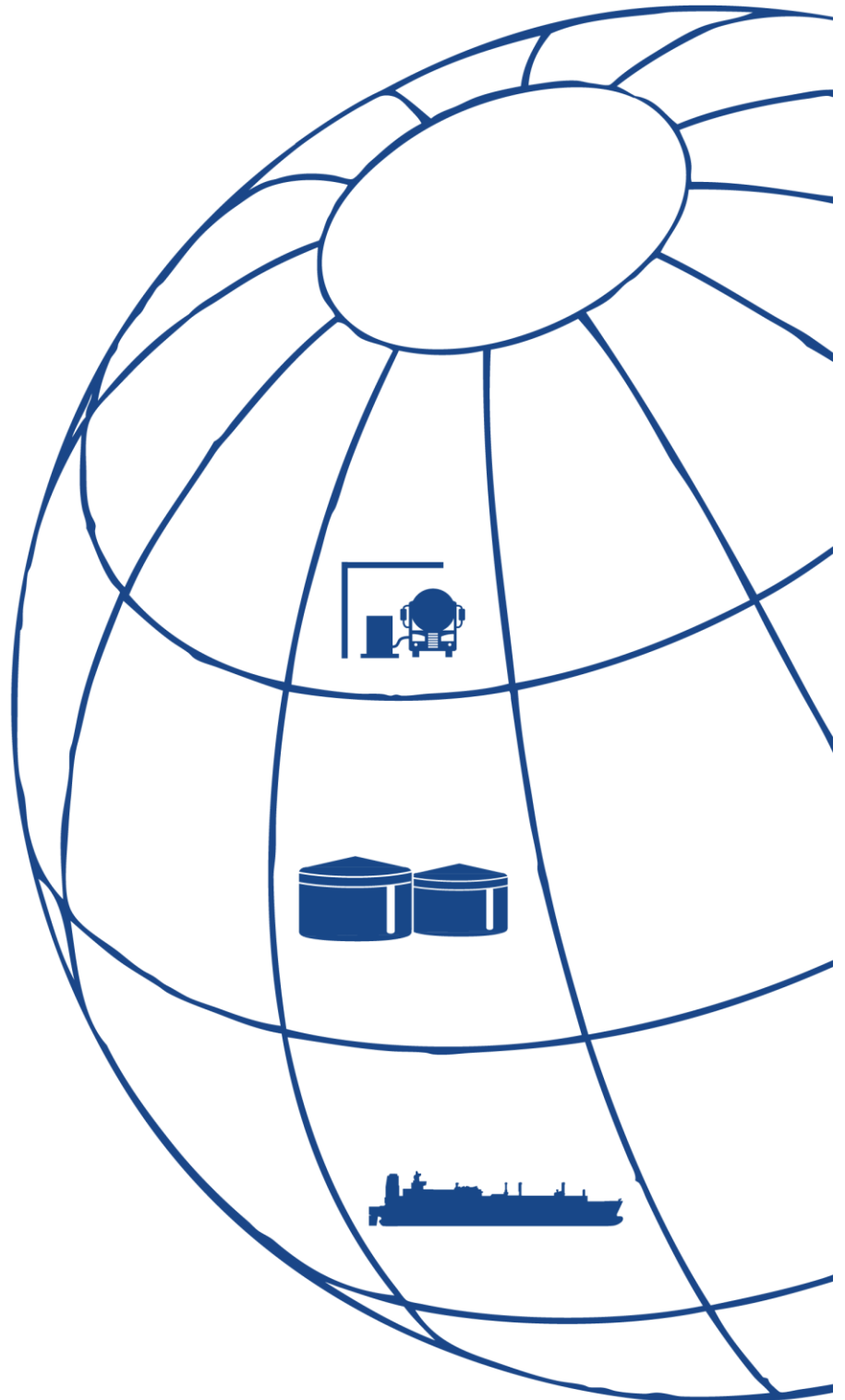




KLAIPEDOS NAFTA
S T O C K C O M P A N Y



**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 2015

| CONTENT | PAGE |
|--|---------|
| INDEPENDENT AUDITOR'S REPORT..... | 3 |
| FINANCIAL STATEMENTS..... | 4 – 47 |
| Statement of financial position..... | 4 – 5 |
| Statement of comprehensive income..... | 6 |
| Statement of changes in equity..... | 7 |
| Cash flow statement..... | 8 – 9 |
| Explanatory notes..... | 10 – 47 |
| CONFIRMATION OF RESPONSIBLE PERSONS..... | 49 |
| ANNUAL REPORT FOR THE YEAR 2015..... | 50 |



UAB „Ernst & Young Baltic“
Subačiaus g. 7
LT-01302 Vilnius
Lietuva
Tel.: (8 5) 274 2200
Faks.: (8 5) 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

Ernst & Young Baltic UAB
Subačiaus St. 7
LT-01302 Vilnius
Lithuania
Tel.: +370 5 274 2200
Fax: +370 5 274 2333
Vilnius@lt.ey.com
www.ey.com/lt
Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholders of Stock Company Klaipėdos nafta

Report on the Financial Statements

We have audited the accompanying financial statements of Stock Company 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 2015, 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.

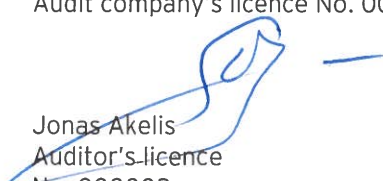
Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Stock Company Klaipėdos nafta as at 31 December 2015, 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 2015 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2015.

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



Jonas Akelis
Auditor's licence
No. 000003

The audit was completed on 9 March 2016.

A member firm of Ernst & Young Global Limited

Statement of financial position

| | Notes | 31-12-2015 | 31-12-2014 |
|--|-------|----------------|----------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 3 | 508 | 623 |
| Property, plant and equipment | 4 | 176,821 | 182,830 |
| Long-term receivables and accrued income | 8 | 2,401 | 1,681 |
| Investment into subsidiaries | 6 | 200 | - |
| Investment into associates | 7 | 144 | 4,097 |
| Total non-current assets | | 180,074 | 189,231 |
| Current assets | | | |
| Inventories | 9 | 1,727 | 1,600 |
| Prepayments | | 415 | 963 |
| Trade receivables | 10 | 27,716 | 1,887 |
| Advance income taxes | | - | 408 |
| Other receivables and accrued income | 11 | 1,027 | 8,643 |
| Assets held for sale | 12 | 4,040 | - |
| Other financial assets | 13 | - | 8,284 |
| Cash and cash equivalents | 14 | 23,788 | 10,902 |
| Total current assets | | 58,713 | 32,687 |
| Total assets | | 238,787 | 221,918 |




(Cont'd on the next page)

Explanatory notes, set out on pages 10 - 47, are an integral part of these financial statements.

Statement of financial position (cont'd)

| | Notes | <u>31-12-2015</u> | <u>31-12-2014</u> |
|--|-------|-----------------------|-----------------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 1, 15 | 110,376 | 110,231 |
| Share premium | | 3,913 | 3,913 |
| Legal reserve | 15 | 8,107 | 7,644 |
| Reserve for own shares | 15 | 15,929 | 15,929 |
| Other reserves | 15 | 36,443 | 27,741 |
| Retained earnings | | <u>22,036</u> | <u>9,257</u> |
| Total equity | | <u>196,804</u> | <u>174,715</u> |
| Non-current amounts payable and liabilities | | | |
| Deferred income tax liability | 26 | 1,327 | 1,124 |
| Non-current employee benefits | 16 | 202 | 301 |
| Loan | 17 | 29,693 | 29,832 |
| Grants related to assets | | 209 | - |
| Total non-current amounts payable and liabilities | | <u>31,431</u> | <u>31,257</u> |
| Current amounts payable and liabilities | | | |
| Loan interests | 17 | 44 | 55 |
| Trade payables | 18 | 6,965 | 12,680 |
| Payroll related liabilities | 19 | 2,116 | 1,396 |
| Income tax payable | | 106 | - |
| Prepayments received | | 823 | 1 |
| Dividends payable | | - | 11 |
| Other payables and current liabilities | 21 | <u>498</u> | <u>1,803</u> |
| Total current amounts payable and liabilities | | <u>10,552</u> | <u>15,946</u> |
| Total equity and liabilities | | <u>238,787</u> | <u>221,918</u> |




Explanatory notes, set out on pages 10 - 47, are an integral part of these financial statements.

| | | | |
|---|---------------------|--|--------------|
| General Manager | Mantas Bartuška |  | 9 March 2016 |
| Director of Finance and Administrative Department | Marius Pulkauninkas |  | 9 March 2016 |
| Head of Accounting Division | Asta Sedlauskienė |  | 9 March 2016 |

Statement of comprehensive income

| | Notes | <u>2015</u> | <u>2014</u> |
|--|-------|-----------------|-----------------|
| Sales | 22 | 109,702 | 39,775 |
| Cost of sales | 23 | <u>(80,579)</u> | <u>(26,625)</u> |
| Gross profit | | 29,123 | 13,150 |
| Operating expenses | 24 | (4,823) | (3,886) |
| Other income | | 286 | 89 |
| Profit from operating activities | | 24,586 | 9,353 |
| Income from financial activities | 25 | 31 | 45 |
| (Loss) from financial activities | 25 | (553) | (29) |
| Share of the associate's net profit (loss) | 7 | 40 | (301) |
| Profit before income tax | | 24,104 | 9,068 |
| Income tax income (expenses) | 26 | <u>(2,068)</u> | <u>189</u> |
| Net profit | | 22,036 | 9,257 |
| Other comprehensive income | | - | - |
| Items that will not be subsequently reclassified to profit or loss | | - | - |
| Items that may be subsequently reclassified to profit or loss | | - | - |
| Total comprehensive income | | 22,036 | 9,257 |
| Basic and diluted earnings per share, in EUR | 27 | 0.06 | 0.02 |




Explanatory notes, set out on pages 10 - 47, are an integral part of these financial statements.

| | | | |
|--|----------------------------|--|---------------------|
| <u>General Manager</u> | <u>Mantas Bartuška</u> |  | <u>9 March 2016</u> |
| <u>Director of Finance and Administrative Department</u> | <u>Marius Pulkauninkas</u> |  | <u>9 March 2016</u> |
| <u>Head of Accounting Division</u> | <u>Asta Sedlauskienė</u> |  | <u>9 March 2016</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 2013 | | 110,231 | 3,913 | 7,128 | 15,929 | 18,036 | 10,324 | 165,561 |
| Net profit for the year | | - | - | - | - | - | 9,257 | 9,257 |
| Other comprehensive income | | - | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | - | - | 9,257 | 9,257 |
| Dividends declared | 28 | - | - | - | - | - | (103) | (103) |
| Transfers between reserves | | - | - | 516 | - | 9,705 | (10,221) | - |
| Balance as at 31 December 2014 | | 110,231 | 3,913 | 7,644 | 15,929 | 27,741 | 9,257 | 174,715 |
| Net profit for the year | | - | - | - | - | - | 22,036 | 22,036 |
| Other comprehensive income | | - | - | - | - | - | - | - |
| Total comprehensive income | | - | - | - | - | - | 22,036 | 22,036 |
| Dividends declared | 28 | - | - | - | - | - | (92) | (92) |
| Transfers between reserves | | - | - | 463 | - | 8,702 | (9,165) | - |
| Currency conversion difference | 15 | 145 | - | - | - | - | - | 145 |
| Balance as at 31 December 2015 | | 110,376 | 3,913 | 8,107 | 15,929 | 36,443 | 22,036 | 196,804 |

Explanatory notes, set out on pages 10 - 47, are an integral part of these financial statements.

| | | | |
|---|---------------------|--|--------------|
| General Manager | Mantas Bartuška |  | 9 March 2016 |
| Director of Finance and Administrative Department | Marius Pulkauninkas |  | 9 March 2016 |
| Head of Accounting Division | Asta Sedlauskienė |  | 9 March 2016 |

Cash flow statement

| | Notes | 2015 | 2014 |
|--|--------------|----------------|-----------------|
| Cash flows from operating activities | | | |
| Net profit | 27 | 22,036 | 9,257 |
| Adjustments for non-cash items: | | | |
| Depreciation and amortization | 3, 4, 23, 24 | 12,773 | 7,536 |
| Change in vacation reserve | 19 | 31 | 155 |
| Impairment and write-off (reversal) of non-current tangible assets | | 139 | (319) |
| Change in allowance for doubtful receivables | 10 | (17) | (35) |
| Change in non-current liabilities for employees | 16 | (99) | 59 |
| Change in allowance in inventory | 9 | (577) | (8) |
| Share of (profit) loss of equity-accounted investees | 7 | (40) | 301 |
| Accrued income | 8, 11 | 5,430 | (6,950) |
| Other non-cash adjustments | | 145 | - |
| Income tax (income) expenses | 26 | 2,068 | (189) |
| Interest income | 25 | (22) | (39) |
| | | 41,867 | 9,768 |
| Changes in working capital: | | | |
| Decrease (increase) in inventories | 9 | 472 | (1,278) |
| Decrease (increase) in prepayments | | 548 | (801) |
| (Decrease) increase in trade and other accounts receivable | 10 | (25,813) | 1,347 |
| Decrease in other receivables | | 1,467 | 2,186 |
| (Decrease) increase in trade and other payables | | (1,523) | 2,498 |
| Increase (decrease) in prepayments received | | 823 | (11) |
| Increase (decrease) in other current liabilities and payroll related liabilities | | 688 | (145) |
| | | 18,529 | 13,564 |
| Income tax (paid) | | (1,350) | (256) |
| Interest received | 25 | 22 | 39 |
| Net cash flows from operating activities | | 17,201 | 13,347 |
| Cash flows from investing activities | | | |
| (Acquisition) of property, plant, equipment and intangible assets | 4 | (12,331) | (39,714) |
| (Acquisition) of investments held-to-maturity | 13 | - | (8,284) |
| Sales of investments held-to-maturity | 13 | 8,284 | 8,731 |
| Acquisition of other investments | 6, 7 | (247) | (4,112) |
| Grants received | | 209 | - |
| Net cash flows from investing activities | | (4,085) | (43,379) |




(Cont'd on the next page)

Explanatory notes, set out on pages 10 - 47, are an integral part of these financial statements.

Cash flow statement (cont'd)

| | Notes | 2015 | 2014 |
|--|-------|---------------|-----------------|
| Cash flows from financing activities | | | |
| Dividends (paid) | | (92) | (103) |
| Loans (paid) received | 17 | (138) | 15,000 |
| Net cash flows from financing activities | | (230) | 14,897 |
| Net increase (decrease) in cash flows | | | |
| | | 12,886 | (15,135) |
| Cash and cash equivalents on 1 January | 14 | 10,902 | 26,035 |
| Cash and cash equivalents on 31 December | 14 | 23,788 | 10,902 |

Explanatory notes, set out on pages 10-47, are an integral part of these financial statements.

| | | | |
|--|----------------------------|--|---------------------|
| <u>General Manager</u> | <u>Mantas Bartuška</u> |  | <u>9 March 2016</u> |
| <u>Director of Finance and Administrative Department</u> | <u>Marius Pulkauninkas</u> |  | <u>9 March 2016</u> |
| <u>Head of Accounting Division</u> | <u>Asta Sedlauskienė</u> |  | <u>9 March 2016</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 2015 all the shares were owned by 1,847 shareholders (as of 31 December 2014 all the shares were owned by 1,871 shareholders). The Company’s share capital – EUR 110,375,793 (one hundred ten million three hundred seventy-five thousand seven hundred ninety-three) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of twenty nine (0.29) euro cents. 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the year 2015 and 2014. 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 2015 and 31 December 2014 the shareholders of the Company were:

| | 31 December 2015 | | 31 December 2014 | |
|---|----------------------------------|-----------------------|----------------------------------|-----------------------|
| | 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 2015 was 367 (374– in 2014).

Financial statements approval

The Company’s management approved these financial statements on 9 March 2016. 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 euro and rounded to the nearest thousand (EUR 000), except when otherwise indicated.

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

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

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

2 Accounting principles (cont'd)

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

2.1. Basis for preparation of the financial statements

Statement of compliance

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

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 2015:

- IFRS 3 *Business Combinations*. This improvement clarifies that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. IFRS 3 did not have any impact on the financial statements, because the Company does not have business combinations.
- IFRS 13 *Fair value Measurement*. This improvement clarifies that the scope of the portfolio exception defined in paragraph 52 of IFRS 13 includes all contracts accounted for within the scope of IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in IAS 32 Financial Instruments: Presentation. The standard did not have any effect on the Company's financial statements.
- IAS 40 *Investment property*. This improvement clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in IFRS 3 Business Combinations and investment property as defined in IAS 40 Investment Property requires the separate application of both standards independently of each other. The standard did not have any effect on the Company's financial statements and results.
- IFRIC Interpretation 21 *Levies*. 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 Amendments to the standard did not have any impact on the financial statements.

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 2016 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 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* (approval was postponed indefinitely). The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the 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). IFRS 14 provides first-time adopters of IFRS with relief from derecognizing rate-regulated assets and liabilities. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the standard. 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 2018, 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.
- IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019, once endorsed by the EU). IFRS 16 replaces IAS 17 and specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting is substantially unchanged. The Company has not yet evaluated the impact of the implementation of this standard.

Improvements to IFRSs

- 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.

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, euro (EUR), which is the functional currency of the Company.

Transactions and balances

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

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.
- GDP – planned Liquefied natural gas (LNG) onshore reloading station and the foreseen start of the Company's LNG reloading station activities and supply of services is the beginning of 2017. Currently, the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions.

2.4. Investment into subsidiaries

The Company accounts for its investments in subsidiaries using the cost method. A subsidiary is an entity that is controlled by the Company. The financial statements of the subsidiary are prepared for the same reporting period as the Company. 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.

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).

2 Accounting principles (cont'd)

2.5. Investment into associates (cont'd)

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company. After application of the equity method the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in its associate. The Company determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the caption "Share of 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 2015 and 31 December 2014). Intangible assets with finite lives are amortised over the useful economic lives of 3 to 4 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end (Note 3).

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

2.7. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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, 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 |
| Gas sampling system and gas accounting system | 9 |
| Other measuring devices | 4 |
| Controlling devices | 10 |
| Computers and communication equipment | 4 |
| Vehicles and other tangible assets | 6 |

2.8. Financial assets – initial recognition and measurement

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

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

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

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

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

2 Accounting principles (cont'd)

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

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 2015 and as of 31 December 2014.

Held-to-maturity investments

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

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are financial assets (which are non-derivative financial instruments) that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the in the profit (loss) (Note 12).

2.9. Non-current assets held for sale

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

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

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

2.10. Derecognition of financial assets and liabilities

Financial assets

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

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

2 Accounting principles (cont'd)

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

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.

Financial liabilities

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

2.11. Employee benefits

Social security contributions

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

Termination benefits

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

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

2.12. Inventories

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

2.13. Cash and cash equivalents

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

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

2.14. Borrowings

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

The borrowing costs, which represent a part of the cost price of a qualifying asset, the Company must begin to capitalize from the start of capitalization. Capitalization start is considered to be the day when the company meets the following conditions for the

2 Accounting principles (cont'd)

2.14. Borrowings (cont'd)

first time: incurs costs in respect of the asset, incurs borrowing costs, carries out activities required to prepare the asset for its intended use or sale.

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

2.15. Financial and operating lease

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

Financial lease

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

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

The Company did not have any finance lease contract as of 31 December 2015 and as of 31 December 2014.

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 (Note 30).

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.

2.16. Income tax

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

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

The effective income tax rate applicable for companies of the Republic of Lithuania in 2015 was 15 % (15 % - in 2014) (Note 26).

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

2 Accounting principles (cont'd)

2.16. Income tax (cont'd)

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

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

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

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

2.17. Dividends

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

2.18. Basic and diluted earnings per share

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

2.19. Provisions

General

Provisions are recognised when the Company has a present legal or constructive obligation in respect of past events and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects the provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. 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 20).

2.20. Revenue recognition

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

Income from oil products handling

The Company recognises revenues from oil 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)

2.20. Revenue recognition (cont'd)

Income from reservoirs rent

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

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

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

Based on LNG terminal law clause 5.2, all users of the natural gas transmission system, including final consumers, are obliged to pay the Additional Security supplement together with their other payments for the natural gas transmission service. The payments are collected by the transmission service operator ((hereinafter referred to as "TSO") either directly from the user or from suppliers of natural gas in case the user has no direct contractual obligations with the TSO. The Additional Security Supplement is established by the NCC on an annual basis in proportion to the planned quantities of natural gas delivered for the purposes of the user (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 in the years 2014 and 2015 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 for the year 2015 and on 23 December 2015 by the resolution No. 03-683 for the year 2016.
- 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 receivables are recorded in profit (loss).

2.21. 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.

2.22. 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.

2 Accounting principles (cont'd)

2.22. Impairment of assets (cont'd)

Financial assets (cont'd)

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.

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.

2.23. Use of estimates and judgements

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

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

Information on critical estimates and judgements are detailed below:

Assets held for sale

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

2 Accounting principles (cont'd)

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

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 the asset belongs to (Note 4).

Impairment losses of receivables

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

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 specialized nature that only the lessee can use them without major modifications.

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

On 2 March 2012 the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of 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 EUR 263.978 thousand. The amount was not included into the Company's 31 December 2013 statement of financial position. However, Hoegh LNG Ltd. has provided certain new information including also on FSRU fair value valuation, whereas, on the Company's view, under IFRS FSRU lease shall be classified as operating lease from Hoegh LNG to AB Klaipėdos Nafta under the Time Charter Party (TCP) entered into between the parties (Note 30).

2 Accounting principles (cont'd)

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

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

Based on IFRS criteria, the following accounts were taken into consideration by the Management of the Company when concluding on the substance of the lease:

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

On 9 March 2015 the Company concluded the Liquefied Natural Gas Terminal jetty usage agreement (hereinafter – Jetty rent) with the Klaipeda State Seaport Authority (hereinafter – KVJUD). The Agreement is concluded inter alia in accordance with the Decree of the Republic of Lithuania Government No. 864 dated 11 June 2012 "Regarding the Decree of the Republic of Lithuania dated 15 February 2012 No. 199 "Regarding the Construction of the LNGT" Amendment", which 6 clause determined that the execution company of the LNGT project and (or) LNGT operator shall use the jetty for mooring of the liquefied natural gas floating storage unit and shall pay the annual jetty fee calculated in accordance with the requirements of the present decree and other legal acts under basis of agreement with the Port Authority (Note 29).

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

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

Current and deferred income tax

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

2 Accounting principles (cont'd)

2.24. Contingencies

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

2.25. Subsequent events

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

2.26. 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.

2.27. Fair value

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

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

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

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

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

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

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

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

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

Fair value hierarchy. To increase consistency and comparability in fair value measurements and related disclosures, the 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 |
|---|----------|
| Acquisition cost: | |
| Balance as of 31 December 2013 | 947 |
| Acquisitions | 231 |
| Transfers from non-current assets | 144 |
| Reclassification to property, plant and equipment | (3) |
| Sold and written-off property | (1) |
| Balance as of 31 December 2014 | 1,318 |
| Acquisitions | 94 |
| Sold and written-off property | (6) |
| Balance as of 31 December 2015 | 1,406 |
| Accumulated depreciation and impairment: | |
| Balance as of 31 December 2013 | 580 |
| Amortization for the year | 119 |
| Reclassification to property, plant and equipment | (3) |
| Sold and written-off property | (1) |
| Balance as of 31 December 2014 | 695 |
| Amortization for the year | 209 |
| Sold and written-off property | (6) |
| Balance as of 31 December 2015 | 898 |
| Net book value as of 31 December 2013 | 367 |
| Net book value as of 31 December 2014 | 623 |
| Net book value as of 31 December 2015 | 508 |

The non-current intangible asset amortization amounts to EUR 209 thousand for the year 2015 (EUR 119 thousand - in 2014). EUR 121 thousand of amortization has been included into cost of sales (EUR 62 thousand - in 2014) 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 |
|--|------|--------------------------|--------------------------------|--------------------------|--------------------------|---------|
| Balance as of 31 December 2013 acquisition cost: | 38 | 128,664 | 102,779 | 2,895 | 39,342 | 273,718 |
| Acquisitions | - | 13 | 174 | 605 | 38,935 | 39,727 |
| Retirements and disposals | - | - | (90) | (242) | - | (332) |
| Transfers from inventories | - | - | 12 | 1 | 158 | 171 |
| Transfers to intangible assets | - | - | - | - | (144) | (144) |
| Transfers from intangible assets | - | - | - | 3 | - | 3 |
| Transfers from construction in progress | - | 10,270 | 44,738 | 7,713 | (62,721) | - |
| Balance as of 31 December 2014 | 38 | 138,947 | 147,613 | 10,975 | 15,570 | 313,143 |
| Acquisitions | - | 4 | 183 | 229 | 6,669 | 7,085 |
| Advance payments | - | - | - | - | (479) | (479) |
| Retirements and disposals | - | (1,829) | (1,144) | (39) | - | (3,012) |
| Transfers from inventories | - | - | - | 1 | 62 | 63 |
| Transfers to construction in progress | - | - | - | - | 48 | 48 |
| Transfers from construction in progress | - | 19,182 | 1,087 | 108 | (20,377) | - |
| Balance as of 31 December 2015 | 38 | 156,304 | 147,739 | 11,274 | 1,493 | 316,848 |
| Accumulated depreciation and impairment: | | | | | | |
| Balance as of 31 December 2013 | - | 55,077 | 65,767 | 2,462 | 201 | 123,507 |
| Depreciation for the year | - | 3,995 | 3,283 | 184 | - | 7,462 |
| Retirements and disposals | - | - | (89) | (240) | - | (329) |
| Impairment for the year (reversal) | - | - | (330) | - | - | (330) |
| Transfers from intangible assets | - | - | - | 3 | - | 3 |
| Balance as of 31 December 2014 | - | 59,072 | 68,631 | 2,409 | 201 | 130,313 |
| Depreciation for the year | - | 4,308 | 6,288 | 1,991 | - | 12,587 |
| Retirements and disposals | - | (765) | (779) | (38) | - | (1,582) |
| Impairment for the year (reversal) | - | (1,017) | (274) | - | - | (1,291) |
| Balance as of 31 December 2015 | - | 61,598 | 73,866 | 4,362 | 201 | 140,027 |
| Net book value as of 31 December 2013 | 38 | 73,587 | 37,012 | 433 | 39,141 | 150,211 |
| Net book value as of 31 December 2014 | 38 | 79,875 | 78,982 | 8,566 | 15,369 | 182,830 |
| Net book value as of 31 December 2015 | 38 | 94,706 | 73,873 | 6,912 | 1,292 | 176,821 |

4 Property, plant and equipment (cont'd)

In 2015 the Company revised its property, plant and equipment and reversed impairment of EUR 1,291 thousand (In 2014 the Company revised its property, plant and equipment and reversed impairment of EUR 330 thousand) for the assets that were previously impaired, but in current reporting period were written off.

In 2015 and in 2014, the Company did not account for the impairment of non-current assets.

The depreciation of the non-current tangible assets amounts to EUR 12,587 thousand for the year 2015 (EUR 7,462 thousand – in 2014). EUR 22 thousand of depreciation charge was transferred to inventory value (EUR 46 thousand – in 2014), EUR 12,431 thousand of depreciation charge has been included into cost of sales (EUR 7,302 thousand - in 2014) and the remaining amount EUR 134 (EUR 114 – in 2014) has been included into operating expenses in the Statement of comprehensive income.

Part of the Company's property, plant and equipment with the acquisition cost of EUR 29,880 thousand as of 31 December 2015 was completely depreciated (EUR 24,360 thousand on 31 December 2014), however, it was still in operation.

Liquefied natural gas terminal project on the 1 December 2015 was fully finished and the last part of assets amounting to EUR 19,205 thousand were entered into operation (on the 1 December 2014 was partly finished and the part of assets amounting to EUR 52,209 thousand were entered into operation).

The Company's Liquefied natural gas terminal property, plant and equipment amounting to EUR 66,738 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 2015 (the Company had pledged asset amounting to EUR 66,465 thousand as of 31 December 2014).

As the borrowing cost was not significant, the Company did not capitalize borrowing cost during 2015 (there were capitalized borrowing cost amounting to EUR 158 thousand during 2014) into Liquefied natural gas terminal asset value and borrowing costs amounting to EUR 259 thousand (EUR 24 thousand – 2014) were included into operating expenses in the Statement of comprehensive income during the year 2015.

During the year 2015 the Company continued works in the following projects:

- *Liquefied natural gas terminal project.* The project 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 31 December 2015 the Terminal was capable of operating in the manner intended by management. As of 31 December 2015 the investments into implementation of LNG Terminal's project amounted to EUR 72,130 thousand. (During the year 2015 investment amounted to EUR 4,711 thousand).
- *Liquefied natural gas (LNG) onshore reloading station.* The foreseen start of the Company's LNG reloading station activities and supply of services is the beginning of 2017. Currently, the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions. As of 31 December 2015 the value of constructions in progress amounted to EUR 429 thousand (During the year 2015 investment amounted to EUR 429 thousand).
- *Modernization works of fire protection system* – investments for the upgrade of mechanical and automatic sections of the fire protection system. As of 31 December 2015 the value of constructions in progress amounted to EUR 32 thousand (During the year 2015 investment amounted to EUR 132 thousand).
- *LNG sampling system.* In order to ensure the LNG quality parameters there were invested into LNG sampling system. As of 31 December 2015 the value of constructions in progress of LNG sampling system amounted up to EUR 474 thousand (During the year 2015 investment amounted to EUR 474 thousand).
- *Other investment.* As of 31 December 2015 the value of constructions in progress amounted to EUR 358 thousand (During the year 2015 investment amounted to EUR 554 thousand).

5 Information about segments

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

- KNF – oil terminal in Klaipėda supplying oil products, providing 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.
- GDP – planned Liquefied natural gas (LNG) onshore reloading station and the foreseen start of the Company's LNG reloading station activities and supply of services is the beginning of 2017. Currently, the business unit engaged in this activity required the construction of infrastructure projects and creation of business conditions.

5 Information about segments (cont'd)

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

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

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 EUR 35,623 thousand:

Customer A – EUR 17,118 thousand (KNF – EUR 17,118 thousand);
Customer B – EUR 12,712 thousand (KNF – EUR 12,625 thousand and SKB – EUR 87 thousand);
Customer C – EUR 5,793 thousand (SGD – EUR 5,793 thousand).

Main indicators of the business segments of the Company included in the statement of comprehensive income and Statement of financial position for the financial year 2015 and 2014 are described below:

| For the twelve months period ended 31 December 2015 | SGD | SKB | GDP | KNF | Total |
|--|---------|--------|-------|---------|----------|
| Revenues from external customers | 69,882 | 2,561 | - | 37,259 | 109,702 |
| Profit before income tax | 7,637 | 991 | (402) | 15,878 | 24,104 |
| Segment net profit (loss) | 6,982 | 906 | (367) | 14,515 | 22,036 |
| Interest revenue | 4 | - | - | 18 | 22 |
| Interest expense | (259) | - | - | - | (259) |
| Depreciation and amortisation | (5,240) | (847) | - | (6,686) | (12,773) |
| Impairment and write-off of non-current tangible assets (reversal) | - | - | - | 1,291 | 1,291 |
| Net profit (loss) part in the associates | - | - | - | 40 | 40 |
| Acquisitions of tangible and intangible assets | 5,429 | 142 | 429 | 809 | 6,809 |
| Segment total assets | 94,271 | 13,622 | 636 | 130,258 | 238,787 |
| Loan and related liabilities | 29,737 | - | - | - | 29,737 |
| Segment total liabilities | 37,209 | 206 | 267 | 4,301 | 41,983 |
| For the twelve months period ended 31 December 2014 | SGD | SKB | GDP | KNF | Total |
| Revenues from external customers | 5,793 | 2,167 | - | 31,815 | 39,775 |
| Profit before income tax | (1,488) | 684 | (18) | 9,890 | 9,068 |
| Segment net profit (loss) | (1,519) | 698 | (18) | 10,096 | 9,257 |
| Interest revenue | - | - | - | 39 | 39 |
| Interest expense | (24) | - | - | - | (24) |
| Depreciation and amortisation | (56) | (813) | - | (6,667) | (7,536) |
| Impairment and write-off of non-current tangible assets (reversal) | - | - | - | 330 | 330 |
| Net profit (loss) part in the associates | - | - | - | (301) | (301) |
| Acquisitions of tangible and intangible assets | 38,572 | 375 | - | 1,183 | 40,130 |
| Segment total assets | 66,312 | 15,451 | - | 140,155 | 221,918 |
| Loan and related liabilities | 29,887 | - | - | - | 29,887 |
| Segment total liabilities | 43,173 | 171 | - | 3,859 | 47,203 |

6 Investment into subsidiaries

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

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

On 24 November 2015, JSC "SGD logistika", which is a wholly-owned subsidiary of SC Klaipėdos Nafta, signed a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG bunkering carrier. Following the signed agreement, JSC "SGD logistika" together with Bomin Linde LNG GmbH & Co. KG will establish a joint venture in Germany, in which JSC "SGD logistika" will hold 20% of the authorised capital and Bomin Linde LNG GmbH & Co. KG

6 Investment into subsidiaries (cont'd)

80% of the authorised capital. This entity will order construction of an LNG bunkering carrier. The LNG bunkering carrier will provide LNG fuel to clients of Bomin Linde LNG GmbH & Co. KG both at sea and in the Klaipėda port, will offer safe and flexible transportation of LNG from the Klaipėda LNG terminal to the LNG distribution station in the Klaipėda port, will transport LNG to terminals in the North Sea and the Baltic Sea.

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

The subsidiary's financial position:

| | JSC "SGD logistika" | |
|-------------------------|---------------------|---|
| | 2015 | |
| Non-current assets | | - |
| Current assets | 200 | |
| Non-current liabilities | | - |
| Current liabilities | | - |
| Equity | 200 | |

The subsidiary's comprehensive income:

| | JSC "SGD logistika" | |
|---------------|---------------------|---|
| | 2015 | |
| Income | | - |
| (Losses) | | - |
| Profit (loss) | | - |

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 Sp. z o.o and purchased 180 shares at a nominal value of PLN 500 each (EUR 25 thousand). In 2010 during the increasing of the authorized capital of Sarmatia Sp. z o.o the Company additionally purchased 100 shares with the par value of PLN 500 each (EUR 12 thousand). In 2012, during the increasing of authorised capital of Sarmatia Sp. z o.o, the Company additionally purchased 120 shares with the par value of PLN 500 each (EUR 14 thousand). In 2015, during the increasing of authorised capital of Sarmatia Sp. z o.o, the Company additionally purchased 73 shares with the par value of PLN 500 each (EUR 9 thousand).

The Company is entitled to appoint one of five board members to the management of Sarmatia Sp. z o.o, thus it can have significant influence. Therefore this investment was recorded using the equity method. Sarmatia Sp. z o.o 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 0,29 euro cents par value each. The total price of the new share issue as evaluated by independent appraisers was equal to EUR 75,301 (seventy five thousand thirty three hundred 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 0,29 euro cents par value each. The total price of the new share issue as evaluated by independent appraisers was equal to EUR 76,460 (seventy three thousand four hundred sixty), of which the Company has paid EUR 19 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 0,29 euro cents par value each during the year 2014.

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

As at 31 December 2015 and 2014 the Company owns 33 percent of JSC BALTPPOOL shares and their voting rights at the General Meeting of the Shareholders of JSC BALTPPOOL.

JSC LITGAS

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.

7 Investment into associates (cont'd)

On 10 April 2015 the NCC decided to issue a transmission system operator's license of indeterminate duration for SC "Amber Grid", with a condition that the Ministry of Energy of the Republic of Lithuania within the period, which would be no longer than 12 months from the date of coming into effect of the present decision by the Commission, shall perform actions in order that the shares of JSC LITGAS, currently held by SC "Klaipėdos nafta", are transferred to a business entity, which is not directly or indirectly controlled by the Ministry of Energy of the Republic of Lithuania, as indicated in the Opinion of the European Commission.

On 30 April, 2015 the Board of the Company adopted a decision on initiation of sale of the shares of JSC LITGAS, owned by the Company which constitute a tranche of 1/3 of the share capital of JSC LITGAS, UAB by public offering. Accordingly, shares of JSC LITGAS were reclassified to assets held for sale as further describe in Note 12.

Financial information regarding the Company's investments into Sarmatia Sp. z o. o, JSC Baltpool and JSC LITGAS is presented in the table below as of 31 December 2015 and 31 December 2014:

The associate's financial position:

| | Sarmatia Sp. z o. o | | JSC Baltpool | | JSC LITGAS | | Total | |
|-------------------------|---------------------|-------|--------------|----------|------------|----------|----------|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Non-current assets | - | - | 33 | 32 | - | 196 | 33 | 227 |
| Current assets | 1,704 | 333 | 43,842 | 27,537 | - | 48,982 | 45,546 | 76,853 |
| Non-current liabilities | (576) | (311) | (2) | (2) | - | - | (578) | (313) |
| Current liabilities | - | - | (43,469) | (27,394) | - | (37,058) | (43,469) | (64,452) |
| Equity | 1,128 | 22 | 404 | 173 | - | 12,120 | 1,532 | 12,315 |

The associate's comprehensive income:

| | Sarmatia Sp. z o. o | | JSC Baltpool | | JSC LITGAS | | Total | |
|---------------|---------------------|-------|--------------|-------|------------|----------|-------|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Income | 82 | 43 | 533 | 219 | - | 31,654 | 615 | 31,916 |
| (Losses) | (519) | (304) | (419) | (447) | - | (32,329) | (938) | (33,080) |
| Profit (loss) | (437) | (261) | 114 | (228) | - | (675) | (323) | (1,164) |

Structure of the Company's investments in the associates as at 31 December 2015 and 31 December 2014 was as follows:

| | Ownership interest (%) | | Investment value | | Comprehensive income (loss) | |
|---------------------|------------------------|-------|------------------|-------|-----------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Sarmatia Sp. z o.o. | 1.00 | 1.00 | 11 | - | 2 | (3) |
| JSC Baltpool | 33.00 | 33.00 | 133 | 57 | 38 | (75) |
| JSC LITGAS | - | 33.33 | - | 4,040 | - | (223) |
| Total | - | - | 144 | 4,097 | 40 | (301) |

Investments into associates, net value:

| | Sarmatia Sp. z o. o | | JSC Baltpool | | JSC LITGAS | | Total | |
|--|---------------------|------|--------------|------|------------|-------|---------|-------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Book value at start of period | - | 3 | 57 | 75 | 4,040 | 210 | 4,097 | 286 |
| Acquisitions during the year | 9 | - | 38 | 57 | - | 4,055 | 47 | 4,112 |
| Change in value | 2 | (3) | 38 | (75) | - | (223) | 40 | (301) |
| Reclassification to assets held for sale | - | - | - | - | (4,040) | - | (4,040) | - |
| Book value at end of period | 11 | - | 133 | 57 | - | 4,040 | 144 | 4,097 |

8 Long-term receivables and accrued income

| | 31-12-2015 | 31-12-2014 |
|--------------------------|------------|------------|
| Long-term accrued income | 2,401 | 1,681 |

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 is recognized 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

| | 31-12-2015 | 31-12-2014 |
|---|------------|------------|
| Diesel fuel for the Terminal purpose | 1,071 | 733 |
| Oil products for sale | 331 | 422 |
| Liquefied natural gas in the connecting pipeline | 50 | 63 |
| Fuel for transport and other equipment | 35 | 43 |
| Spare parts, construction materials and other inventories | 1,337 | 2,013 |
| Write-down of spare parts, construction materials and other inventories | (1,097) | (1,674) |
| | 1,727 | 1,600 |

As of 31 December 2015 the Company had accounted write down of inventories in the amount of EUR 1,097 thousand (EUR 1,647 thousand on 31 December 2014), 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 down the inventories to the net realisable value if they are not used for more than 6 months and in other occasions, if there's clear evidence that net realisable value is lower.

Reversal of inventories to the net realizable value of EUR 577 thousand for the year ended of 31 December 2015 (31 December 2014 – EUR 8 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 2015 the Company stored 4,394 tons of heavy oil products collected in its Waste Water Treatment Facilities (31 December 2014 – 4,865 tons).

As of 31 December 2015 the Company stores 1.5 thousand MWh (as of 31 December 2014 - 1.8 thousand MWh) natural gas in the connecting pipeline of the Liquefied natural gas terminal to ensure activities.

As of 31 December 2015 the Company stored 159.4 thousand tons of oil products delivered for transshipment in its storage tanks (on 31 December 2014 - 196.6 thousand tons). 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.

As of 31 December 2015 the Company stored 955 thousand MWh (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

| | 31-12-2015 | 31-12-2014 |
|---|------------|------------|
| Receivables for trans-shipment of oil products and other related services | 2,940 | 1,887 |
| Receivables for LNGT services security component | 24,792 | - |
| Less: impairment allowance | (16) | - |
| | 27,716 | 1,887 |

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

On 31 December 2015 and on 31 December 2014 the Company did not have any trade debts denominated in other currency.

The Company has recognized impairment allowance in the amount of EUR 16 thousand on 31 December 2015. Allowance for trade and other accounts receivable is accounted when the Company's management is certain that the amount will not be recovered.

Change in allowance for receivables for the years 2015 and 2014 has been included into operating expenses in the Statement of the comprehensive income.

The age analysis of trade receivables as of 31 December 2015 and 2014 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 | | |
| 2015 | 9,699 | 31 | 12,052 | 4,886 | 1,048 | - | 27,716 |
| 2014 | 1,711 | 166 | - | - | 10 | - | 1,887 |

10 Trade receivables (cont'd)

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 Other receivables and accrued income

| | 31-12-2015 | 31-12-2014 |
|--|--------------|--------------|
| Accrued income from JSC Hoegh LNG Klaipėda (cost reduction) | 720 | - |
| Short-term accrued income for storage of oil products | 289 | 562 |
| VAT receivable | 9 | 1,474 |
| Accrued income for natural gas regasification services | - | 5,793 |
| Receivable compensation for the Liquefied natural gas terminal project | - | 766 |
| Other receivables | 9 | 48 |
| | <u>1,027</u> | <u>8,643</u> |

Short-term accrued income has decreased per year 2015 in comparison to 2014 mostly due to actually billed regulated regasification LNGT activity income.

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

12 Assets held for sale

| | 31-12-2015 | 31-12-2014 |
|----------------------|------------|------------|
| Shares of JSC LITGAS | 4,040 | - |

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

13 Other financial assets

| | 31-12-2015 | 31-12-2014 |
|--------------------------------------|------------|------------|
| Cession of rights in Vnesekonom bank | 29 | 29 |
| Loan to JSC "Zavesys" | 100 | 101 |
| Less: allowance for receivables | (129) | (130) |
| Total loans and receivables | <u>-</u> | <u>-</u> |

| | 31-12-2015 | 31-12-2014 |
|---------------|------------|--------------|
| Cash deposits | <u>-</u> | <u>8,284</u> |

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

| Currency | 31-12-2015 | 31-12-2014 |
|----------|------------|--------------|
| EUR | <u>-</u> | <u>8,284</u> |

On 24 January 2003 SC "Naftos terminalas", as a part of settlement for the shares acquired, transferred to the Company the right of demand for the deposit of USD 95,266 thousand (or EUR 80,295 thousand) in the liquidated Vnesekonom bank and the right to the loan provided to JSC "Zavesys". Acquisition cost of the right in the liquidated Vnesekonom bank amounts to EUR 29 thousand. The Company's Management considers the receivables subject to the acquired rights of demand to be doubtful, therefore they have been accounted for at cost less 100% allowance.

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 2015 and 2014, which the payoff maturity term is longer than one financial year.

13 Other financial assets (cont'd)

As of 31 December 2015 the Company does not hold any cash deposits in banks. As of 31 December 2014 the Company held cash deposits in banks in the amount of EUR 8,284 thousand with the average redemption term of 120 days and average interest rate of 0.17%.

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.

14 Cash and cash equivalents

| | 31-12-2015 | 31-12-2014 |
|-----------------|---------------|---------------|
| Cash at bank | 23,788 | 1,955 |
| Cash in transit | - | 8,947 |
| | <u>23,788</u> | <u>10,902</u> |

Cash in bank earns variable interest depending on the closing balance of every day. As of 31 December 2015 the Company had one night term deposits of EUR 45 thousand, and in 2014 had one night term deposits of EUR 1,827 thousand.

As of 31 December 2014 the Company has transferred to the Escrow account amount of 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. On 28 August 2015 the Company fully settled with Fluor S.A.

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

| Currency | 31-12-2015 | 31-12-2014 |
|----------|---------------|---------------|
| EUR | 18,995 | 10,902 |
| USD | 4,793 | - |
| | <u>23,788</u> | <u>10,902</u> |

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

| | 31-12-2015 | 31-12-2014 |
|------|---------------|---------------|
| A + | 12,347 | 96 |
| A | 10,989 | 17,261 |
| AA - | 452 | 1,829 |
| | <u>23,788</u> | <u>19,186</u> |

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.

15 Issued capital

During the year 2015 and 2014 the authorized capital of the Company did not change (Note 1).

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, and rounded to one decimal place. The resulting changed due to nominal value calculation recognized Company's expenses during the year 2015.

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

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

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

16 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 2015 and 2014.

On 31 December 2015 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were EUR 202 thousand (EUR 301 thousand – in 2014) as follows:

| | Pension obligations | |
|---------------------|---------------------|------|
| | 2015 | 2014 |
| Start of period | 301 | 242 |
| Calculated per year | 46 | 117 |
| Paid per year | (145) | (58) |
| End of period | 202 | 301 |

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

| | 31-12-2015 | 31-12-2014 |
|-------------------------|------------|------------|
| Discount rate | 1.49 % | 2.17 % |
| Staff turnover rate | 8.43% | 5.75% |
| Future salary increases | 3.1 % | 3 % |

17 Loan

| | 31-12-2015 | 31-12-2014 |
|-----------------------|------------|------------|
| Loan | 29,693 | 29,832 |
| Payable loan interest | 44 | 55 |
| | 29,737 | 29,887 |

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

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

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

On 31 December 2015 and On 31 December 2014 the Company has undrawn borrowing facility in the amount of EUR 57,000 thousand from EIB.

On 31 December 2015 and on 31 December 2014 European Investment Bank's loan balance includes EUR 168 thousand bank loan administrative fee.

The Company shall ensure that the ratio of EBITDA to Interest in respect of the period of twelve months ending on the last day of each of the Company's financial years shall not fall below 4,0:1,0. The Company complied with financial covenant as of 31 December 2015 and as of 31 December 2014.

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

17 Loan (cont'd)

Loan repayments:

| | On demand | Less than 3 months | 3 to 12 Months | 1 to 5 years | More than 5 years | Total |
|----------------------------------|-----------|--------------------|----------------|--------------|-------------------|--------|
| Loan repayments 31 December 2015 | - | - | - | 3,443 | 26,557 | 30,000 |
| Loan repayments 31 December 2014 | - | - | - | 1,475 | 28,525 | 30,000 |

- On 6 February 2013 the Company signed with Nordea Bank Finland PLC an overdraft agreement for EUR 34,754 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.

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

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

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

The Company did not use the loan from NIB during the year 2015 and 2014.

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

18 Trade and other payables

| | 31-12-2015 | 31-12-2014 |
|-------------------------------------|------------|------------|
| Payables for FSRU operating leasing | 5,237 | 4,374 |
| Payable to contractors | 671 | 6,191 |
| Other trade payables | 417 | 809 |
| Payable for gas services | 301 | 563 |
| Payable for railway services | 170 | 136 |
| Other payments related FSRU | 169 | 418 |
| Payable for rent of land | - | 189 |
| | 6,965 | 12,680 |

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

On 31 December 2015 trade payables of EUR 4,972 thousand were denominated in USD (there were denominations amounting to EUR 4,488 in USD as of 31 December 2014).

19 Liabilities related to labour relations

| | 31-12-2015 | 31-12-2014 |
|---------------------------|------------|------------|
| Accrual of annual bonuses | 1,026 | 668 |
| Accrued vacation reserve | 752 | 721 |
| Social insurance payable | 327 | 2 |
| Salaries payable | 6 | 3 |
| Income tax payable | 2 | 2 |
| Payable guarantee fund | 2 | - |
| Other deductions | 1 | - |
| | 2,116 | 1,396 |

20 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.

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 2014, 2015 and the following periods:

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Total |
|--------------------------------------|----------|----------|------------|----------|----------|----------|----------|----------|----------|
| Allocated * | 21,368 | 19,123 | 16,939 | 14,820 | 12,766 | 10,780 | 8,858 | 7,007 | 111,661 |
| Emission allowance consumed and used | (18,239) | (16,582) | (15,787**) | - | - | - | - | - | (50,608) |
| Planned to be used | - | - | - | (18,000) | (18,000) | (18,000) | (18,000) | (18,000) | (90,000) |
| Received | - | 21,368 | 33,521 | - | - | - | - | - | 54,889 |

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

** Unaudited

As of 31 December 2015 and as of 31 December 2014 the Company did not account for liabilities for emission allowance.

21 Other current liabilities

| | 31-12-2015 | 31-12-2014 |
|--|------------|------------|
| Accrued tax expenses and tax liabilities | 428 | 162 |
| Other accrued expenses and liabilities | 66 | 1,574 |
| Other liabilities | 4 | 67 |
| | 498 | 1,803 |

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

22 Sales income

| | 2015 | 2014 |
|--|---------|--------|
| Income from LNGT services regulated by NCC | 69,882 | 5,793 |
| Sales of oil transshipment services | 37,896 | 33,202 |
| Other sales related to transshipment | 1,263 | 750 |
| Sales of inventories | 661 | 30 |
| | 109,702 | 39,775 |

During the year 2014 the Company under the procedures provided for in the agreement with its client, Litasco S.A., has received a notification that Litasco S.A, a company of Lukoil companies group, 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. In the year 2015 the contract Litasco S.A. was terminated.

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

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

Income from LNGT services regulated by 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.

22 Sales income (cont'd)

| Terminal service | Price set |
|---|-------------------------|
| LNG regasification service price (set for year 2015) | 0.00 Eur/MWh, excl. VAT |
| LNG reloading service price (set for years 2015-2019) | 1.14 Eur/MWh, excl. VAT |
| Security supplement to gas transmission tariff for the year 2015 | 2.73 Eur/MWh, excl. VAT |
| Security supplement to gas transmission tariff for the year 2015 with discount* | 2.15 Eur/MWh, excl. VAT |
| *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 years 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 by the resolutions yearly. Supplement is dedicated to cover fixed operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes refasified 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 issued on 13 September, 2013 and its subsequent amendments. NCC also set return of investments of 6.86% for 2015-2019 period.

On 1 August 2014 the Company concluded LNG terminal user's contract with JSC LITGAS. JSC LITGAS was the only Terminal User of the LNG terminal during the year 2015.

23 Cost of sales

| | 2015 | 2014 |
|--|--------|--------|
| FSRU rent and other expenses | 50,198 | 4,375 |
| Depreciation and amortization | 12,552 | 7,364 |
| Wages, salaries and social security | 6,700 | 5,972 |
| Natural gas | 2,224 | 3,306 |
| Rent of land and quays | 2,132 | 915 |
| Railway services | 1,818 | 1,377 |
| Electricity | 1,293 | 1,415 |
| Insurance of assets | 1,237 | 486 |
| Repair and maintenance of non-current assets | 528 | 327 |
| Tax on real estate | 421 | 426 |
| Services for transport | 231 | 60 |
| FSRU services related expenses | 217 | 82 |
| Services for tankers | 170 | 133 |
| Work safety costs | 128 | 69 |
| Rent of facilities | 45 | 28 |
| Other | 685 | 290 |
| | 80,579 | 26,625 |

24 Operating expenses

| | 2015 | 2014 |
|--|-------|-------|
| Salary, social security | 2,840 | 2,671 |
| Consulting and legal costs | 516 | 275 |
| Depreciation and amortisation (3, 4 Notes) | 221 | 172 |
| Expenses for Business trips | 155 | 120 |
| Charity | 140 | 115 |
| Communication costs | 133 | 75 |
| Communication | 126 | 148 |
| Representation, advertising | 74 | 119 |
| Expenses for refresher courses | 42 | 44 |
| Long term asset impairment change, (reversal) | 40 | (330) |
| Expenses related to the management of securities | 32 | 28 |
| Impairment allowance, (reversal) | 16 | (33) |
| Repair and maintenance of non-current assets | 14 | 37 |
| Other | 474 | 445 |
| | 4,823 | 3,886 |

Operating expenses were mostly increased by LNG terminal administration costs during the year 2015 and 2014.

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

| | 2015 | 2014 |
|-------------------------------------|-------|------|
| Interest income | 22 | 39 |
| Penalties collected | 9 | 6 |
| Financial income, total | 31 | 45 |
| Penalty expenses | (1) | - |
| (Losses) from currency exchange | (147) | (5) |
| Interest (expenses) | (259) | (24) |
| Other financial activity (expenses) | (146) | - |
| Financial activity expenses, total | (553) | (29) |
| Financial result, total | (522) | 16 |

26 Income tax

| | 2015 | 2014 |
|---|-------|-------|
| Current income tax expense | 1,865 | 696 |
| Deferred tax expense | 203 | (885) |
| Income tax expense (income) recorded in the profit (loss) | 2,068 | (189) |

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 2015 and 2014 is as follows:

| | 2015 | 2014 |
|--|---------|-------|
| Accounting profit before tax | 24,104 | 9,068 |
| Applying 15 % profit tax rate of the Company | 3,616 | 1,360 |
| Deductible expenses of income tax (charity) | (42) | (39) |
| Investment projects' relief | (1,865) | (696) |
| Non-deductible expenses of income tax | 393 | 439 |
| Non-taxable income | (237) | (368) |
| Applying 15% effective income tax | 1,865 | 696 |
| Effective rate | 7.74% | 7.67% |

Deferred income tax consists of:

| | Statement of Financial position | | Statement of Comprehensive income | |
|--|---------------------------------|---------|-----------------------------------|-------|
| | 2015 | 2014 | 2015 | 2014 |
| Accelerated depreciation for tax purposes | 262 | 277 | 15 | (5) |
| Write-offs of inventories to realizable value | 165 | 251 | 86 | 1 |
| Accrued annual bonuses | 153 | 92 | (61) | (11) |
| Impairment of non-current assets | 118 | 327 | 209 | 26 |
| Long-term employee benefit liability | 30 | 45 | 15 | (8) |
| Vacation reserve | 27 | 26 | (1) | (6) |
| Other temporary differences | - | - | - | 5 |
| Associates' equity method | 15 | 67 | 51 | (45) |
| Accrued income | (360) | (252) | 108 | 131 |
| Investment incentive of non-current assets | (2,660) | (2,795) | (135) | (135) |
| Investment projects' relief | 923 | 838 | (84) | (838) |
| Deferred income tax expenses/ (income) recognises in profit (loss) | - | - | 203 | (885) |
| Deferred income tax assets/ (liabilities), net as at the year-end | (1,327) | (1,124) | - | - |

As of 31 December 2015 the Company did not recognise EUR 19 thousand (EUR 20 thousand – in 2014) of the deferred income tax asset related to the decrease in receivables (Loan to JSC "Zavesys" and cession of rights in Vnesekonom bank) as the Management does not expect the income tax asset to be recognised as deductible expenses in the future.

Management's of the Company judgement was not to recognize as deferred tax asset amounted up to EUR 78 thousand from the investment incentive in the amount of up to EUR 523 thousand as of 31 December 2015, which expiry date is till 2019 and up to

26 Income tax (cont'd)

EUR 2,838 thousand from the investment incentive in the amount of up to EUR 18,922 thousand as of 31 December 2015, which expiry date is till 2018 (amount up to EUR 4,703 thousand from the investment incentive in the amount of up to EUR 31,354 thousand as of 31 December 2014, which expiry date is till 2018) as the Management does not expect the income tax asset to be recognised as investment incentive in the future.

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

While assessing deferred income tax asset and liability components as of 31 December 2015 and 2014 the Company has used the income tax rate of 15 %.

27 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:

| | 2015 | 2014 |
|---|---------|---------|
| Net profit attributable to shareholders | 22,036 | 9,257 |
| Weighted average number of ordinary shares (thousand) | 380,606 | 380,606 |
| Earnings and reduced earnings (in EUR) | 0.06 | 0.02 |

28 Dividends

| | 2015 | 2014 |
|---|---------|---------|
| Dividends declared | (92) | (103) |
| Weighted average number of shares (thousand) | 380,606 | 380,606 |
| Dividends declared per share (expressed in EUR per share) | 0.0002 | 0.0003 |

The General Meeting of the Shareholders held on 30 April 2015 approved profit appropriation for the year 2014 and allotted to the Shareholders dividends in the amount of EUR 92 thousand for 2014. The General Meeting of the Shareholders held on 30 April 2014 approved profit appropriation for the year 2013 and allotted to the Shareholders dividends in the amount of EUR 103 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 2015. As of 31 December 2015 the outstanding amount of dividends not paid during the previous financial year amounted to EUR 34 thousand (EUR 45 thousand as of 2014).

29 Financial assets and liabilities and risk management

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – SC Amber Grid – on 31 December 2015 accounted for approximately 89%, SC "Orlen Lietuva" – on 31 December 2015 accounted for approximately 5% (about 30% as of 31 December 2014), "Litasco S.A." – did not have any receivable amount as of 31 December 2015 (about 57% as of 31 December 2014) of the total Company's receivables from all its customers. The average payment term for SC Amber Grid is 15 calendar days, SC "Orlen Lietuva" – 10 calendar days, for "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.

Extraordinary general meeting of shareholders of the Company was convened on 14 December 2015, which decided that: 1) the Company shall guarantee to Bomin Linde LNG GmbH & Co. KG for the fulfilment of the obligations by the wholly-owned subsidiary JSC "SGD logistika" under the joint venture agreement and other arrangements in connection with this agreement for the entire effective term of the joint venture agreement, up to USD 14,000 thousand. The said guarantee is deemed to be issued; 2) the Company shall guarantee under a first demand guarantee for the obligations of the joint venture to be established by the wholly-owned subsidiary JSC "SGD logistika" and Bomin Linde LNG GmbH & Co. KG, which would rent and operate a liquefied

29 Financial assets and liabilities and risk management (cont'd)

Credit risk (cont'd)

natural gas bunkering carrier, to pay the rent for the carrier to the extent that JSC "SGD logistika" undertakes to pay such rent, up to USD 13,000 thousand. The said guarantee has not been issued.

It should be noted that notwithstanding the two guarantees to be issued by the Company, the obligations guaranteed by the USD 13,000 thousand guarantee fall into the scope of the obligations guaranteed by the USD 14,000 guarantee, therefore should the Company be requested to fulfil its' obligations under one of the said guarantees, it will not be requested to fulfil its' obligations under the second one. In light of the above the total obligations of the Company under both said guarantees amount to USD 14,000 thousand.

The Company did not have any guarantee obligations of other parties as of 31 December 2014. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the Statement of Financial position. Consequently, the Company considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts and cash and other short-term deposits recognised at the date of Statement of Financial position. In the Management's opinion there were no any circumstances, which would guarantee additional obligations to the Company.

Interest rate risk

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

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

The Company's assets held to maturity bear fixed interest rates. The Company holds money and time deposits on the accounts of major Lithuanian banks 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.

As of 31 December 2015 and as of 31 December 2014 increase in EURIBOR interest rate by 10 basic points would increase yearly interest amount by EUR 30 thousand.

Exchange rate risk

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

As of 31 December 2014 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 EUR 449 thousand. As of 31 December 2015 changes in USD exchange rates do not have any material impact on the Company's profit before tax.

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

Liquidity risk

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

The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2015 were 5.56 and 5.40, respectively (2.05 and 1.95 as at 31 December 2014).

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 2015 and 2014 the Company's liquidity is high because the Company assumed financial Commitments only in the end of 2013 (had no financial commitments in 2014), and accumulates cash funds for the performance of its strategic objectives.

29 Financial assets and liabilities and risk management (cont'd)

Liquidity risk (cont'd)

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2015 and 2014 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 | 6,965 | - | 6,424 | 541 | - | - | 6,965 |
| Other current liabilities | 94 | - | 94 | - | - | - | 94 |
| Loan and interest | 29,737 | - | 21 | 141 | 4,076 | 27,537 | 31,775 |
| Balance as of 31 December 2015 | 36,796 | - | 6,539 | 682 | 4,076 | 27,537 | 38,834 |
| Trade and other payables | 12,680 | - | 12,680 | - | - | - | 12,680 |
| Other current liabilities | 1,641 | - | 1,641 | - | - | - | 1,641 |
| Loan and interest | 29,887 | - | 43 | 170 | 2,377 | 30,106 | 32,697 |
| Balance as of 31 December 2014 | 44,208 | - | 14,364 | 170 | 2,377 | 30,106 | 47,018 |

EUR 541 of the EUR 6,965 thousand as at 31 December 2015 (EUR 1,269 thousand of the EUR 12,680 thousand amount as at 31 December 2014) is the retention amounts under contracts, which are paid for when all work under a contract has been completed. There is no possibility to forecast these payment terms.

EUR 29,737 thousand of EUR 36,769 thousand as at 31 December 2015 (EUR 29,887 thousand of EUR 44,208 thousand as at 31 December 2014) is repayable EIB and NIB loan.

The biggest trade and other payable amounts are to PPS Pipeline System GmbH, SC "Lietuvos dujos", SC "Inter RAO Lietuva, JSC "Hoegh LNG Klaipėda" of 31 December 2015. 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" as of 31 December 2014.

Fair value of financial assets and liabilities

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

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

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

| | Carrying amount | | Fair value | |
|------------------------------|-----------------|--------|------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| Financial assets | | | | |
| Trade receivables | 27,716 | 1,887 | 27,716 | 1,887 |
| Cash | 23,788 | 10,902 | 23,788 | 10,902 |
| Short-term accrued income | 1,019 | 6,356 | 1,019 | 6,356 |
| Other financial assets | - | 8,284 | - | 8,284 |
| Financial liabilities | | | | |
| Loan and interest | 29,737 | 29,887 | 27,778 | 27,628 |
| Trade payables | 6,965 | 12,680 | 6,965 | 12,680 |
| Accrued expenses | 66 | 1,641 | 66 | 1,641 |

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.
- 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).

29 Financial assets and liabilities and risk management (cont'd)

Capital management

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

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

On 3 July 2012, changed Articles of the Company were registered in the Registry of Legal Entities with increased authorised capital of EUR 110,376 thousand. The Company's authorised capital in the amount of EUR 110,376 thousand 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 2015 and 2014.

The Company has to keep its equity at least up to 50% of its share capital, as imposed by the Law on Companies of Republic of Lithuania as of 31 December 2015 and as of 31 December 2014.

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

30 Commitments and contingencies

Operating lease commitments

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

In 2015 the Company's land rent expenses amounted to EUR 624 thousand (EUR 625 thousand – in 2014).

Total amount of future minimum payments of land rent:

| | 31-12-2015 | 31-12-2014 |
|------------------------|---------------|---------------|
| Within one year | 624 | 626 |
| From one to five years | 2,496 | 2,504 |
| After five years | 21,216 | 21,916 |
| | <u>24,336</u> | <u>25,046</u> |

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

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

Total amount of future minimum payments of jetty rent:

| | 31-12-2015 |
|------------------------|--------------|
| Within one year | 165 |
| From one to five years | 660 |
| After five years | 7,256 |
| | <u>8,081</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.

30 Commitments and contingencies (cont'd)

Operating lease commitments (cont'd)

FSRU operating lease payments include such elements:

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

FSRU operating lease costs accounted during the years 2015 and 2014:

| | 2015 | 2014 |
|----------------------|--------|-------|
| Charter Hire Element | 45,583 | 3,894 |
| OPEX Element | 1,235 | 167 |
| Management Fee | 636 | 54 |
| Crew Costs | 2,744 | 260 |
| | 50,198 | 4,375 |

On 31 December 2015, the total amount of future minimum payments of FSRU operating lease amounted to EUR 411,508 thousand (on 31 December 2014 – EUR 409,649 thousand):

| | 31-12-2015 | 31-12-2014 |
|------------------------|------------|------------|
| Within one year | 46,292 | 41,321 |
| From one to five years | 184,789 | 165,399 |
| After five years | 180,427 | 202,929 |
| | 411,508 | 409,649 |

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 EUR 27,468 thousand excluding VAT and EUR 33,236 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 EUR 4,481 thousand. The long-term constructions finished in the year 2015, however the amount of EUR 541 thousand is suspended until September, 2016.

Legal disputes

- On 17 June 2014 the Company received a ruling of the Court of Appeal of Lithuania in the case according to statement of claim of the claimant JSC Naftos Grupė against the Company for the indemnification for losses of EUR 5 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:

- ✓ 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;

30 Commitments and contingencies (cont'd)

Legal disputes (cont'd)

- ✓ damages in the amount of EUR 865 thousand and 6 percent annual interest on the awarded amount for the period from initiation of the proceedings (18 April 2011) till full execution of the court decision were awarded from the respondent (the Company) for the benefit of the claimant, that is only about half of the sum, which was awarded in favour of JSC Naftos Grupė by the decision of the court of first instance and the whole sum, claimed by JSC Naftos Grupė as compensation for loss of business, was fully rejected by the Court of Appeal, also
- ✓ litigations costs were reallocated proportionally between the parties to the proceedings.

On 25 July, 2014 the Supreme Court of Lithuania by its ruling accepted for consideration the cassation appeal lodged by SC Klaipėdos nafta against part of the ruling of the Court of Appeal of Lithuania from 17 June, 2014, in the court case according to statement of claim of the claimant Naftos Grupė, JSC, against the Company for the counterclaim of the Company for invalidation of the Agreement, indemnification for damages and unjust enrichment.

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

On 8 May 2015 Supreme Court of Lithuania by order of the first and appellate court decisions quashed and referred the case to the first instance court for re-examination. On 11 September 2015 Regional Court of Vilnius reopened the proceedings in the case included the Competition Council of Lithuanian, which is currently preparing a report. A sitting of the Supreme Court of Lithuania is not arranged.

Management's opinion is that the Company is unlikely to suffer any additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2015 and 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 (EUR 32,958 thousand) and for covering of the LNGT funds administration expenses (EUR 87 thousand) and established that the NCC has the right to adjust such amounts of expenses in case of changes in essential circumstances, which have a significant effect on the funding and implementation of the SGDT project.
- ✓ Paragraph 2 of Resolution No. 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 (EUR 11 thousand for 1,000 m³, value added tax exclusive).

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

On 11 June 2015 SC „Achema" appeal against Vilnius Regional Court decision made on 28 May 2015 in the administrative case No. I-25 1 -629 1201 5. A sitting of the Court of Lithuania is not arranged.

Management's opinion is that the Company is unlikely to suffer any additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2015 and as on 31 December 2014, because the Company is involved in the case as a third person concerned.

- On 23 May 2014 the Company received a notification from Vilnius Regional Court of a claim from JSC Rudesta submitted against the Company for compensation of extra jobs under the construction contract in the amount of EUR 315 thousand and penalty in amount of EUR 17 thousand.

On 20 June 2014 the Company appeal against JSC Rudesta to Vilnius Regional Court of a claim for penalty for late work done under the construction contract in the amount of EUR 169 thousand.

30 Commitments and contingencies (cont'd)

Legal disputes (cont'd)

In the year 2015 the case was still suspended and referred for examination.

The 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 2015 and as on 31 December 2014.

- Representation in the administrative case, which is being disputed" a building permit issued to JSC "Krovinių terminalas". The first hearing was held on 2 September 2015. The court identified additional period to the parties to try to settle the dispute peacefully. The next hearing is not appointed.

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

Guarantees

- The Company as the owner the warehouse for storage of custom goods in order to secure due fulfilment of custom tax obligations on 28 December 2015 signed a Guarantee Issuance Agreement dated, with SC SEB bank for the amount of EUR 1,448 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 2016.

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 EUR 1,448 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 21 October 2015, signed with AB SEB bank for the amount of EUR 579 thousand has submitted a letter of payment guarantee to the State Tax Inspectorate. The last effective day of the Letter of Guarantee will be 4 November 2016.

The Company as the owner of excise warehouse in order to secure due fulfilment of tax obligations subject to Guarantee Issuance Agreement on 1 December 2015, signed with AB SEB bank for the amount of EUR 29 thousand has submitted a letter of payment guarantee to the State Tax Inspectorate. The last effective day of the Letter of Guarantee will be 27 November 2016.

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 EUR 579 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 EUR 498 thousand, valid up to 12 January 2017.
- 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 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 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 2014, 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.

30 Commitments and contingencies (cont'd)

Guarantees (cont'd)

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 35 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 35 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.

On the 28 December 2015 the Company concluded an Guarantee agreement with SC SEB bank amount of EUR 875 thousand and has submitted a letter of payment guarantee to LNG Hrvatska d.o.o. The last effective day of the Letter of Guarantee will be 27 December 2016.

- The Company shall guarantee to Bomin Linde LNG GmbH & Co. KG for the fulfilment of the obligations by the wholly-owned subsidiary JSC "SGD logistika" under the joint venture agreement and other arrangements in connection with this agreement for the entire effective term of the joint venture agreement, up to USD 14,000 thousand

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

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

30 Commitments and contingencies (cont'd)

Regulated profit (loss) by NCC

Net financial profit of the LNG terminal operating segment of the Company amounts to Eur 6,981 thousand for the year 2015. According to the NCC methodic the regulated unaudited net profit amounts to approximately Eur 1,787 thousand. As a result of the larger consumption of the natural gas and additionally received procedural interest and fines, total received amount of regulated income in unaudited data in 2015 is higher by Eur 5,194 thousand than it was calculated in accordance to the regulation of NCC. According to the regulation additionally received amount shall be dedicated for the LNG terminal required expenses for the coming financial periods.

31 Related party transactions

The parties are considered related when one party has a possibility to control the other one or has significant influence over the other party in making financial and operating decisions. The related parties of the Company and transactions with them in 2015, 2014 were as follows:

Transactions with Lithuanian State controlled enterprises and institutions:

| | | Purchases from related parties | Sales to related parties | Receivables from related parties | Payables to related parties |
|---|------|--------------------------------------|--------------------------------|--|-----------------------------------|
| State Enterprise Klaipėda State Seaport Authority owned by the State of Lithuania represented by the Ministry of transportation | 2015 | 782 | 22 | - | - |
| | 2014 | 928 | 16,338 | 746 | 189 |
| SC Lithuanian Railways owned by the State of Lithuania represented by the Ministry of transportation | 2015 | 1,905 | - | - | 170 |
| | 2014 | 1,412 | - | - | 136 |
| SC "Lesto", owned by the State of Lithuania represented by the Ministry of Energy | 2015 | 546 | - | - | 70 |
| | 2014 | 676 | - | - | 87 |
| SC Lietuvos dujos | 2015 | 429 | - | - | 66 |
| | 2014 | 2,636 | - | - | 69 |
| JSC Lietuvos dujų tiekimas | 2015 | 1,441 | - | - | 164 |
| | 2014 | 675 | - | - | 451 |
| SC Amber Grid | 2015 | 430 | 73,750 | 24,792 | 71 |
| | 2014 | 191 | - | - | 42 |
| PE Lietuvos naftos produktų agentūra | 2015 | - | 1,260 | 132 | - |
| | 2014 | - | 1,456 | 121 | - |
| JSC LITGAS | 2015 | - | - | - | - |
| | 2014 | 7,430 | - | - | 4,177 |
| Other related parties (Lithuanian energy institute, Klaipėda Territorial Customs, JC Klaipėda city sport's center | 2015 | 97 | 5 | - | 1 |
| | 2014 | 6 | 8 | - | - |
| Transactions with related parties in total: | 2015 | 5,630 | 75,038 | 24,924 | 542 |
| | 2014 | 13,954 | 17,802 | 867 | 5,151 |

Management salaries and other payments

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

| | 2015 | 2014 |
|--------------------------|-------|-------|
| Labour related costs | 2,157 | 1,958 |
| Number of managing staff | 36 | 34 |

During 2015 and 2014 the Management of the Company did not receive any loans, guarantees, and no other paid or accrued amounts or property was transferred.

32 Subsequent events

- On January 2016 the Company and the Swiss-registered company Verum Plus AG has signed a long term transshipment contract on provision of dark oil products services in AB Klaipėdos nafta terminal (hereinafter – the Contract). The term of the Contract is until 31 December 2016, with an option to extend it for one more year. This Contract shall guarantee additional volume of dark petroleum products from Belarus Republic refineries.
- On 25 January, 2016 the Board of the *Company* has approved the corporate strategy of the Company for 2016 -2020 (hereinafter – *the Strategy*). Moreover, in order to define the Company's dividend calculation, payment and declaration process, the Board of the Company, by implementing the Strategy, also approved the Dividend Policy of the Company. The Dividend Policy provides that the Board of the Company shall, on the basis of net profit of previous financial year of the Company and General Manager's proposal regarding profit distribution, present the draft decision to approve the dividend allocation equal to 50% (fifty percent) of the Company's annual net profit to the Company's shareholders.
- On the 4th and 5th of February, 2016 the Company has signed Terminal Usage Agreements with UAB "Lietuvos dujų tiekimas" (hereinafter – *Contract no. 1*) and AB "Achema" (hereinafter – *Contract no. 2*) respectively.

According to the Contract no. 1 the following Terminal capacities were allocated to Terminal user JSC "Lietuvos dujų tiekimas":

1. LNG regasification capacities: LNG regasification capacities 2.383.478.060 kWh with reference conditions: natural gas upper heating value- 11.90 kWh/nm³, expansion coefficient- 1:578 (m³ LNG/ nm³ natural gas), combustion/measurement temperature -25/0 °C, pressure – 1.01325 bar.
2. Terminal capacity usage period: from the 5th of February, 2016 until the 30th of September, 2016.

According to the Contract no. 2 the following Terminal capacities were allocated to Terminal user SC "Achema":

1. LNG regasification capacities: LNG regasification capacities 7.238.034.070 kWh, reference conditions: natural gas upper heating value- 11.90 kWh/nm³, expansion coefficient- 1:578 (m³ LNG/ nm³ natural gas), combustion/measurement temperature -25/0 °C, pressure – 1.01325 bar.
2. Terminal capacity usage period: from the 15th of February, 2016 until the 30th of September, 2016.

- On 12 February 2016 the Company concluded a contract on engineering, procurement and construction works for Liquefied natural gas onshore reloading station (EPC) with German concern PPS Pipeline Systems GmbH (hereinafter – Consortium). The Consortium undertook to complete all the works according to the contract on a lump sum amount of 27,7 mln. EUR excluding VAT
- On 12 February 2016 the Board of the Company, following National Commission for Energy Control and Prices's 30 December 2015 Resolution No O3-700 „Regarding establishment of the price of the natural gas liquefaction service for the year 2016" (hereinafter – the Resolution), approved a new price of the natural gas liquefaction (regasification) service of the liquefied natural gas terminal- 0,10 EUR/MWh (VAT excluded). This price is applied inclusively as of 1 January 2016.
- on 8 March 2016 at 1:00 p.m. an extraordinary general meeting of shareholders of the Company adopted these decisions:
 1. Regarding the approval of the decision of the Board of AB Klaipėdos Nafta to enter into the contract on engineering and construction (EPC) works for the Klaipėda LNG Reloading Station with the winner of the public procurement "Procurement of engineering and construction works (EPC) for Liquefied Natural Gas Reloading Station", conducted by the way of negotiated procedure without prior public publication:

"To approve the decision of SC Klaipėdos Nafta's Board:

 1. To conclude the contract on performance of engineering and construction (EPC) works for the Klaipėda LNG Reloading Station (hereinafter – the Works) (hereinafter – the Contract) with consortium PPS Pipeline Systems GmbH and Chart Ferox, a.s (hereinafter – the Contractor), who offered the lowest price and is the winner of the public procurement "Procurement of engineering, procurement and construction works (EPC) for Liquefied Natural Gas Reloading Station", conducted by SC Klaipėdos Nafta by the way of negotiated procedure without prior public publication, under the following main conditions:
 - 1.1. The Contractor shall perform the Works required for engineering and construction of the small scale liquefied natural gas (LNG) reloading and bunkering reloading station, including procurement of Works related goods and services, as defined in the Contract.
 - 1.2. The total fixed price for the Works performed under the Contract shall be EUR 27,700 thousand (twenty seven million seven hundred thousand euro zero cents) without VAT and EUR 33,517 thousand (thirty three million five hundred seventeen thousand zero cents) with VAT (the tariff which is applicable on the day the Contract is concluded is 21 percent).
 - 1.3. The start of the operations of the natural gas reloading station is 15 months as of the Contract comes in force.
 - 1.4. Fixed price of the Contract may increase and the term for performance of the Works may be extended only in exclusive cases explicitly provided in the Contract. SC Klaipėdos Nafta shall pay the fixed price only for actually performed Works.
 2. In case the total price of the Contract is increased more than 10 percent or the final execution period of the Contract is extended more than 60 days, in order to ensure proper control of amendment of the Contract for such increase of the

32 Subsequent events (cont'd)

Contract price and / or Contract performance period SC Klaipedos Nafta management shall obtain the approval of the board.

3. To authorise the General Manager of Klaipedos Nafta to conclude contract on performance of engineering and construction (EPC) works for the Klaipeda LNG Reloading Station with the consortium PPS Pipeline Systems GmbH and Chart Ferox, a.s under the main conditions approved by this Board decision.”

2. Regarding the amendment of 25 August 2015 decision Regarding the approval of the decision of SC Klaipedos Nafta’s Board to implement liquefied natural gas distribution station investment project” item No 1:

“1. To approve the decision of the Board of SC Klaipedos Nafta to implement liquefied natural gas distribution station investment project for the total price not exceeding EUR 27,700 thousand (without VAT) and 10 % reserve which can be used only in exceptional cases.

2. To amend the 25 August 2015 decision “Regarding the approval of the decision of SC Klaipedos Nafta’s Board to implement liquefied natural gas distribution station investment project” item No 1 to the following:

“1. SC Klaipedos Nafta to implement liquefied natural gas distribution station investment project for the total price not exceeding EUR 27,700 thousand (without VAT) and 10 % reserve which can be used only in exceptional cases.””

- On 9 March 2016 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 2015, 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

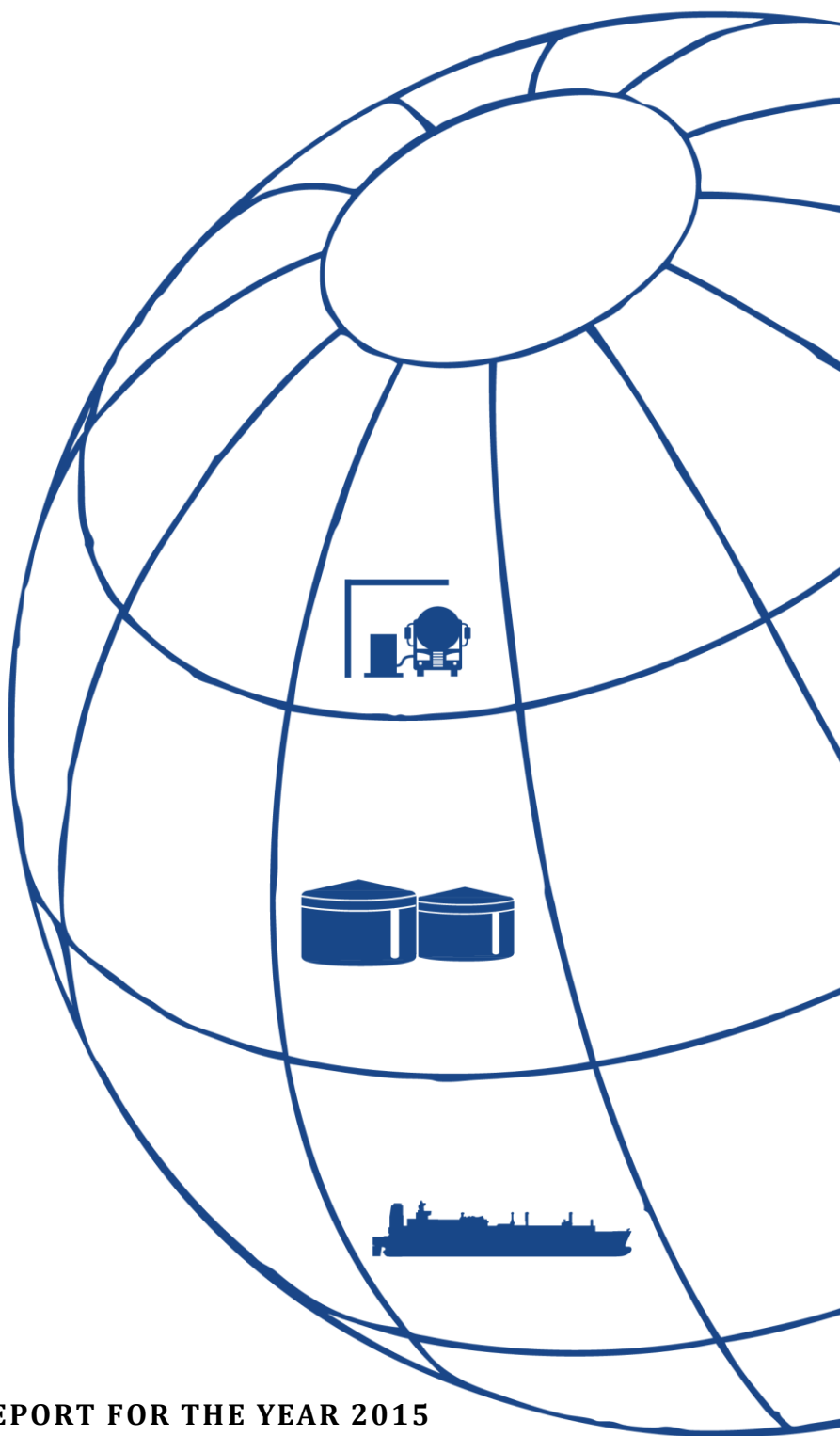
Marius Pulkauninkas

Head of Accounting Division

Asta Sedlauskienė



KLAIPEDOS NAFTA
S T O C K C O M P A N Y



ANNUAL REPORT FOR THE YEAR 2015

Klaipėda
9 March 2016

 CONTENT

| | |
|--|----|
| FOREWORD OF THE HEAD OF SC KLAIPEDOS NAFTA | 52 |
| INFORMATION ABOUT THE COMPANY AND ITS ACTIVITY | 53 |
| THE COMPANY'S STRATEGY | 54 |
| THE COMPANY'S ACTIVITY BUSINESS UNITS | 56 |
| SIGNIFICANT EVENTS OF THE REPORTING PERIOD | 61 |
| SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD | 63 |
| RISK FACTORS AND RISK MANAGEMENT | 65 |
| BUSINESS ENVIRONMENT AND MARKET | 67 |
| FINANCIAL RESULTS OF ACTIVITY | 72 |
| ACTIVITY PLANS AND FORECASTS | 77 |
| IMPLEMENTATION OF THE LNG RELOADING (DISTRIBUTION) STATION PROJECT | 78 |
| INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY | 79 |
| MANAGEMENT OF THE COMPANY | 83 |
| INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY | 88 |
| SOCIAL RESPONSIBILITY OF THE COMPANY | 91 |
| OTHER INFORMATION | 94 |
| AB KLAIPĒDOS NAFTA GOVERNANCE REPORTING | 95 |

Abbreviations:

KNF - Oil terminal in Klaipėda
 LNGT – Liquefied Natural Gas Terminal;
 LNG – Liquefied Natural Gas;
 OP- Oil Products;
 HFO – Heavy Oil Products;
 LFO - Light Oil Products;
 SKB – Subacius fuel storage facility;
 GDP – LNG small scale reloading station;
 OPP – Oil-Processing Plant (refinery);
 NCC - National Control Commission for Energy control and prices;
 NIB - Nordic Investment Bank;
 EIB – European Investment Bank.

FOREWORD OF THE HEAD OF SC KLAIPEDOS NAFTA



The year 2015 was very important and significant for our Company – it was full of responsible works, which were completed with good results, as well as ambitious future plans.

The end of 2014 manifested with the event, significant to both the Company and the entire energy independence of Lithuania, i.e. arrival and commencement of operation of the LNG terminal vessel INDEPENDENCE. 2015 was the first full year of the LNG terminal's life therefore the principal tasks were to ensure safe operation and search for efficient activity solutions. In order to ensure efficiency, we performed tests and experiments, tried different modes of operation. During the calendar year of 2015 the LNG terminal accepted 5 vessel carriers, which regasified and provided to Lithuania's consumers more than 4.5 million MWh. After more than one year of terminal's operation we are certain that we can work with a larger number of customers, accept and regasify significantly larger volumes of gas, which are very

likely to increase, since in the beginning of 2016 we already signed two new contracts for use of the terminal's capacities.

The Company's oil products transshipment activity was also exceptionally good last year. The favourable macroeconomic conditions allowed for increasing the transshipment of oil products in our terminal for the second year in a row. The high refining margins created the conditions for our key customer, ORLEN Lietuva AB, to increase the oil refining and, respectively, the export of oil products through our terminal. On the other hand, we took actions in order to attract additional customers and oil products' freights. After a long break we recommenced the transshipment of light oil products, produced in Belarus and concluded new long-term crude oil transshipment contracts with Belarus's oil products owners. The attempts to create the best conditions as possible for the customers for transshipping oil products through our terminal gave the results. So during the last year we succeeded in increasing the transit and import transshipment volumes and the total volume of transshipment in the oil terminal alone amounted to 6.3 million tons. This amount is larger than that, observed during the last two years, by 9 and 13 per cent respectively.

Believing in future prospects of oil products transshipment and wishing to increase the terminal's flexibility and attractiveness, we made the decision to invest into the terminal's technological capacities development by increasing the light oil products tank farm and the import infrastructure capacities. We believe that further consistent and reliable activity as well as keeping stable relations with the customers will help us to increase the terminal's competitiveness and transshipment volumes.

In the Subacius fuel storage facility, controlled by the Company, along with the activities of the obligatory reserve of oil products of the Republic of Lithuania, we commenced providing commercial oil products storage services. Therefore the volumes of storage at the facility nearly approached the maximum.

The year 2015 manifested with the best revenue and profit results throughout the Company's history. By ensuring the control of processes and costs, efficiency of regulated activities and profitability of commercial activities, we managed to prove that we are able professionally integrate new activities into Lithuania's energy system, timely respond to the market changes and, by competing on the free market, generate profit and increase the Company's value.

In 2015 the Company's net profit reached EUR 22 million, EBITDA – EUR 37 million. Compared to 2014, the net profit increased 2.4 times, EBITDA – 2.2 times. This significant change resulted from the commencement of the LNG terminal activities and the highly profitable oil products transshipment activities. In total, the Company's revenues reached EUR 109.7 million, including almost EUR 70 million of revenues from the LNG terminal activities. It is worth mentioning that a part of the revenues from LNG terminal activities were not planned, since the consumption of natural gas in Lithuania was higher than foreseen and the received by the Company interests and forfeits for delay payments. All such unplanned amounts will reduce the security supplements during the coming periods. We are also glad that the issue of collection of the security supplements, i.e. LNG terminal earnings, which had been of much concern, was resolved and all the funds will be collected properly.

In the recently approved year 2016 - 2020 Company's strategy we foresaw clear long-term plans we shall be reaching. We believe that the works, performed in 2015, are a solid foundation for further development of a modern, open, developing, reliable, transparent and socially responsible Company.

In 2016 we will continue to dedicate significant attention to ensuring reliable activities of the LNG and oil terminals, increasing the volumes of activities, implementation of the LNG reloading station construction project and development of the oil terminal's capacities.

We will also continue reaching for the Company's activities to be profitable and transparent, that will help us to approach to the level of modern Western European companies.

SC Klaipėdos nafta

General Manager

Mantas Bartuska

INFORMATION ABOUT THE COMPANY AND ITS ACTIVITY

Reporting period

The Annual Report for the year 2015 is prepared for the period from 1 January 2015 until 31 December 2015. In this Annual Report, SC Klaipėdos Nafta is referred to as the Company.

Details about the Company (Issuer)

| | |
|---------------------------------|---|
| Name of the Company: | Stock Company Klaipėdos Nafta |
| Legal status: | Stock Company |
| Authorized share capital: | 110,375,793 Eur |
| Date and place of registration: | 27 September 1994 m., State Enterprise Centre of Registers |
| Company code: | 110648893 |
| Address: | Buriu Street 19, 91003 Klaipėda |
| Register of the Company: | State Enterprise Centre of Registers |
| Telephone numbers: | +370 46 391772 |
| Fax numbers: | +370 46 311399 |
| E-mail address: | info@oil.lt |
| Internet site: | www.oil.lt , www.sgd.lt |

Brief history and activities of the Company

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

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

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

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

The Company's operations can be divided into four separate activities: oil product transshipment (oil terminal), LNG terminal operations, LNG small scale activities and long term oil product storing (Subačius fuel storage facility). All of these activities are autonomous. The management assesses financial results of each activity and sets individual strategic objectives.



Oil terminal

LNG terminal

Subačius fuel storage facility

LNG small-scale activities

Current activities

Planned activities

Information about investment into other companies:

The Company has invested into the following companies as of 31 December 2015:

| Name of the Company | Address | Part of owned shares in per cents | Activities |
|---------------------|--|-----------------------------------|---|
| JSC SGD logistika | 33-2 Gedimino str., LT-01109 Vilnius | 100 | Planned LNG transportation activities. |
| JSC LITGAS | 14 Zveju str., LT-092101 Vilnius | 33.33 | Confirmed as an assigned LNG supplier through the LNG Terminal. |
| JSC BALTPOOL | 9 A. Juozapaviciaus str., LT-09311, Vilnius | 33 | Development of activity of energy resources (bio-fuel, gas) exchange, administration of Public Interest Services (PIS) funds. |
| Sarmatia Sp. z o.o. | ul. Nowogrodzka 68, Prima court, 02-014 Warsaw, Poland | 1 | Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea. |

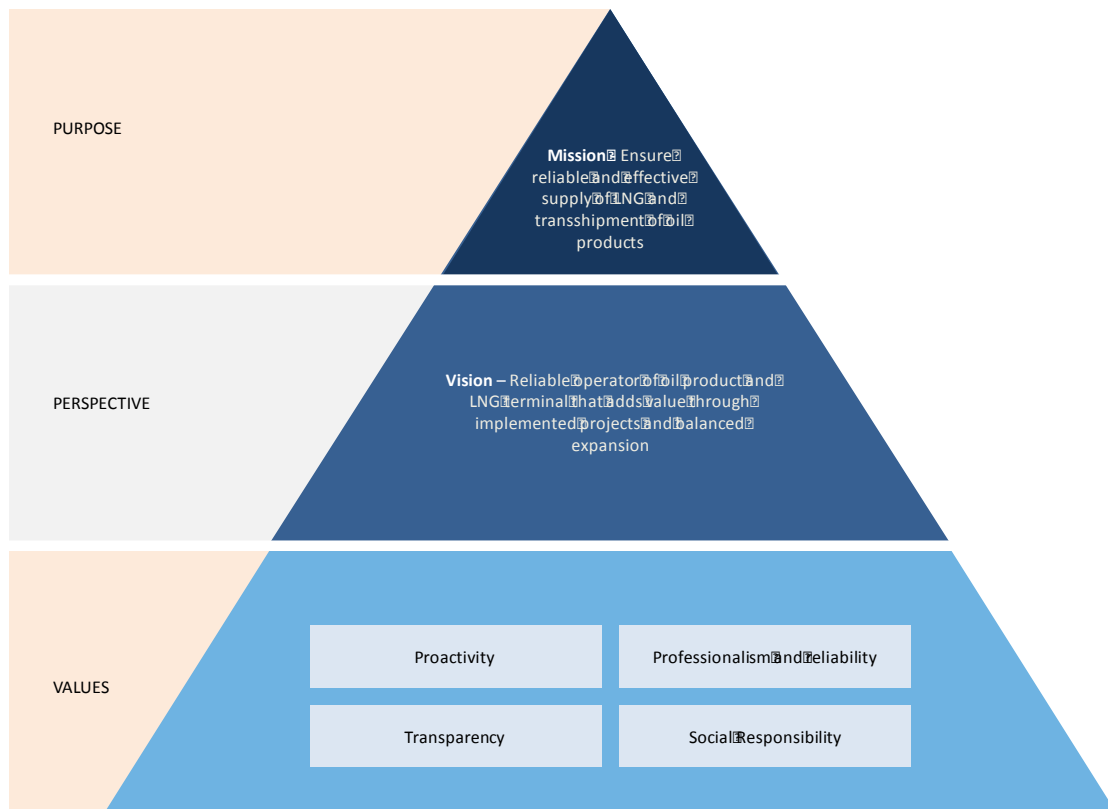
Participation in Associations

The Company has been acting as a member of the following associations as at the end of the year 2015:

- Association of Lithuanian Stevedoring Companies, www.ljkk.lt;
- Lithuanian Confederation of Industrialists, www.lpk.lt;
- Gas Infrastructure Europe (GIE) association Gas LNG Europe (GLE) group, www.gie.eu.com.

THE COMPANY'S STRATEGY

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



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

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

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

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

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

| Strategic objectives for the separate activities | | | |
|---|--|--|--|
| Oil terminal | LNG terminal | LNG small scale | Long term fuel storage facilities |
| Increase awareness and attractiveness to the owners of oil products | An alternative source provision for the supply of natural gas to Lithuania | Creation of small scale LNG infrastructure | Proper storage of national reserve of oil products |
| Improve flexibility and capacity of oil transshipment | LNG terminal expenses reduction for the consumers of natural gas | Development of Regional LNG market | Increase long term storage capacity and volume of the activity |
| Enlarge the scope of activities and volume of services provided | Development of services related to the activities of LNG terminal | | |
| Ensure safe operation of the oil terminal | | | |

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

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

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

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

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

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

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

THE COMPANY'S ACTIVITY BUSINESS UNITS

The oil and oil product terminal

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

The Company's Oil Terminal reloads these oil products:

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



The optimum capacity of the Company's oil terminal is approximately 7 million tons of oil product transshipment per year. The oil products transshipment service processes

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

Shipment batches are stored in onshore storage, the overall volume of which amounts to 450 thousand cbm. Loading into tankers is performed at two jetties, each 270 m in length, the maximum draught is 13.4 m.

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

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

At present SC Klaipėdos Nafta provides the following services at the oil terminal:

- Transshipment of crude oil and oil products from rail tank-cars into tankers;
- Transshipment of crude oil and oil products from tankers into rail tank-cars;
- Reloading of crude oil and oil products into road tankers;
- Accumulation of crude oil and oil products;
- Collection of waste water from sea vessels which is contaminated with oil products;
- Mooring of sea vessels;
- Assessment of quality parameters of oil products;
- Provides technology for adding chemical products into oil products;
- Blending of heavy and light oil products;
- Supply of fuel and water to sea vessels.

Oil terminal investments during the year 2015 comprised EUR 809 thousand. The main directions of the investments were directed for: to increase the efficiency and capacities, extending transshipment pipelines, fire-safety components extension, acquired new heat-exchanger was purchased (its installation was completed in 2016).

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 Subačius fuel storage facility (SKB) located in Kunčiai village, Kupiškis district. The infrastructure of the Subacius fuel storage facility consists of the following:

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



After the takeover of the Subacius fuel Storage facility infrastructure the Company's activity and services have been diversified and expanded by the oil products long term storage services. The Subacius fuel storage facility has been successfully integrated into SC Klaipėdos Nafta organizational 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 2015 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2015.

The major part of storage tanks are filled with the obligatory reserve of oil products of the Republic of Lithuania. In 2015 the service was commenced to be provided to other customers. The SKB also provides the service of filling of oil products into tank trucks.

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

- In 2014 - 2015 Klaipėdos Nafta invested into modernization and upgrading of the mobile fire extinguishing equipment at the Subačius fuel storage facility. The investment is related with implementation of the measures of technical supply to the SKB fire safety forces in order to ensure observance of the requirements by the Fire and Rescue Department of the Republic of Lithuania. At present the fire safety at the SKB is being taken care of by the fire safety forces, established inside the Company.

The total investment into the fire extinguishing equipment at the SKB will reach about EUR 377 thousand (a part of investment is planned to be executed in 2016). The major part of the investment is dedicated to the mobile fire extinguishing equipment, i.e. the pump station and modernizing the hoses and foam vehicles. In case of fire water will be provided from all the water sources, existing on the territory. The Company is also upgrading the equipment, used for supply of water from the River Levuo, which will allow for shortening the time for preparation for extinguishing fire and providing the necessary amount of water in case of the need to extinguish fire.

- The reconstruction of sewage cleaning equipment was commenced in the second half of 2014 and completed in 2015: new and more efficient cleaning equipment was installed, the sewage metering devices, compliant with the applicable requirements, were connected and the new necessary pipelines were constructed. The investment is going to ensure that the water, spilled out into the environment, will be properly cleaned of oil products and other contaminants. For the investment the Company will receive support from the Lithuanian Environmental Investment Fund according to the water management financing direction. The total value of the project is about EUR 130 thousand.
- Each year, in accordance with the approved long-term plan, the SKB oil products storage tanks are renewed by renovating and repainting their walls and bottoms. In 2015 the Company invested EUR 111 thousand into such renovation.

Liquefied Natural Gas Terminal

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

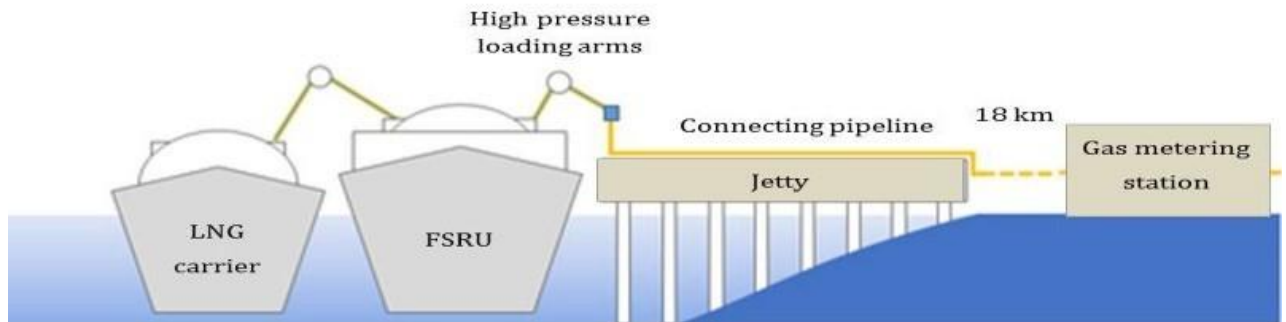
The LNG terminal supplements and expands the existing natural gas supply infrastructure, provides additional opportunities for supply diversification, eliminates the dependence on the single external supplier of natural gas, ensures safe natural gas

supply, and complies with the requirements of the directive N-1 infrastructure standard, i.e., forms particular assumptions for independent gas supply in Lithuania, required in order to meet the unconventional demand.

Infrastructure of the Liquefied Natural Gas Terminal

The LNG terminal is based on Floating Storage and Regasification Unit technology. The LNG vessel-storage (FSRU) is leased by the Høegh LNG. Jetty of 450 m length to which the FSRU is permanently moored, has been built in the Curonian Lagoon in the southern part of port of 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.

The main parts of the LNG Terminal are provided below:



LNG vessel-storage with regasification unit

The LNG terminal is a LNG tank vessel (Independence), which, on the territory of Klaipėda seaport, accepts liquefied natural gas from LNG carriers, moored by the LNG terminal. The LNG is accumulated and pumped through special equipment in order to have it regasified. In 2012 the Company signed the 10 years FSRU lease agreement with a purchase option with the Norwegian company Høegh LNG. The FSRU is built by the South Korean shipyard Hyundai Heavy Industries Co., Ltd

| Characteristics of the Floating Storage and Regasification Unit (Independence)* | |
|---|--|
| TECHNOLOGY | Floating Storage and Regasification Unit (FSRU) |
| PLACE | southern part of Klaipeda state seaport, near Kiaules Nugara island |
| FSRU SUPPLIER | Norwegian company Høegh LNG |
| TANK | 170,000 m ³ |
| LOADING CAPACITIES | 9,000 m ³ /h of LNG. Loading from vessel to vessel using flexible hoses |
| FSRU CAPACITIES | 3.76 billion m ³ of NG per year (10.24 million m ³ per day) |
| MAXIMUM LNG FILLING LEVEL | 98 %, at 70kPag |
| MINIMUM OPERATIONAL LNG HEEL LEVEL | 3,500 m ³ of LNG |
| GAS FLOW TO THE GAS PIPELINE | 10.24 million m ³ per day |
| FSRU PRODUCTION DATE | 2014 year |
| FSRU LENGTH | 294 m |
| FSRU WIDTH | 46 m |
| FSRU DRAUGHT | 12.6 m |

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

Jetty and its Facilities:

The FSRU is permanently moored to the jetty in order to receive LNG from the gas carriers. Safe entry of vessels to the Klaipeda State Sea Port up to the Pigs Back 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 700 mm diameter connecting pipeline. Connection to the transmission network is equipped with the Gas Metering Station.

LNG terminal investments 2015

At the beginning of 2015 the LNG terminal infrastructure construction works were under completion. The total costs of the final works under the project amounted to EUR 4.7 million. The principal attention was dedicated to the necessity to properly complete the works of laying the gas pipeline section under the bottom of the Curonian Lagoon, refusing the previously used temporary pipelines. The works were successfully completed already in the first half of the year.

The amount of EUR 474 thousand was dedicated to procurement of LNG sampling system to be installed into the LNG terminal vessel in order to be able to continuously observe the quality of the LNG and prevent low quality gas from getting into the FSRU. The system has been installed however there is still a need for additional adjustments, which will be performed in 2016.

The LNG Terminal services

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

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

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

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

Prices set for Terminal services are:

- LNG regasification service price (hereinafter referred to as the LNG regasification service) is approved every year by the Company based on LNG regasification service price set by the National Control Commission for Prices and Energy (hereinafter - NCC);
- LNG reloading service price set by the NCC on 20 November 2014 by the resolution No 03-896.

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

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

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

The LNG terminal operation costs are included into the gas transmission tariff as a security supplement, which, starting from 2016 covers not only the LNG terminal's costs, but also the costs of the services, provided by the designated provider of natural gas and the forecasted losses, incurred by the designated provider as the result of the difference of LNG purchase and sales prices. Starting from 2016 the costs are distributed among the natural gas consumers based on their natural gas consumption capacities. The LNG terminal's security supplement tariff to Lithuanian users, approved on 23 December 2015 by the NCC, calculated per one unit of volume of consumption, will, in 2016, amount to EUR 510.16 / (MWh/day/year). The share of the said tariff, emerging due to the Company's LNG Terminal alone will, in 2016, amount to EUR 259.84 (MWh/day/year).

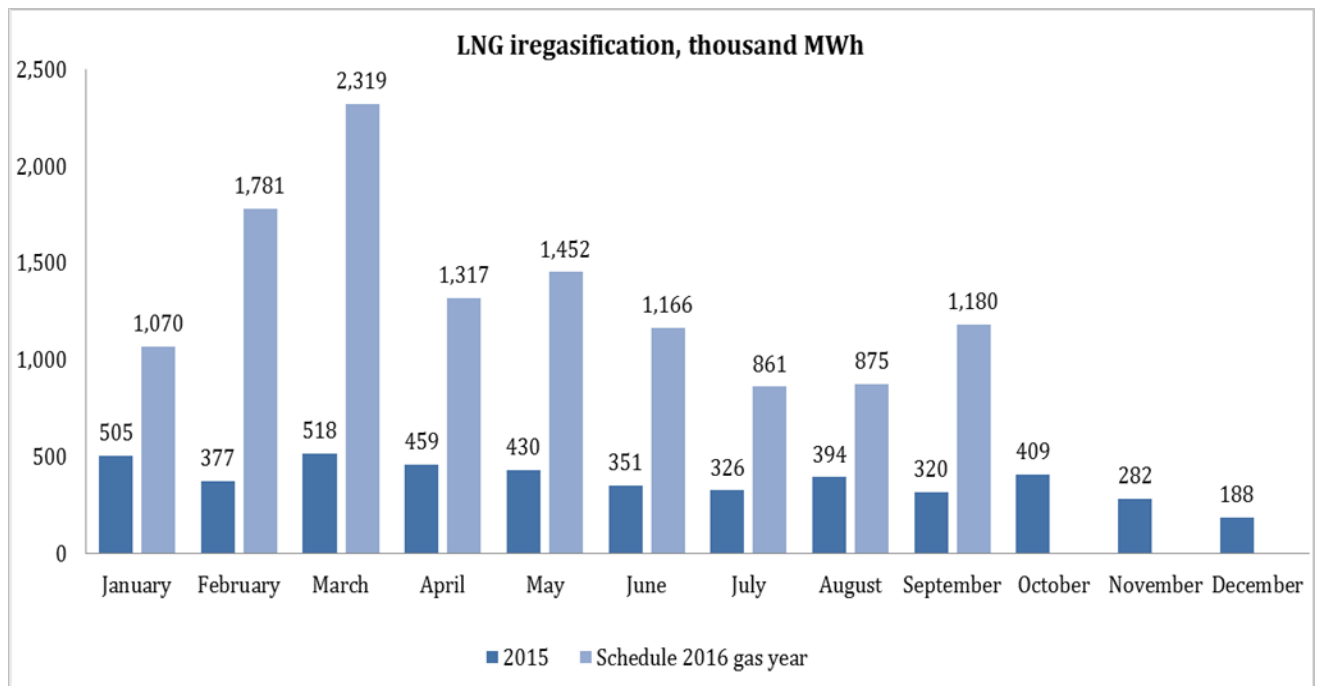
The LNG terminal fully ensures the third party access requirements in accordance with EU laws. The terminal's activities are organized in observance with the Rules for Use of the Liquefied Natural Gas Terminal (hereinafter - Terminal rules), adopted after public consultations with market parties and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

Capacities of the LNG terminal in primary market, allocated as at 12 February 2016:

| Allocated capacities | Amount of allocated capacities | Period |
|---------------------------|--------------------------------|---|
| Regasification capacities | 12,889,995,076 kWh* | From 1 October 2015 till 1 October 2016 |

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

LNG regasification schedule for gas year 2016 stated below in the chart:



The results of activities of LNG Terminal for year 2015 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2015.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

12 January 2015. The Ministry of Finance of the Republic of Lithuania and the Nordic Investment Bank (hereinafter, 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 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 thousand.

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 the 31rd of January, 2015.

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.

10 April 2015. The National Commission for Energy and Control of Prices decided to issue a transmission system operator's license of indeterminate duration for SC Amber Grid, with a condition that the Ministry of Energy of the Republic of Lithuania within the period, which would be no longer than 12 months from the date of coming into effect of the present decision by the Commission, shall perform actions in order that the shares of JSC LITGAS, currently held by SC Klaipėdos nafta, are transferred to a business entity, which is not directly or indirectly controlled by the Ministry of Energy of the Republic of Lithuania, as indicated in the opinion of the European Commission.

24 April 2015. The Company has announced the annual liquefied natural gas terminal capacities allocation procedure and an invitation for the potential users of the LNG Terminal to submit their requests for allocation of LNG terminal capacities for the upcoming Gas Year, lasting from the 1st of October 2015 to the 1st of October 2016. The total volume of the LNG terminal capacity being allocated is 1.45 billion m³ per annum, which is equivalent to 2.5 mln m³ of LNG per annum at the following reference conditions: temperature (combustion/measurement)- 25/0 oC, pressure – 1.01325 bar. After the launch of the new gas transmission pipeline connection Klaipeda- Kursenai, regasification restrictions for the LNG terminal will be abolished.

30 April 2015. The Board of the Company adopted a decision on initiation of sale of the shares of JSC LITGAS owned by the Company which constitute a tranche of 1/3 of the share capital of JSC LITGAS by public offering.

30 April 2015. An ordinary general meeting of shareholders of the Company was convened and following decisions adopted:

- Approved the Auditor's Report regarding the Financial Statements and Annual Report of SC Klaipėdos nafta for the year 2014.
- To distribute the Company's profit in the total sum of EUR 9,257 thousand available for appropriation, as follows: EUR 92.6 thousand – profit for allocation, EUR 0.000243221 for dividends per share.
- Assigned the audit company "Ernst & Young Baltic" for the performance of the audit of the Financial Statements of the Company and assessment of its Annual Report for the years 2015 and 2016.

12 June 2015. The Board of the Company adopted a decision and approved the launch of new type of activity – consulting services on liquefied natural gas terminal project implementation issues. The Board of the Company, approving the decision, took into account the fact that the Company has successfully implemented Klaipeda LNG terminal project and has accumulated valuable experience, knowledge and skills that can be successfully used for the development of new LNG terminal projects.

12 June 2015. The Board of the Directors of the Company approved the main provisions of the new edition of the Rules for Use of the Liquefied Natural Gas Terminal, as well pre-approved on 8 June 2015 by the resolution No O3-358 of the National Commission for Energy Control and Prices. On 15 June 2015 the Rules were also approved by the General Manager of the Company.

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

10 July 2015. The Connecting Europe Facility Coordination Committee approved the financial support of preliminary EUR 6 million for the construction of the Company Liquefied natural gas (LNG) onshore reloading station. The support shall be dedicated for the joint project of Helsingborg port and SC Klaipėdos nafta (HEKLA) as both parties together submitted investment application through the Baltic Port Organization which actively encourage and support the LNG activities development in the Baltic region. The Company previously has received the EU support for the LNG reloading station FEED and other preparation works.

5 August 2015. The Board of SC Klaipėdos Nafta approved that the Company takes necessary preparatory actions related to the possible decision to redeem the floating liquefied natural gas (LNG) storage and regasification unit for the purpose of decreasing annual LNG terminal exploitation costs.

The Board of the Company decided to initiate public procurement procedures for the purchase of financial services (credit) amounting up to EUR 300 mln. On 6 August 2015 the Company announced the Draft Technical Specification as well as the Draft Term-sheet of the Procurement Contract. It is anticipated to use the credit for the purpose of fulfilment of financial obligations of the Company arising under the Contract on Lease, Operation and Maintenance (Repair) of the Floating Liquefied Natural Gas Storage and Regasification Unit (with amendments and supplements to it) signed by and between the Company and Höegh LNG Limited on 2 March 2012.

25 August 2015. An extraordinary general meeting of shareholders of the Company was convened and following decisions adopted:

- ✓ To implement liquefied natural gas distribution station investment project for the price not exceeding EUR 27.17 million (excl. VAT).
- ✓ To implement oil terminal expansion (the expansion of the oil truck lot capacities, construction of fuel oil with water tanks and expansion of light oil product tanks) investment project for the price not exceeding EUR 9.55 million (excl. VAT).

28 August 2015. The Company announced on procurement (terms of negotiated procedure) of the financial services (long-term loan) amounting up to EUR 300 mln., in order to finance planned redemption of a floating liquefied natural gas (LNG) storage and regasification unit for the purpose of decreasing annual LNG terminal exploitation costs. It is anticipated to use the long-term loan for the purpose of fulfilment of financial obligations of the Company arising under the Contract on Lease, Operation and Maintenance (Repair) of the Floating Liquefied Natural Gas Storage and Regasification Unit (with amendments and supplements to it) signed by and between the Company and Höegh LNG Limited on 2 March 2012.

4 September 2015. The Company has changed the terms of negotiated procedure on procurement of the financial services announced on 28 August 2015. Changes of the terms of negotiated procedure mainly concern specifications to the procedure in relation to the intention of the Company to obtain financing of the loan from international financial institutions (e.g. European Investment Bank, Nordic Investment Bank, European Bank for Reconstruction and Development). If in course of the procedure of negotiations it will become clear that the Company shall factually obtain financing from the said alternative source in full or in part, the amount of the financing to be obtained from commercial banks shall be respectively reduced or withdrawn.

14 September 2015. The Supervisory Board of the Company adopted the decision to elect Kasparas Žebrauskas as the new member of the Company's Audit Committee until the term of office of the acting Audit Committee of the Company. The newly elected independent member of the Company's Audit Committee Kasparas Žebrauskas has changed the resigned member of the Company's Audit Committee Simonas Rimašauskas.

18 November 2015. The Company and the port of Helsingborg (Helsingborg, Sweden) have signed partnership agreement regarding cooperation in the project HEKLA – Helsingborg & Klaipeda LNG Infrastructure Facility Deployment. According to this agreement the Company acquires the right to use the financial support of EUR 6 million of the Connecting Europe Facility (CEF, part of the EU financing program) approved by Coordination Committee for the construction of SC Klaipėdos Nafta Liquefied natural gas (hereinafter – LNG) onshore reloading station.

20 November 2015. The Board of SC Klaipėdos Nafta took a decision to perform activities of operating a liquefied natural gas bunkering carrier and to establish JSC SGD logistika, a wholly owned subsidiary of SC Klaipėdos Nafta, for performance of such activities. It is planned that JSC SGD logistika together with its partner Bomin Linde LNG GmbH & Co. KG will establish a joint venture in Germany and will order construction of an LNG bunkering carrier. SC Klaipėdos Nafta with its said partner is going to provide LNG bunkering services in the Klaipėda State Seaport, in the Baltic Sea and in the North Sea. The Board of SC Klaipėda Nafta has also decided that the company will issue guarantees (i) regarding performance of JSC SGD logistika obligations under the joint venture agreement with Bomin Linde LNG GmbH & Co. KG, also (ii) regarding payment of a part of the rent of the carrier. According to the estimates of SC Klaipėdos Nafta, the possible total liability of SC Klaipėdos Nafta according to such guarantees should not exceed the amount of USD 14 million.

24 November 2015. JSC SGD logistika, which is a wholly-owned subsidiary of SC Klaipėdos Nafta signed a joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG on joint performance of the activities of operating the LNG bunkering carrier. Following the signed agreement, JSC SGD logistika together with Bomin Linde LNG GmbH & Co. KG will establish a joint venture in Germany, in which JSC SGD logistika will hold 20% of the authorised capital and Bomin Linde LNG GmbH & Co. KG 80% of the authorised capital. The joint venture agreement establishes that it will come into effect after the general meeting of shareholders of the company, which is to be held on 14 December 2015, approves of the decisions of the Board of the company regarding issuance of guarantees.

30 November 2015. The Company informed that NCC in its meeting adopted decisions on setting LNG terminal supplement tariff for 2016. The LNG terminal supplement is calculated having evaluated fixed operating costs necessary for ensuring the operation of the LNG terminal, its infrastructure and link. With the later decision, made on 30 December 2015, in connection with the changes of the LNG terminal law, the tariff has been recalculated. Starting from 2016 the costs are distributed among the natural gas consumers based on their natural gas consumption capacities. The LNG terminal's security supplement tariff to Lithuanian users, approved by the National Commission for Energy Control and Prices (NCC), calculated per one unit of volume of consumption, will, in 2016, amount to EUR 510.16 / (MWh/day/year). The share of the said tariff, emerging due to the Company's LNG Terminal alone will, in 2016, amount to EUR 259.84 (MWh/day/year).

9 December 2015. The Company has decreased the amount of the Credit Agreement which was signed on 27 November 2014 with the NIB (hereinafter, the "Loan contract") from EUR 34,754 thousand to EUR 22,000 thousand and prolonged the availability period to use the credit until 31 December 2016. The amount was decreased considering the decrease of the investments in the project of the liquefied natural gas terminal comparing with the earlier forecast.

14 December 2015. An extra ordinary general meeting of shareholders of the Company was convened and following decisions adopted:

- Acting together with the wholly-owned subsidiary to be established by SC Klaipėdos Nafta, the name of which is going to be JSC SGD logistika, to enter into a joint venture agreement with Bomin Linde LNG GmbH & Co. The joint venture, will rent and operate a liquefied natural gas bunkering carrier. the wholly-owned subsidiary to be established by SC Klaipėdos Nafta, the name of which is going to be JSC SGD logistika, will have a possibility to use a part of the capacities of the liquefied natural gas bunkering carrier and will cover a part of the costs of the joint venture, taking into account the rules set out in the joint venture agreement. SC Klaipėdos Nafta shall guarantee to Bomin Linde LNG GmbH & Co. KG for the fulfilment of the obligations by the wholly-owned subsidiary under the joint venture agreement and other arrangements in connection with this agreement for the entire effective term of the joint venture agreement, up to USD 14 million.
- For SC Klaipėdos Nafta to guarantee, under a first demand guarantee to pay the rent for the carrier to the extent that the wholly-owned subsidiary to be established by Klaipėdos Nafta, AB, the name of which is going to be JSC SGD logistika, undertakes to pay such a rent up to USD 13 million.

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

5 January 2016. The Company and the Swiss-registered company Verum Plus AG has signed a long term transshipment contract on provision of dark oil products services in SC Klaipėdos nafta terminal. The term of the Contract is until 31 December 2016, with an option to extend it for one more year. This Contract shall guarantee additional volume of dark petroleum products from Belarus Republic refineries.

25 January 2016. The Board of SC Klaipedos Nafta has approved the corporate strategy of the Company for 2016 -2020 and the Dividend Policy of the Company which defines that dividends may comprise 50% of the Company's annual net profit.

4 February and 5 February 2016. The Company, as the operator of the LNG terminal, informs that the Company has signed Terminal Usage Agreements with JS Lietuvos duju tiekimas (LDT) and SC Achema respectively. Both Contracts will be valid until the 30th of September year 2016. Following Terminal capacities were allocated to Terminal user JSC LDT: LNG regasification capacities MWh 2,383 thousand and Terminal user SC Achema - MWh 7,238 thousand.

12 February 2016. The Company announced that the winner of the international tender of SC Klaipėdos nafta *Engineering, procurement and construction works (EPC) for Klaipeda liquefied natural gas reloading station* conducted by the way of negotiations was selected consortium of PPS Pipeline Systems GmbH and Chart Ferox, a. s. Accordingly, on 12 February 2016 Consortium and AB Klaipėdos nafta concluded EPC contract whereby the Consortium undertook to complete all the works according to the contract on a lump sum amount of 27.7 mln. EUR excluding VAT and the board of AB Klaipėdos nafta approved conclusion of the EPC contract. The contract between AB Klaipėdos Nafta and Consortium will enter into full force only if the general meeting of shareholders of AB Klaipėdos nafta approve conclusion of the EPC contract.

12 February 2016 the Board of the Company, following National Commission for Energy Control and Prices's 30 December 2015 Resolution No O3-700 „Regarding establishment of the price of the natural gas liquefaction service for the year 2016” (hereinafter – the Resolution), approved a new price of the natural gas liquefaction (regasification) service of the liquefied natural gas terminal– 0,10 EUR/MWh (VAT excluded). This price is applied inclusively as of 1 January 2016.

8 March 2016. An extraordinary general meeting of shareholders of the Company adopted these decisions:

1. Regarding the approval of the decision of the Board of AB Klaipedos Nafta to enter into the contract on engineering and construction (EPC) works for the Klaipeda LNG Reloading Station with the winner of the public procurement "Procurement of engineering and construction works (EPC) for Liquefied Natural Gas Reloading Station", conducted by the way of negotiated procedure without prior public publication:

“To approve the decision of SC Klaipėdos Nafta's Board:

1. To conclude the contract on performance of engineering and construction (EPC) works for the Klaipeda LNG Reloading Station (hereinafter – the Works) (hereinafter – the Contract) with consortium PPS Pipeline Systems GmbH and Chart Ferox, a.s (hereinafter – the Contractor), who offered the lowest price and is the winner of the public procurement “Procurement of engineering, procurement and construction works (EPC) for Liquefied Natural Gas Reloading Station”, conducted by SC Klaipedos Nafta by the way of negotiated procedure without prior public publication, under the following main conditions:

1.1. The Contractor shall perform the Works required for engineering and construction of the small scale liquefied natural gas (LNG) reloading and bunkering reloading station, including procurement of Works related goods and services, as defined in the Contract.

1.2. The total fixed price for the Works performed under the Contract shall be EUR 27,700 thousand (twenty seven million seven hundred thousand euro zero cents) without VAT and EUR 33,517 thousand (thirty three million five hundred seventeen thousand zero cents) with VAT (the tariff which is applicable on the day the Contract is concluded is 21 percent).

1.3. The start of the operations of the natural gas reloading station is 15 months as of the Contract comes in force.

1.4. Fixed price of the Contract may increase and the term for performance of the Works may be extended only in exclusive cases explicitly provided in the Contract. SC Klaipedos Nafta shall pay the fixed price only for actually performed Works.

2. In case the total price of the Contract is increased more than 10 percent or the final execution period of the Contract is extended more than 60 days, in order to ensure proper control of amendment of the Contract for such increase of the Contract price and / or Contract performance period SC Klaipedos Nafta management shall obtain the approval of the board.

-
3. To authorise the General Manager of Klaipedos Nafta to conclude contract on performance of engineering and construction (EPC) works for the Klaipeda LNG Reloading Station with the consortium PPS Pipeline Systems GmbH and Chart Ferox, a.s under the main conditions approved by this Board decision.”
 2. Regarding the amendment of 25 August 2015 decision Regarding the approval of the decision of SC Klaipedos Nafta’s Board to implement liquefied natural gas distribution station investment project” item No 1:
 - “1. To approve the decision of the Board of SC Klaipedos Nafta to implement liquefied natural gas distribution station investment project for the total price not exceeding EUR 27,700 thousand (without VAT) and 10 % reserve which can be used only in exceptional cases.
 2. To amend the 25 August 2015 decision “Regarding the approval of the decision of SC Klaipedos Nafta’s Board to implement liquefied natural gas distribution station investment project” item No 1 to the following:
 - “1. SC Klaipedos Nafta to implement liquefied natural gas distribution station investment project for the total price not exceeding EUR 27,700 thousand (without VAT) and 10 % reserve which can be used only in exceptional cases.””

Information about public information

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

During 2015 the Company made 52 official announcements about the significant events and other required information at the NASDAQ OMX Vilnius stock exchange.

RISK FACTORS AND RISK MANAGEMENT

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

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

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

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

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), Ventpils Nafta Terminals (Latvia), Ventbunkers (Latvia), BLB (Latvia), Naftimpex (Latvia), Alexela (Estonia), Vopak EOS (Estonia), Vesta (Estonia), Odessa, Sevastopol, Feodosia terminals (Ukraine), Peterburg Oil Terminal (Russia) and Ust-Luga terminal (Russia). The most significant factors influencing the competitiveness of the Company on the market are as follows: technical characteristics of the port and the terminal (number and depth of the jetties, maximum allowed draughts of sea vessels, capacities of terminal storages, efficiency of the loading equipment, etc.) and infrastructure servicing the terminal (roads, railway networks, etc.), cost of logistics.

It is reasonable to expect that the Company will maintain oil product freights and possibly extend their volume because of the good reputation of the Company, technological advantages (in particular relation to HFO transshipment in winter conditions), 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 2015 comprised 64 per cent (63 per cent in 2014) 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 escalated topic on possible closing or suspension of ORLEN Lietuva refinery. Also the Company reviews existing expenses and constantly searches for costs optimization possibilities.

Annual transshipment volume of oil products from Belarusian and Russian oil refineries amounts approximately 31 per cent in 2015 (in 2014 – 35 per cent) of the total transshipment volume of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighboring countries and their ports in order to export oil products to the Western countries. Therefore, the cooperation with Belarusian companies and institutions is highly important in order to divert their transit of oil products through the 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. Therefore the Company aims to conclude long term contracts with minimum transshipment volumes guarantying the minimum revenues.

▪ **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 7 million tons of exported and imported oil products and crude oil per year. Total capacity of all storage tanks amounts to 450 thousand m³. Each batch of oil products delivered from different oil refineries is stored separately, i.e., is not mixed with others. This allows preserving the initial quantity and quality of the delivered oil products. Modern laboratory of the oil terminal controls the quality parameters.

The Liquefied Natural Gas Terminal Risk Factors:

- **Legal/ Regulative Risk**

The Law of the Liquefied Natural Gas terminal approved on 12 June 2012 by the Parliament of Lithuanian Republic establishes development of the LNGT at the territory of Lithuanian Republic, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT project implementation. The 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.

- **Legal Compliance Risk Factors**

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

- **Operational / Activity Risk Factors**

Operational / Activity Risk means the risk directly related to the increase of losses and (or) loss of prestige, and (or) changes in confidence which could be preconditioned by the external factors (for example, natural disasters, disruptions in major suppliers' activities, acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient 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 organizational 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.

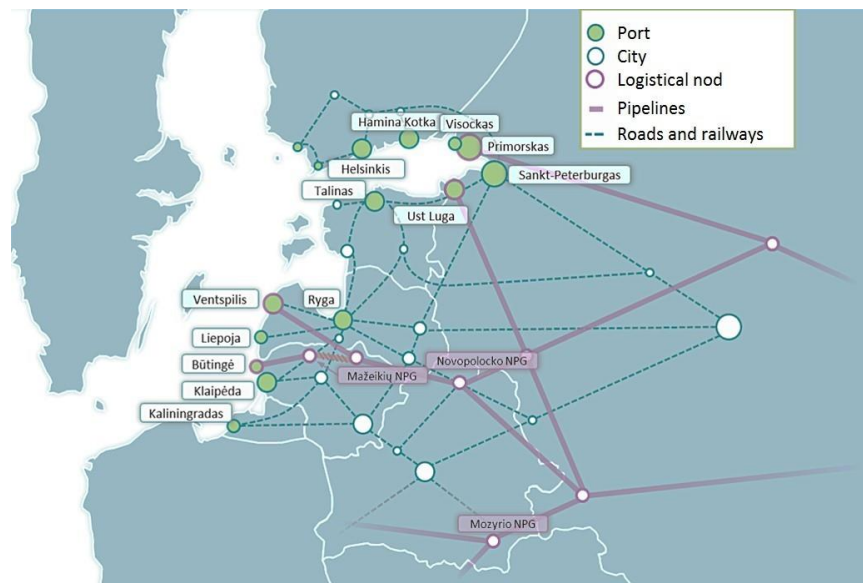
BUSINESS ENVIRONMENT AND MARKET

Market and environment of the Oil Terminal

The Company's oil products' transshipment activities and oil terminal load is mostly affected by: a) the oil products' reloading and storage infrastructure and the level of the Company's readiness to use the available infrastructure (advantage in regard to the competitors), b) economic attractiveness in the view of logistics (the sum of both transshipment tariffs and the costs of the entire logistic chain) and c) macroeconomic environment in the regional and global oil processing and trade markets.

The Company's principal (direct) competitors in the oil products transshipment segment are the oil products transshipment terminals of Ventspils (crude oil, VGO), Riga (crude oil, VGO) and Odessa (crude oil). The indirect competitors in the HFO segment (due to the especially high difference of railroad tariffs from the Russia's potential oil processing plants) are the seaports of Tallinn and Russia, as well as the terminals in the Gulf of Finland (Ust-Luga, Saint Petersburg). The principal direct competitors in the LFO segment are JSC Krovinu Terminalas operating in the Port of Klaipėda, as well as the LFO terminals, operated in the seaports of Ventspils and Riga. Indirect competitors are the terminals, existing in the Russian seaports of Vysock, Primorsk and Ust Luga in the Gulf of Finland, as well as the LFO terminals, operated in the Estonia's seaports of Tallinn and Paldiski.

The main oil processing plants (refineries), which potentially provide the oil products for transshipment via the terminal, are located in the East and Southeast directions, those are: the Mazeikiai plant in Lithuania; Novopolotsk and Mozyr plants in Belarus; the plants of Moscow, Nizhnekamsk, Ufa and Saratov in Russia.

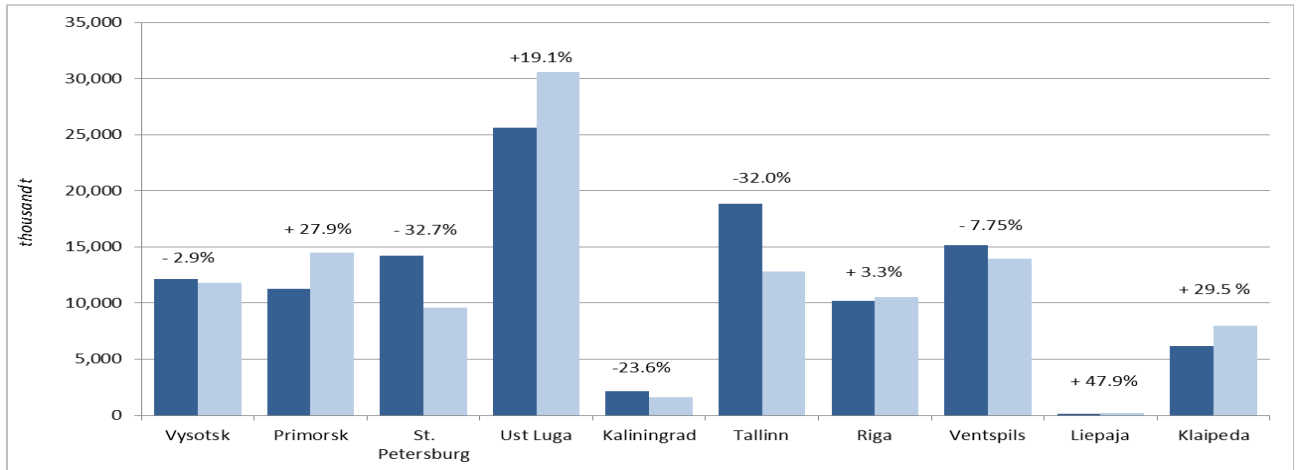


The Klaipėda's and Latvia's seaports are geographically closest to Belarus plants, the volume of transshipment from which amounts to approximately 2 million ton and about 35 per cent of SC Klaipėdos nafta oil product transshipment turnover therefore Belarus plants incur the lowest products transportation costs along the said directions.

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 primary is Ust-Luga with gradually increasing designed capacity for 30 million tons per year.

The products, refined in Russia are attempted to be shipped via Russia's or Estonia's seaports since, due to shorter distances and applicable railroad transportation discounts, the logistic chain costs are the lowest. SC Klaipėdos Nafta gets offers for transshipment of Russian products during the cold season, when spilling of crude oil products at competitors' terminals from the rail tanks becomes difficult due to the low air temperature.

Although the Company's terminal, by its size and volumes is not considered one of the largest oil products terminals in the Baltic Region, a significant growth of transshipment volumes can be noticed in the terminal. In 2015 the seaport of Klaipėda registered one of the highest growths of oil products' transshipment among the eastern Baltic seaports, i.e. compared to 2014, the oil products' transshipment grew by 29.5%, where the 0.7 million ton increase is a the result of the increase of the oil products transshipment by SC Klaipėdos Nafta oil terminal.

Comparison of the oil products' transshipment at the Eastern Baltic coast ports in 2014 - 2015, thousand tons:

Utilization 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. Crude oil prices fall down started in the year 2014 continued in 2015. During 2015 the price of Brent oil reduced by 33.9 per cent, or by 65.1 per cent during the last two years. Such drop in the oil prices increased the demand and, most importantly, increased the oil products processing margins. Before the 3rd quarter of 2015 the oil processing margin indexes remained at a sufficiently high level. In the middle of the quarter the European processing margin indexes were almost twice as higher compared to the 4th quarter of 2014. For instance, compared to the 3rd quarter of 2014, in the 3rd quarter of 2015 the oil processing margin index, calculated by the PKN ORLEN Group grew almost twice (respectively by \$9.9/t and \$4.8/t). In the 4th quarter of 2015 the processing margins reduced, by about 44 per cent, compared to the 2nd quarter of 2015.

These favorable changes of the oil processing margins in 2015 created good macroeconomic conditions for the oil processors to increase the production capacities and sales of oil products.

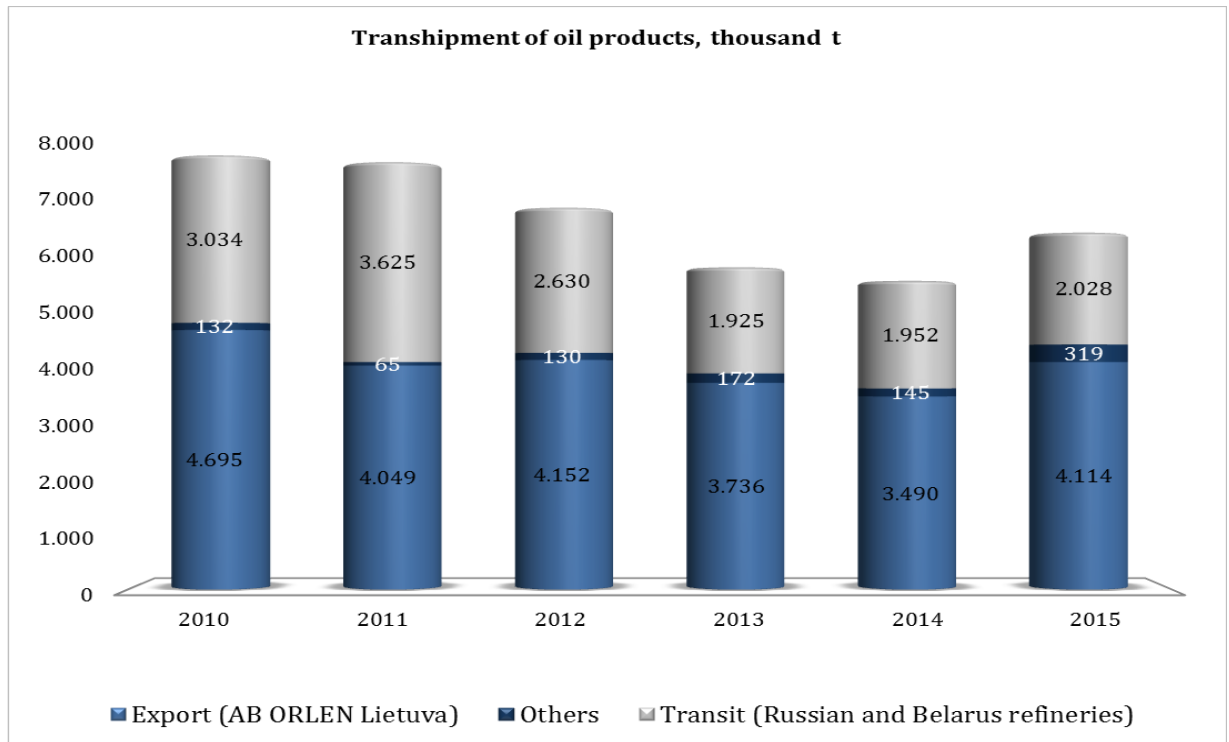
Transshipment of oil products

The major customers of the Company's oil products terminal are SC ORLEN Lietuva (export transshipment) and the owners of the oil products, produced in Belarus and Russia, whose products are referred as transit transshipment. In 2015 the major customers of such transshipment were the following: one of the largest traders of oil and oil products in the region Litasco S.A., BNK (UK) Limited, owned by one of the largest Belarus oil products exporters – ZAT Belaruskaja Neftenaja Kampanija (BNK) and the company Verum Plus AG, registered in Switzerland.

In June 2015 a long-term crude oil transshipment contract, concluded with BNK (UK) Limited, provided the Company the possibility to secure the flow of transit oil products transshipment in 2015-2016 and diversify the oil products transshipment customers. The Company continuously communicates with all the potential customers of the terminal. In January 2016 a long-term crude oil products transshipment contract was concluded with the company Verum Plus AG with which short-term transshipment contracts had been concluded starting from the middle of 2015 (the new long-term contract was concluded before 31 December 2016 with the possibility of extension for one more year).

Note as regards the oil products' transshipment: starting from 2015 the volumes of transshipment, stated in the annual report, reflect the amounts of oil products reloaded into the Company's tankers. The previous annual reports reflected the amounts of oil products loaded into vessel tanks (and to the tanks, where the batch exceeded the tank vessels' volumes).

The total volume of oil products' transshipment in 2015 amounted to 6,461 thousand tons, which is 15.6 per cent more compared to 2014, where the total volume amounted to 5,587 thousand tons. The essential increase of the oil products transshipment resulted from the increase of the transshipment flows to ORLEN Lietuva AB. The information on the volumes of oil products' transshipment during the last year in terms of duration is provided below.



Compared to 2014, in 2015 the transshipment of oil products of ORLEN Lietuva AB at the Company's oil terminal grew by 17.9 per cent. The principle reason for the increase of the flows from the said customer is the favourable macroeconomic environment (favourable oil processing margins, as stated above), due to which the Company significantly increased the volumes of processed oil and export of oil products via the Company's terminal. In 2015, out of the oil products, transhipped by ORLEN Lietuva AB the transshipment of gasoline increased most significantly.

Compared to 2014, in 2015 the transshipment of transit oil products increased by 3.9 per cent and totally amounted to 2,028 thousand tons. In 2015, after a long period of time, the Company succeeded in attracting light oil products flows from Belarus. Low volume transshipment contracts (for specific tank vessels batches) were concluded with a company, which is a subsidiary of the aforementioned BNK Group. Totally 320 thousand tons of petrol and diesel fuel was transhipped from BNK during 2015. Additional LFO transshipment contracts with well-known market players and neighbouring countries helped to diversify the Company's transshipment portfolio and provided the possibility to quickly respond to the market changes and attract larger oil products' flows to the Klaipeda seaport.

Structure of oil products:

| | 2015 | | 2014 | | 2013 | |
|--|---------------|-------------------|---------------|-------------------|---------------|-------------------|
| | Thousand tons | Per cent of total | Thousand tons | Per cent of total | Thousand tons | Per cent of total |
| HFO | 3,175 | 49.1% | 3,335 | 59.7% | 3,671 | 62.9% |
| LFO | 3,114 | 48.2% | 2,215 | 39.6% | 2,115 | 36.3% |
| Transshipment of oil products in Klaipeda | 6,289 | 97.3% | 5,550 | 99.3% | 5,786 | 99.2% |
| LFO of Subacius fuel storage facility | 172 | 2.7% | 37 | 0.7% | 48 | 0.8% |
| Total transshipment of oil products | 6,461 | 100.0% | 5,587 | 100.0% | 5,834 | 100.0% |

The oil terminal of the Company has been known as the terminal of the HFO transshipment since the beginning of its activities because of favourable technical characteristics of the port as well as terminal (ice-free port, powerful own boiler, capacity of machineries, terminal's tanks and other), therefore the HFO transshipment is the dominant terminal's activity, which, in 2015, totally amounted to 49.1 per cent of the total volume of transshipment (59.7 per cent in 2014). However the oil products' market is changing. The refineries of Belarus and Russia are upgraded, the processing depth is increased. Being aware of such trends, the Company, since 2011, performed a number of investments upgrading the oil products' terminal and, for the purpose of further increasing the terminal's technical capacities, versatility and flexibility, plans to execute further investment. As shown in the table above, the LFO flows increase and last year reached almost half of all of the terminal's transshipment, totally 3,114 thousand ton.

LNG terminal activity environment review

First and foremost, the activities of the LNG terminal are regulated therefore the regulatory environment determines the activities' revenue and profitability, guidelines and volumes. On 15 June 2015 the new edition of the Rules for Use of the

Liquefied Natural Gas Terminal was adopted, where rather minor adjustments were made reflecting the practical aspects that were found during the operation of the terminal and resulting from legislative changes.

One of the significant changes in legislation of the LNG terminal activities worth noting is Law No. XII-2036 on Amendment of, Liquefied Natural Gas Law of the Republic of Lithuania No. XI-2053 articles No. 2, 5 and 11 adopted on 17 November 2015 as well as the Resolution No. 214 of the Government of the Republic of Lithuania adopted on 25 February 2015 "Regarding the Approval of the Amendments to the Resolution of the Government of the Republic of Lithuania No. 1354 adopted on 7 November 2012 "Regarding the Approval of Natural Gas supply Diversification Procedure Description" under which, inter alia, the regasification process of LNG terminal mandatory quantity in was optimized in a way that more flexibility in terms of allocation and supply of LNG terminal mandatory quantity to the regulated energy producers with regard to their needs was introduced in addition to the allowance of realization of redundant mandatory quantity of LNG terminal using other economically most advantageous means available on the market and according to the order established by the Government of the Republic of Lithuania.

In addition, on 2 December 2015 the Resolution of the Government of the Republic of Lithuania No. 1224 "Regarding Amendment of the Resolution of the Government of the Republic of Lithuania No. 1354 adopted on 7 November 2012 "Regarding the Approval of Natural Gas Supply Diversification Procedure Description" was adopted which introduced the possibility for the designated supplier (JSC "LITGAS ") after respective coordination with the LNG terminal operator, to stop regasification of LNG terminal mandatory quantity on a condition that it is technically possible to ensure the maintenance of technical condition of LNG terminal which shall enable to commence regasification after it was temporarily stopped and supply upon the demand to the gas transmission system natural gas which corresponds to the quality requirements approved by the Minister of Energy.

It is also necessary to mention the adopted changes in quality parameters of the natural gas, which are applicable to the quality of the natural gas regasified at the LNG terminal. According to the Order No. 1-185 of the Minister of Energy of the Republic of Lithuania adopted on 16 July 2015 and the Order No. 1-290 of the Minister of Energy of the Republic of Lithuania adopted on 16 December 2015 "On the Amendment of the Order No. 1-194 of the Minister of Energy of the Republic of Lithuania adopted on 4 October 2013 "Regarding the Approval of the Natural Gas Quality Requirements", provisions regarding regulation of methane, ethane and propane amount concentration were abolished as well as the regulation of limit values to the sum of propane, butane and the higher hydrocarbons was waived. The said amendments were aimed at constituting practical conditions to facilitate cross-border natural gas flows and to create a common regional gas market.

During 2015 in the LNG terminal 5 LNG carriers (2014 – 2 LNG carriers) have been accepted which in total delivered 318.6 thousand tons of LNG (in 2014 – 109 thousand tons); 382.8 million m³ (2014 – 45 million m³) natural gas regasified and supplied to the gas transmission system. LNG terminal revenues comprise Eur 69,882 thousand (in 2014 the activity was carried out for only one month period and revenue comprised 5,793 thousand) which consist of: i) factual security supplement tariff for 2015, ii) LNG terminal funds collected in 2013 and in accordance with the laws dedicated for compensation of LNG terminal fixed costs for 2015 and iii) interests and fines for the overdue security supplement funds and fines for LNG terminal funds that have been collected in 2013.

In 2015 there was only one LNG terminal user – JSC LITGAS, assigned LNG supplier through the LNG Terminal. Starting from February 2016 there are 3 LNG terminal users: JSC Lietuvos duju tiekimas, SC Achema (both till 30 September 2016) and JSC LITGAS. The forecast for 2016 gas year (until 1 October 2016) is to accept 13 LNG carriers with overall 1,820 thousand tons of LNG, regasify and to supply to the gas transmission system around 1 billion m³ of natural gas.

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

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

The natural gas market overview

Lithuania has several principal gas using sectors: households, energy sector, industries using gas as a raw material and other industries. The major part of natural gas is used in the heating energy sector (from 0.5 to 1.3 billion m³ per year) and in industries, using natural gas as a raw material, which receive continuous and not season based natural gas flow (about 0.7-1.5 billion m³ per year).

The total need for natural gas in Lithuania amounts to approximately 2.4 – 2.5 billion m³ per year. Before the commencement of the LNG terminal activities, Lithuania imported gas from solely one supplier, i.e. Russia's gas company OAO Gazprom therefore in the future the LNG terminal's capacities could satisfy the annual amount of natural gas, consumed in Lithuania and also partially supply the neighboring markets with natural gas. The sole large consumer, using natural gas as a raw material in Lithuania is SC Achema which consumes almost one half of the total volume of Lithuania.

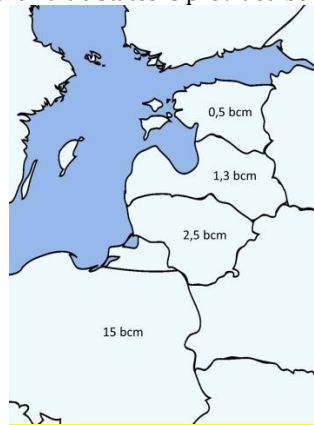
Baltic States' natural gas market

In case of need, the LNG terminal is able to supply natural gas to all three Baltic States. In 2015 Lithuania consumed approximately 2.5 billion m³ (26 million MWh) of gas. Latvia's and Estonia's gas markets are significantly smaller – in 2014 they respectively consumed 1.3 and 0.5 billion m³ of gas. By creating the conditions for attractive gas prices, the LNG terminal can become a real alternative to the existing natural gas providers in the Baltics.

After laying the planned gas link between Lithuania and Poland (hereinafter -GIPL), there would be a possibility to supply LNG to Poland's market, which has good potential due to Poland's significantly larger use of gas. However Poland characterizes with larger competition between local and other countries' gas suppliers.

Another gas pipeline project is planned to be executed in the Eastern Baltic region, which will connect Estonia and Finland (hereinafter – Baltic Connector). The project is foreseen to be completed in 2019. In case no new LNG terminal is constructed in the Gulf of Finland (which is also in the plans), the Company LNG terminal will get the possibility to expand the gas supply market to Finland, where the consumption reaches approximately 3 bcm per year.

The information on the consumption of gas in the Baltic States is provided below:



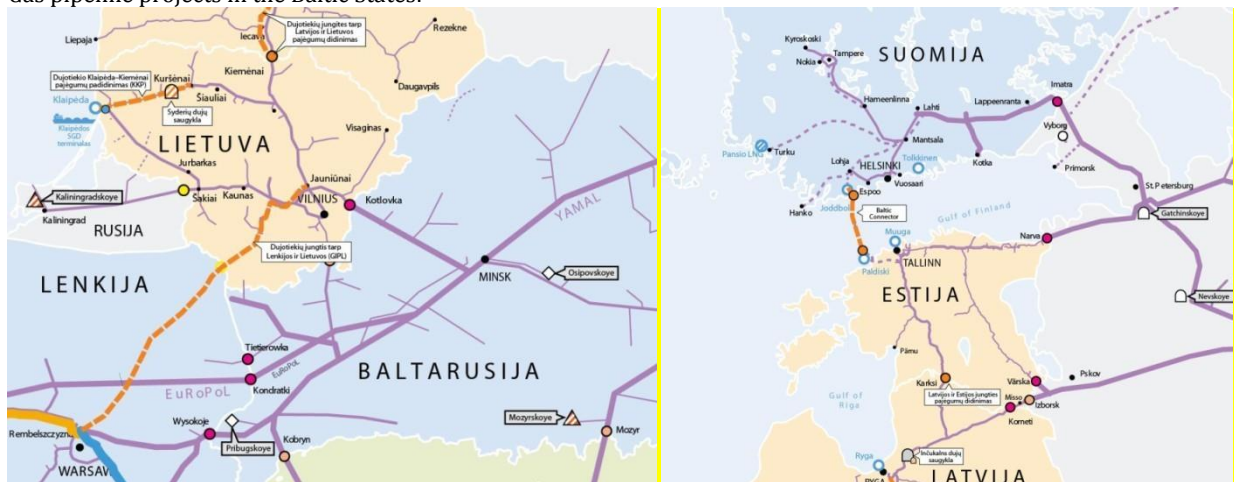
One of the principal risks, which must be considered when planning the LNG terminal's activities, is the reduction of use of natural gas. During the time period from 2011 to 2015 the consumption of natural gas in Lithuania reduced by 39% due to the growing prices and increasing accessibility of alternative sources. Nevertheless, it can be forecasted that the consumption of natural gas is likely to stabilize in the nearest future.

Gas pipeline projects in the Baltic States

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

- Increasing the capacities of the gas pipeline Klaipėda – Kiemėnai (hereinafter - KKP);
- The gas supply link between Lithuania and Poland(hereinafter – GIPL);
- Increasing the capacities of the gas supply link between Lithuania and Latvia;
- Increasing the capacities of the gas supply link between Latvia and Estonia;
- The Baltic Connector gas supply link between Finland and Estonia.

Gas pipeline projects in the Baltic States:



FINANCIAL RESULTS OF ACTIVITY

Year 2015 for Stock Company Klaipedos Nafta was memorable - Company's revenues and net profit was a record in Company's history:

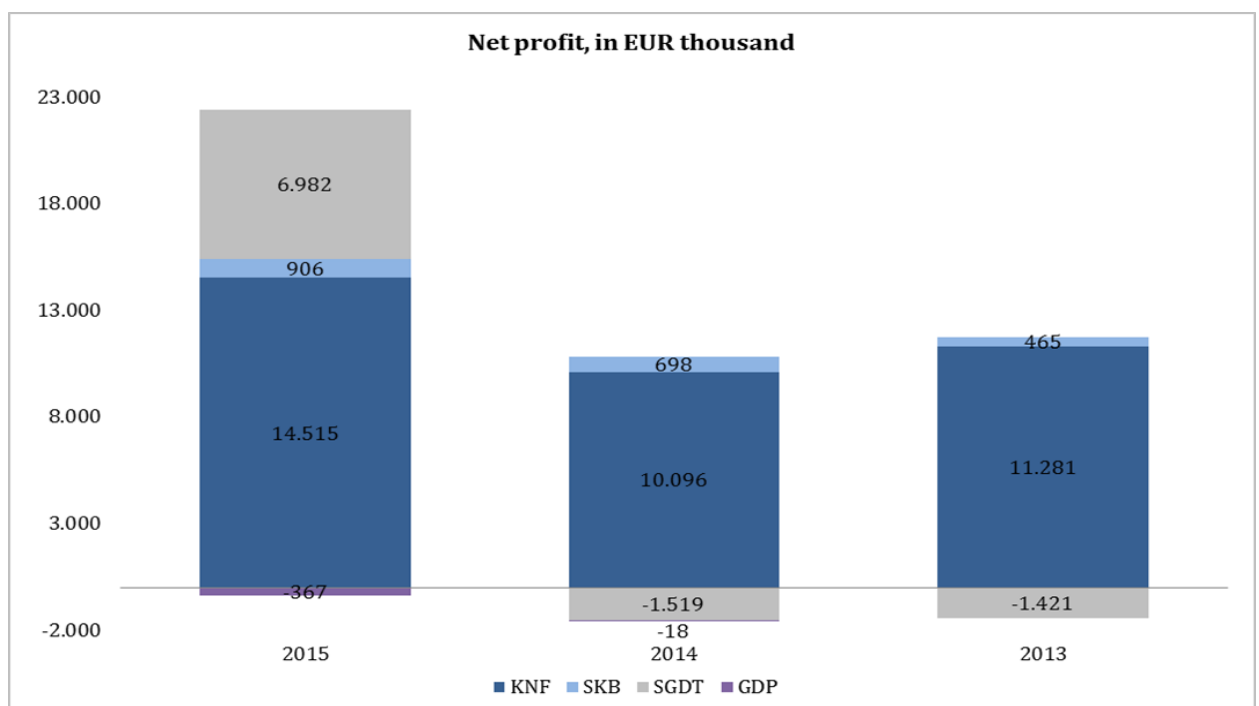
- Revenues - EUR 109,702 thousand, 2.8 times greater compared to year 2014;
- Net profit EUR 22,036 thousand, 2.4 times greater compared to year 2014, net profit margin – 20.1 per cent (2014 – 23.3 per cent).
- EBITDA - EUR 37,136 thousand, 2.2 times greater, compared to year 2014, EBITDA margin – 33.9 per cent (2014 – 41.8 per cent).

The profitability of the Company has significantly increased due to the two main reasons:

- Activity of the LNG Terminal**, started on the 27 November 2014 (additional sales income – EUR 64,089 thousand, LNGT impact for the net profit increase of EUR 8,501 thousand).
- Successful and increased activity **of the Oil Terminal**: sales revenue increased by EUR 5,444 thousand, net profit from this activity increased by EUR 4,437 thousand);

As mentioned before the activity of SC Klaipedos Nafta is divided into the separate activity units (segments): Oil terminal (KNF), Subacius fuel storage facility (SKB), the Liquefied Natural Gas Terminal (SGDT) and LNG small scale activity under development (GDP). Importance of each segment over Company's financial results is provided herein:

| In EUR thousand | January-December | | Change in per cent |
|-------------------------------|------------------|---------------|--------------------|
| | 2015 | 2014 | |
| Sales revenue in total | 109,702 | 39,775 | 175.8% |
| KNF | 37,259 | 31,815 | 17.1% |
| SKB | 2,561 | 2,167 | 18.2% |
| SGDT | 69,882 | 5,793 | 1,106.3% |
| GDP | - | - | - |
| Net profit in total | 22,036 | 9,257 | 138.1% |
| KNF | 14,515 | 10,096 | 43.8% |
| SKB | 906 | 698 | 29.8% |
| SGDT | 6,982 | (1,519) | -559.6% |
| GDP | (367) | (18) | 1,938.9% |
| EBITDA in total | 37,136 | 16,628 | 123.3% |
| KNF | 22,533 | 16,557 | 36.1% |
| SKB | 1,839 | 1,497 | 22.8% |
| SGDT | 13,166 | (1,408) | 1,035.1% |
| GDP | (402) | (18) | 2,133.3% |



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

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---------|---------|---------|---------|---------|
| Transshipment of oil products (thousand tons) | 6,461 | 5,587 | 5,834 | 6,912 | 7,739 |
| LNG regasification, thousand MWh | 4,559 | 494 | - | - | - |
| Investments (acquisitions of PP&E): | 6,809 | 40,130 | 28,659 | 10,158 | 4,676 |
| <i>Oil terminal</i> | 809 | 1,183 | 10,065 | 3,665 | 1,149 |
| <i>Liquefied natural gas terminal</i> | 5,429 | 38,572 | 18,512 | 6,493 | 3,528 |
| <i>LNG small scale</i> | 429 | - | - | - | - |
| <i>Subacius fuel storage facility</i> | 142 | 375 | 81 | - | - |
| Financial figures | | | | | |
| Sales revenue | 109,702 | 39,775 | 36,741 | 40,223 | 40,916 |
| Gross profit | 29,123 | 13,150 | 14,704 | 16,666 | 16,903 |
| EBITDA | 37,136 | 16,628 | 18,307 | 20,753 | 21,845 |
| EBIT | 24,362 | 9,091 | 11,101 | 14,121 | 15,284 |
| Financial and investment activities result | (482) | (259) | (23) | 533 | 608 |
| Profit before taxation (EBT) | 24,104 | 9,069 | 11,101 | 14,121 | 15,284 |
| Net profit | 22,036 | 9,257 | 10,325 | 12,001 | 12,990 |
| Fixed assets | 180,074 | 189,231 | 151,669 | 129,648 | 112,848 |
| Current assets | 58,713 | 32,687 | 44,067 | 32,542 | 37,421 |
| Total assets | 238,787 | 221,918 | 195,735 | 162,190 | 150,269 |
| Shareholders' equity | 196,804 | 174,715 | 165,562 | 155,356 | 144,763 |
| Profitability | | | | | |
| Return on assets (ROA) | 9.6% | 4.4% | 5.8% | 7.7% | 9.0% |
| Return on equity (ROE) | 11.9% | 5.4% | 6.4% | 8.0% | 9.4% |
| Gross profit margin | 26.5% | 33.1% | 40.0% | 41.4% | 41.3% |
| EBITDA margin | 33.9% | 41.8% | 49.8% | 51.6% | 53.4% |
| EBIT margin | 22.2% | 22.9% | 30.2% | 35.1% | 37.4% |
| EBT margin | 22.0% | 22.8% | 30.2% | 35.1% | 37.4% |
| Net profit margin | 20.1% | 23.3% | 28.1% | 29.8% | 31.7% |
| Turnover | | | | | |
| Accounts receivable, days | 92 | 17 | 32 | 36 | 11 |
| Accounts payable, days | 30 | 75 | 78 | 26 | 19 |
| Financial structure | | | | | |
| Debt ratio | 0.21 | 0.27 | 0.18 | 0.04 | 0.04 |
| Capital to assets ratio | 0.82 | 0.79 | 0.85 | 0.96 | 0.96 |
| Gross liquidity ratio (current ratio) | 5.56 | 2.05 | 3.37 | 7.21 | 12.28 |
| Market value ratios | | | | | |
| Price-Earnings Ratio (P/E) | 6.4 | 12.8 | 10.8 | 11.1 | 10.3 |
| Earnings per share (EPS) | 0.058 | 0.024 | 0.027 | 0.033 | 0.038 |

Revenues

The sales revenues of the Company of year 2015 comprise EUR 109,702 thousand and comparing with year 2014 (EUR 39,775 thousand) has increased by EUR 69,927 thousand (more than 2.8 times).

The total revenues of the LNG terminal activity in 2015 amounted to EUR 69,882 thousand, and compared to 2014, increased by EUR 64,089 thousand. The revenues from the LNG terminal's activities in 2015 included the following: i) the actual calculated security supplement for 2015; ii) the LNGT funds, collected in 2013, intended, in the procedure, prescribed by the applicable legal acts, for compensation of the continuous costs of the LNG terminal for 2015, and iii) the interests and forfeits, accrued due to delayed payment of the LNG security supplement. As mentioned above, the LNG activities and profits are regulated. During the last year the actual security supplement tariff was EUR 3 million higher than planned (due to higher than

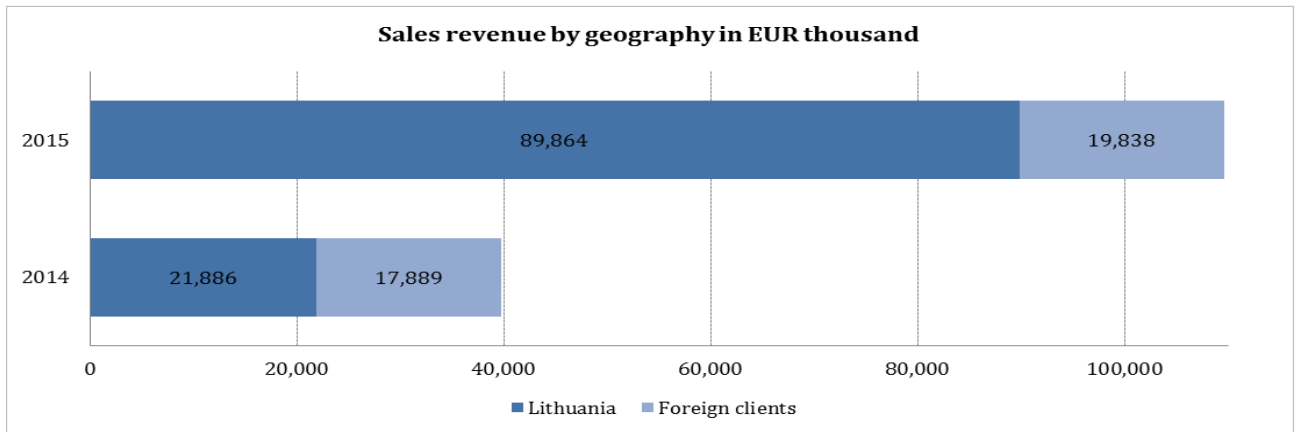
forecasted consumption of natural gas). Additionally, the revenues were higher than planned due to the interests and forfeits, which, in accordance with the applicable legal acts, are recognized as regulated activity revenues.

Sales revenues from the Oil terminal operations of 2015 have risen to EUR 37,259 thousand that amounts the **increase of 17.1 per cent** comparing to 2014. The revenues increase is driven by the increase in transshipment volume of 15.6 per cent: petroleum products transshipment revenues increased by EUR 5,004 thousand and other revenues related with the transshipment and consultation increased by EUR 440 thousand.

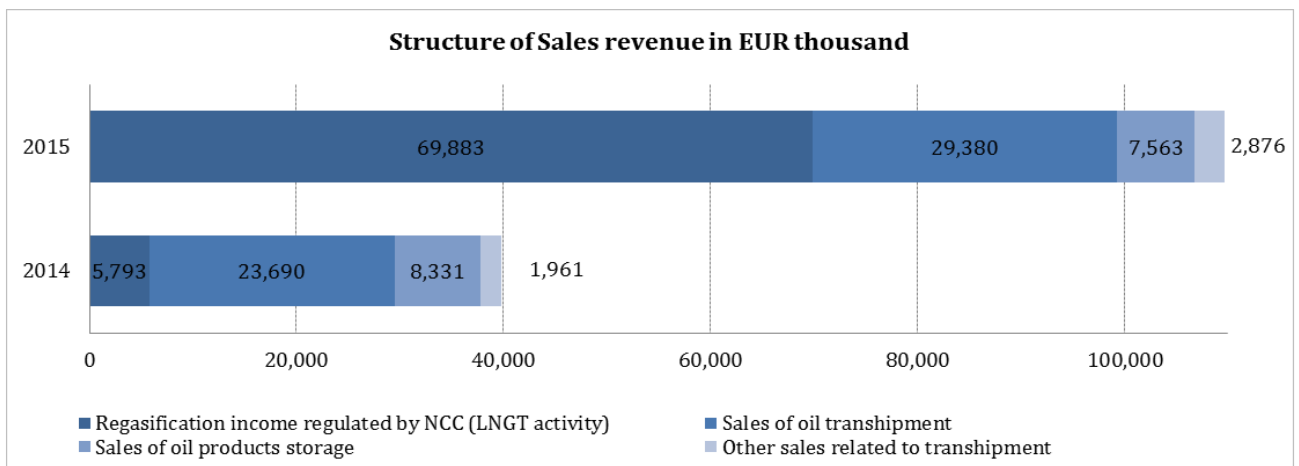
As presented in the table of the paragraph *Business environment* the largest increase in transshipment volume is from the light products transshipment, i.e. by 40.6 per cent to 3,114 thousand tons. As mentioned before the increase is associated with the transshipment increase of SC Orlen Lietuva and new freights from Belorussia.

Subacius fuel base sales revenues of 2015 **increased by 18.2 per cent** (or by EUR 394 thousand) because of larger petroleum products storage quantities and with that related higher reloading (in 2015 reloaded more by 135 thousand tons) quantities.

Sales revenue by geography and structure is provided herein. Sales revenue from foreign clients – are Company's clients, which transship the Oil product made in Russia and Belorussia and revenues from the Oil product storage in tanks.



Sales revenues structure by activities:



Expenses

Total **cost of sales** of the Company of 2015 comprise EUR 80,579 thousand, comparing to 2014 (EUR 26,625 thousand) it has tripled or increased by EUR 53,954 thousand as a result of the start of operation of the LNG terminal (the change of expenses of this activity comprise EUR 54,555 thousand) from 27 November 2014.

Company's **operating expenses** have increased by EUR 937 thousand (24.1 per cent) and comprise EUR 4,823 thousand as at period end. LNG small scale operating expenses have increased by EUR 317 thousand. Oil terminal impairment changes impacted the increase in operating expenses by EUR 610 thousand.

The listing of the major expenses is presented below:

| | 2015 | 2014 | Change in per cent |
|---|---------------|---------------|-----------------------|
| KNF depreciation costs | 6,686 | 6,667 | 0.3% |
| KNF employees related costs | 6,281 | 6,604 | -4.9% |
| KNF variable costs (gas, electricity, rail roads) | 5,662 | 6,184 | -8.4% |
| Other KNF production and administrative costs | 2,978 | 2,308 | 29.0% |
| SKB costs | 1,585 | 1,496 | 5.9% |
| FSRU leasing and FSRU related costs | 50,415 | 4,457 | 1,031.1% |
| LNGT depreciation costs | 5,240 | 56 | 9,257.1% |
| LNGT employees related costs | 2,503 | 1,642 | 52.4% |
| Other LNGT costs | 3,650 | 1,098 | 232.4% |
| LNG small scale costs | 402 | - | - |
| Total operating and administrative costs | 85,402 | 30,511 | 179.9% |

In 2015 **the total amount of LNG terminal's costs** was EUR 61,838 thousand, the major part of which were the costs of rent of the vessel Independence and the expenses, related with the vessel's operation (totally EUR 50,415 thousand), as well as staff remuneration, depreciation and quays lease costs. During the last year the depreciation of the LNG terminal's assets amounted to EUR 5,240 thousand. The personnel related costs grew 1.5 times to EUR 2,503 thousand. The increase was rather significant, since in 2014 the personnel worked not for the full year.

In 2015 the main categories of **the oil terminal's depreciation costs** remained the same. The amount of depreciation costs to a certain extent increased (by EUR 19 thousand) to EUR 6,686 thousand. The work remuneration and related costs reduced by 4.9 per cent or by EUR 323 thousand. The Company continuously searches for the possibilities to optimize and ensure efficiency of its activities and processes, the result of which will be the reduction of work remuneration costs. In 2015 the total average number of employees was reduced by 7 persons.

The oil terminal's gas, electricity and railroad costs (the main variable costs of the Company) totally reduced by EUR 522 thousand or by 8.2 per cent (despite the fact that the transshipment grew by 15.6 per cent). The reduction of this cost category was mostly affected by the reduction of gas costs, which resulted from the significant drop of natural gas prices and the total consumption of gas and electricity, since the structure of transhipped oil products also changed (the larger part was the transshipment of light oil products, which takes less energy resources). Other production and activity costs of the oil products' terminal increased by EUR 671 thousand in 2015, due to the change of reduction of the value of non-current assets and inventories by more than EUR 610 thousand (- EUR 373 thousand in 2014).

In 2015 the total amount of costs for the **Subacius fuel storage facility** grew by 5.9 per cent or by EUR 89 thousand. The increase of costs is related to the increase of the volume of activities.

Compared to 2014, in 2015 the costs of lease of the tank vessel Independence and other related expenses grew by EUR 45,958 thousand. The significant increase of costs resulted from the fact that the operation of the tank vessel Independence was commenced on 27 November 2014. The new activities, commenced at the end of 2014, resulted in a significant increase of the LNGT depreciation costs (by EUR 5,184 thousand), as well as in the increase of other mandatory terminal's operation, work remuneration, quay lease and insurance costs by EUR 3,413 thousand.

Financial results

In 2015 **EBITDA** reached EUR 37,136 thousand (EUR 16,628 thousand) compared to 2014, it grew by 123.3 per cent or by EUR 20,508 thousand. Although the EBITDA margin reduced by 7.9 percentage points, it still remains at a rather high level, i.e. 33.9 per cent (41.8 per cent in 2014). Margin reduction resulted from the commencement of activities of the LNG terminal, which significantly increased the sales revenues and the activity's profitability is lower than that, obtained from the previously executed oil products' transshipment activities.

In 2015 **the net financial activity result** was negative and amounted to EUR -482 thousand. Such negative result was due to the EUR 259 thousand long-term loans' interest costs, the EUR 147 thousand negative result of the currency exchange rate and the EUR 145 thousand loss due to the conversion of the Company's share capital into euro.

In 2015 the Company's **net profit** was EUR 22,036 thousand (EUR 9,257 thousand), compared to 2014, the net profit grew by 138.1 per cent or by EUR 12,779 thousand. The increase of the net profit mostly resulted from the growth of the net profit in the oil terminal's segment by EUR 4,070 thousand and the profitable activities of the LNGT (the net profit of the LNGT grew by EUR 8,501 thousand, instead of the loss of EUR 1,519 thousand, which was registered in 2014). In 2015 the net profit of Subacius fuel storage facility (EUR 906 thousand), compared to 2014 (EUR 698 thousand), grew by 129.8 per cent (by EUR 208 thousand).

The attention should be drawn that according to the legal regulation, the LNG terminal's profit includes the regulated return on assets therefore the difference between the calculated regulated return on assets and the Company's financial result for the financial year must be used to adjust the security supplement tariff for the coming periods. As to the estimation of the Company the factual regulated profit for the year 2015 should amount to Eur 1.9 million.

The net profit margin for 2015 amounted to 20.1 per cent, the gross profit margin reached 26.5 per cent (in 2014 respectively 23.3 per cent and 40.0 per cent). The profit per one share amounted to EUR 0.058/share (EUR 0.024/share in 2014).

In 2015 the Company's annual return on equity (ROE) amounted to 11.9 per cent (5.4 per cent in 2014), the return on assets (ROA) – 9.6 per cent (4.4 per cent in 2014). The increase of the return on assets resulted from the significant revenues of the LNG terminal.

Regulated profit of LNG terminal

Net financial profit of the LNG terminal operating segment of the Company amounts to Eur 6,981 thousand for the year 2015. According to the NCC methodic the regulated unaudited net profit amounts to approximately Eur 1,787 thousand. As a result of the larger consumption of the natural gas and additionally received procedural interest and fines, total received amount of regulated income in unaudited data in 2015 is higher by Eur 5.194 thousand than it was calculated in accordance to the regulation of NCC. According to the regulation additionally received amount shall be dedicated for the LNG terminal required expenses for the coming financial periods.

Balance sheet items

In 2015 the Company's non-current assets reduced down insignificantly (by 4.8 per cent) to EUR 180,074 thousand. The reduction of non-current assets resulted from the depreciation and transfer of investments to the financial assets held for sales (the EUR 4,040 thousand investments into JSC LITGAS). The total amount of investments and acquisition of non-current assets in 2015 comprise EUR 6,809 thousand, including EUR 5,429 thousand for final investing into the LNG terminal, EUR 809 thousand investments into oil terminal. Smaller investments were made into the SKB and small scale LNG activities, respectively EUR 142 thousand and EUR 429 thousand.

In 2015 the current assets increased by EUR 26,026 thousand and at the end of the year amounted to EUR 58,713 thousand. The major part of the current assets comprise from cash and cash equivalents – EUR 23,788 thousand, twice as in 2014 (EUR 12,886). The trade receivables grew up to EUR 27,716 thousand (by EUR 25,829 thousand more), including EUR 24,793 thousand of the receivables for the LNG activity's security supplement (the receivables, relating to the LNG activities in 2014, were shown in the item of other receivables).

After the increase of the value of current assets, the total liquidity ratio grew up to 5.56, i.e. it exceeded the current liabilities more than 5 times. As of 31 December 2015 the current assets amounted to 24.6 per cent and the cash – to 10.0 per cent of total assets.

Calculated turnover of receivables at the end of the year is 92 days and is higher than at the end of 2014 (17 days), since when calculating the ratio the receivables comprise the delayed security supplement receivables (totally EUR 24,793 thousand). The amounts were fully paid at the beginning of 2016.

Changes in equity in 2015 were related to payment of dividends for the past year (EUR 93 thousand), reallocation of reserves and transfer of the result of the previous year being the unallocated profit. The unallocated profit as of the end of 2014 has been distributed as dividends (EUR 103 thousand), the statutory reserve and other reserves. At the end of 2015 the Company's equity amounted to 82.4 per cent of the overall assets (78.7 per cent at the end of 2014). The detailed information about the share capital is provided in the chapter "Information about shareholders and shares of the Company".

The Company's long-term liabilities at the end of the last year amounted to EUR 31,431 thousand (EUR 31,257 thousand at the end of 2014), due to the increased value of the loan, granted for constructing a small LNG station. As of 31 December 2015 the amount of the loan, received from the European Investment Bank, reduced by EUR 139 thousand and amounted to EUR 29,693 thousand (EUR 29,832 thousand at the end of 2014).

The change in the current liabilities resulted from the reduction of debts to suppliers and, at the end of the year, amounted to EUR 10,552 thousand (EUR 15,946 thousand at the end of 2014).

ACTIVITY PLANS AND FORECASTS

Goals of SC Klaipėdos nafta for 2016 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 2016;
- To seek to operate in a safe and proper manner, ensuring maximum compliance with the environmental requirements set for the operation of terminals;
- To accelerate implementation of LNG small scale distribution station project in 2016 (see the description of the LNG low capacity distribution plant project implementation);
- To perform significant part of the oil terminal LFO transshipment capacities development projects;
- Plans for searching opportunities of participation in other LNG terminal projects seeking for beneficial cooperation;
- To continue investing in Company's technological flexibility and efficiency as well as safe operations of the terminals.

The activity of the Baltic States' first ever liquefied natural gas terminal, launched at the end of 2014 is accelerating. At the beginning of 2016 two new LNG terminal use agreements were concluded with the major gas market players, i.e. SC Achema and JSC Lietuvos Dujų Tiekimas. The contracts are valid until 30 September 2016 and 12 LNG carriers will be brought according to the above contracts.

The Company's LNG terminal created all preconditions for emergence of an independent gas market, providing the consumers the possibility to choose the most attractive and acceptable gas supply source, which is evidenced by the fact of emergence of two new users of the terminal's capacities. The contracts show to both Lithuania and all Baltic States' markets that the LNG terminal is able to ensure an efficient logistics chain and create preconditions for importing natural gas on competitive conditions. Meanwhile the Company is properly ready to accept and regasify even larger amounts of natural gas.

In order to reduce the LNG terminal's costs to the natural gas users, the Company will continue working in order to ensure the minimum terminal's costs. In order to reduce the annual costs of leasing the LNG tank vessel, the Company will make further attempts in order to receive the financing for purchasing the vessel.

In 2016 the Company will continue its work towards ensuring a sufficient flow of oil products for transshipment. It is expected to retain the oil products' flow at similar level as in 2015. Although at present the principal contracts, foreseen for 2016, are already concluded, the Company will continue working in order to ensure the further transshipment flows by both long-term and short-term contracts. In order to keep the oil products' transshipment flows, the Company will continue searching for possibilities to retain high and stable revenues and make the terminal's activities even more efficient for the purpose of being able to flexibly adapt to the transshipment flows and retain high level of profitability.

In order to increase the flexibility and technical capacities of the Company's oil terminal, the decision was made to invest into development of the LFO tank farm, covering construction of new terminal tanks and technological development of the truck tank filling unit. The total volume of additional reservoirs will amount to approximately 20.6 thousand m³ and provide the Company the possibility to strengthen the oil terminal's competitive advantage.

In order to further diversify the Company's activities and the use of the LNG terminal's potential, the decision was made to invest into constructing a terrestrial LNG distribution station in the Klaipėda seaport for provision of services of LNG bunkering and transshipment into trucks, thus satisfying the increasing demand for LNG in the Baltic States and in Poland. By investing the Company reaches to becoming the LNG distribution centre in the Baltic Region. A part of the project investments will be financed by using the European Union support.

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

In 2016 the Company plans to allocate approximately EUR 30 million for investment, including:

- About EUR 16.5 million into the construction of the LNG low capacity activity infrastructure;
- About EUR 9.5 million into the development of the oil terminal's LFO tank farm;
- About EUR 2 million into procurement of oil terminal equipment (HFO heat exchanger, upgrading the hydrocarbon vapour combustion equipment, installation of additional pipelines and junctions);
- About EUR 2 million – other investments.

IMPLEMENTATION OF THE LNG RELOADING (DISTRIBUTION) STATION PROJECT

Upon evaluating the market changes, relating to the LNG consumption possibilities and having in mind the necessity to utilize the LNG terminal's potential, SC Klaipėdos Nafta commenced the development of a new infrastructure project – an LNG distribution station, which is planned to be constructed on the territory of the Company's oil terminal. The planned maximum capacity of the LNG distribution station is about 5,000 m³.

LNG can 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 ship fuel.

Significant LNG reloading station project development events

- On 8 December 2014 the service provision contract was signed with the designing company SOFREGAZ (France) and BALTIC ENGINEERS UAB (hereinafter referred to as the Consultant). The subject of the contract is preparation of feed solutions, QRA, environmental impact assessment selection and territorial planning documentation.
- In March 2015 the technological concept of the project (territory and technology alternatives) was completed and the recommendation report for the project was obtained.
- On 27 March 2015 the distribution station project, including the financial part, was presented to the Board of SC Klaipėdos Nafta.
- On 7 May 2015 SWECO Hidroprojektas JSC commenced the engineering and geotechnical surveys of the soil on the construction site. The surveys were completed in July 2015.
- In August 2015 other infrastructure preparation works were commenced (dismantling of the underground technological pipeline, demolition of the existing structures).
- In June 2015 the tender for selection of the contractor for performing the Klaipėda LNG distribution station EPC was commenced.
- On 1 July 2015 the draft of technical specification for the tender on the Klaipėda LNG distribution station designing and construction works was announced in the Central Public Procurement Information System.
- On 10 July 2015 the European Commission approved the support for funding the project. Referring to the provided application, the Commission shall provide to the Company the financial support, amounting to EUR 6 million.
- In July 2015 the Board made the decision to invest. Also, the procurement of the EPC was commenced and the EPC procurement documents were published. On 26 August 2015 the Meeting of Shareholders of the Company was held, during which the project and the investment funds were approved.
- In August 2015 the pre-project solutions and the quantity risk assessment report, prepared by the Consultant, were approved.
- On 10 November 2015 the initial EPC offers were received.
- On 24 November 2015 the Environmental Protection Agency made the final selection conclusion, stating that the construction and operation of the LNG distribution station does not require an environmental impact assessment.
- During the time period of November 2015 – February 2016 the negotiations with the EPC tender participants as regards the price of offers and consultations on the technical project implementation issues were held. During the negotiations the Company succeeded to essentially reduce the price of offers down to the budget price, planned by the Company.
- On 12 February 2016 the EPC contract was signed with the consortium, consisting of Lithuanian – German company PPS Pipeline Systems GmbH and Czech company Chart Ferox, a.s. The EPC contract will enter into effect after approval by the Board and the General Meeting of Shareholders of the Company.

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

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 2015 all the shares of the Company were owned by 1,847 shareholders (on 31 December 2014 – 1,871). 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):

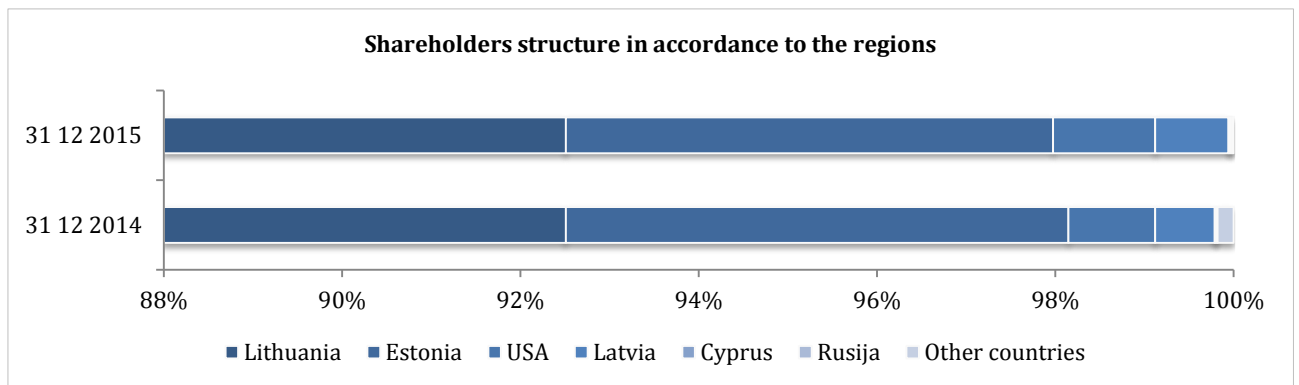
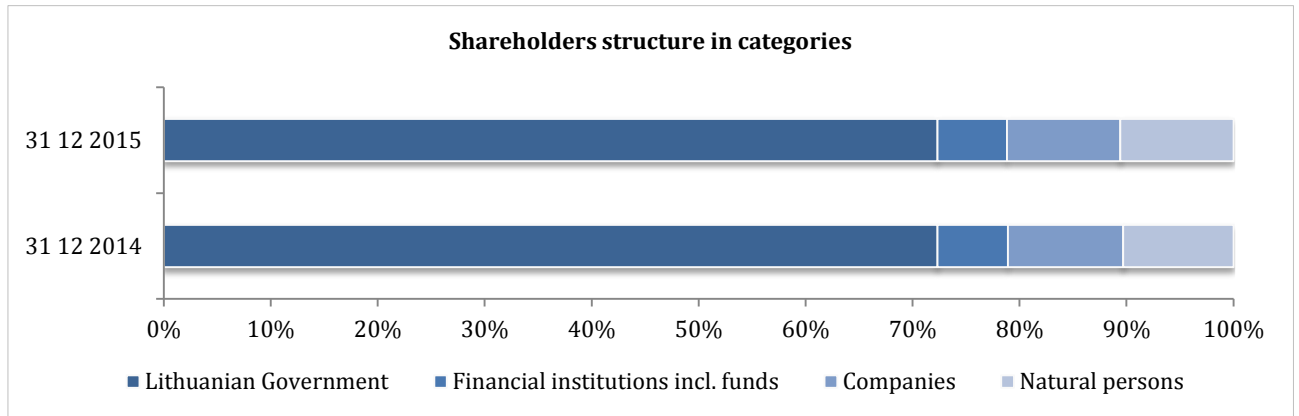
1. to attend the General Shareholders' Meetings and to vote according to voting rights carried by their shares (unless otherwise provided for by the laws);
2. to receive information on the Company to the extent allowed by the imperative norms of the valid laws;
3. to file a claim with the court for reparation 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 2015 and 2014:

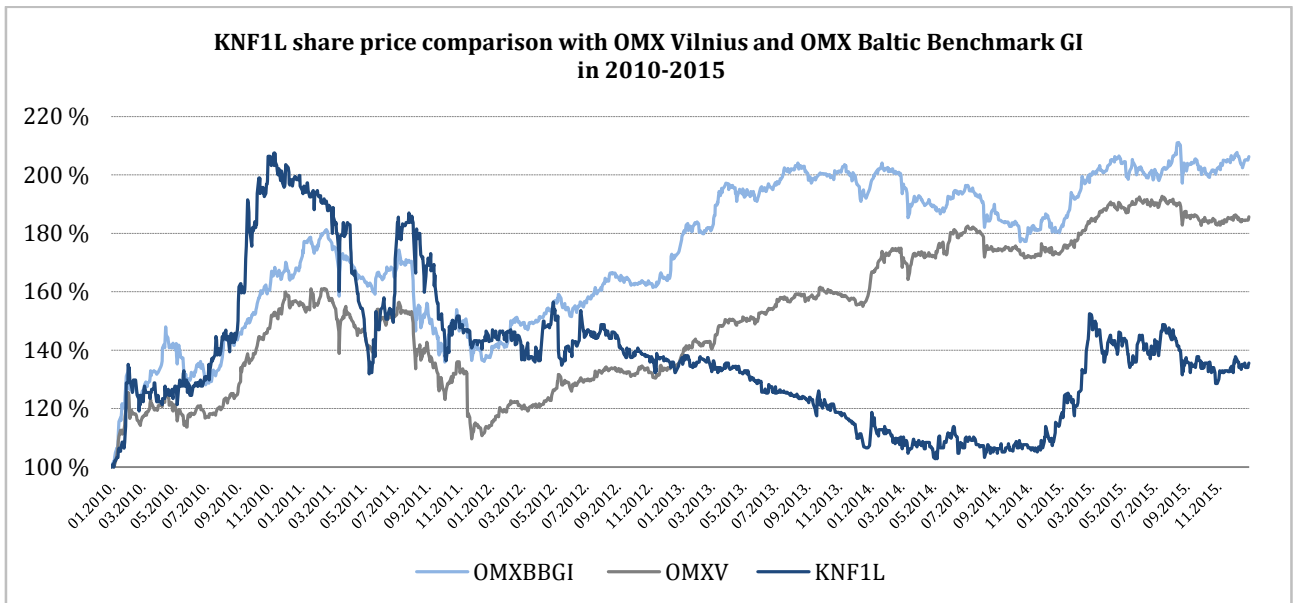
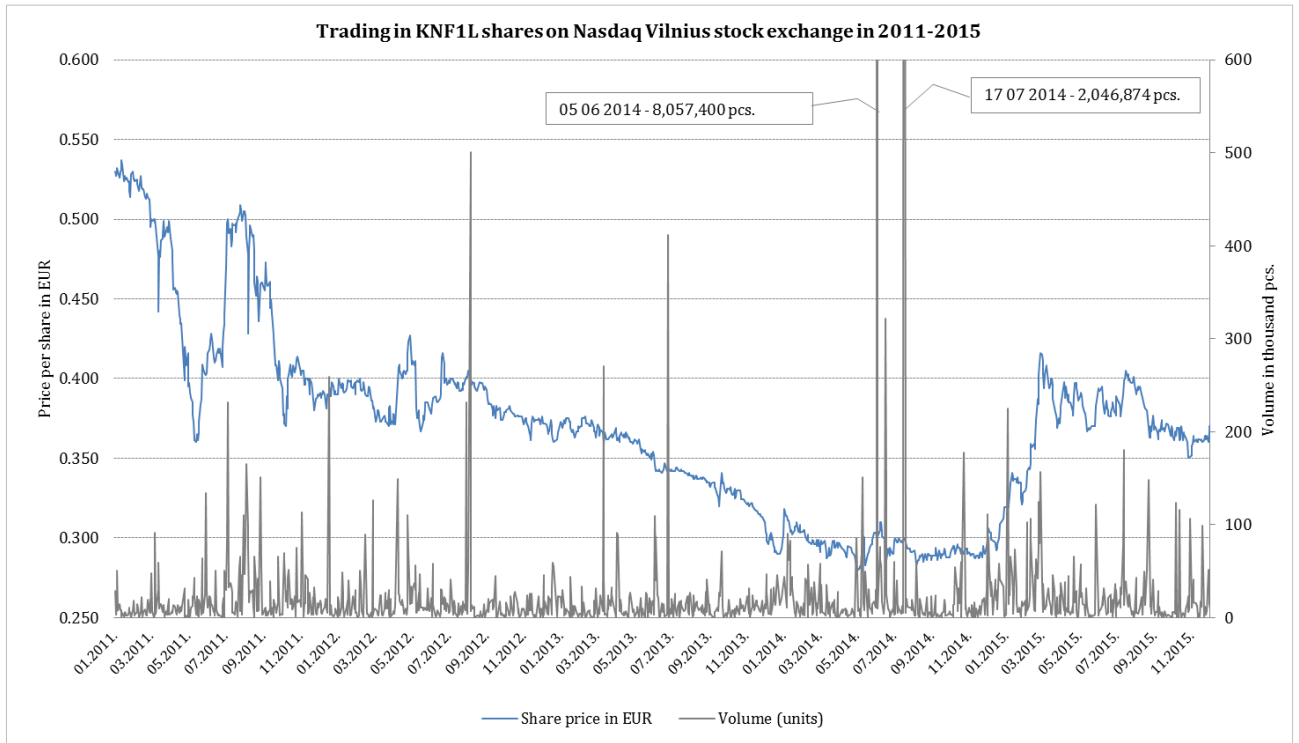
| Shareholder's name (company's name, address, company code of registration) | 31 December 2015 | | 31 December 2014 | |
|---|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
| | Number of owned shares (unit) | Part of 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 |

Shareholders structure in categories and to the regions:



Dynamics of the share price at NASDAQ OMX Vilnius during 2011 – 2015

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|-----------|------------|-----------|-----------|-----------|
| Highest share price in EUR | 0.419 | 0.323 | 0.376 | 0.426 | 0.537 |
| Lowest share price in EUR | 0.315 | 0.280 | 0.289 | 0.359 | 0.360 |
| Price per share at the end of the period in EUR | 0.369 | 0.311 | 0.292 | 0.369 | 0.39 |
| Average share price in EUR | 0.373 | 0.295 | 0.344 | 0.387 | 0.449 |
| Traded volume, pcs. | 5,257,607 | 14,454,031 | 3,644,550 | 4,061,889 | 5,022,637 |
| Turnover in EUR thousand | 1,955 | 4,320 | 1,249 | 1,588 | 2,242 |
| Capitalisation in EUR thousand | 140,444 | 118,369 | 111,137 | 133,282 | 133,380 |



Authorized capital of the Company

The Company’s authorized share capital amounted to EUR 110,375,793 as of 31 December 2015 (EUR 110,231,170.06 as of 31 December 2014). The change in share capital of EUR 145 thousand is due to conversion of the nominal share value into euro. All the shares of the Company are fully paid. The authorized capital is divided into 380,606,184 (three hundred eighty million six hundred six thousand hundred and eighty-four) ordinary shares with a nominal value of 0.29 EUR. The Company did not acquire own shares in 2015 and do not have any own shares as at period end.

Dividends

On 30 April 2015, the ordinary General Meeting of Shareholders was held which approved the audited financial reports and profit distribution of 2014. The Company allocated to the Shareholders dividends to the amount EUR 92.6 thousand or EUR 0.0002 for one share from the 2014 profit (in 2014 the Company allocated for payment of dividends EUR 103.6 thousand or EUR 0.0003 for one share). Dividends were paid to the shareholders in funds. Below is the historical information about paid dividends in previous periods for the prior financial year:

| | 2015 | 2014 | 2013 | 2012 |
|--------------------------------|--------|--------|--------|----------|
| Dividends in EUR thousand | 92.6 | 103.2 | 118.8 | 16,503.0 |
| Dividends per one share in EUR | 0.0002 | 0.0003 | 0.0003 | 0.0457 |
| Net profit per 1 share in EUR | 0.02 | 0.03 | 0.03 | 0.09 |
| Dividends for net profit, EUR | 0.01 | 0.01 | 0.01 | 0.49 |

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

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

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

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

The amount of dividends proposed may be adjusted if:

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

Agreements with intermediaries of public securities trading

The Company has an agreement with Financial Markets Department of 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 Vilnius for the companies listed on the regulated market. Refer to the Appendix No 1 to the Annual Report for the compliance report.

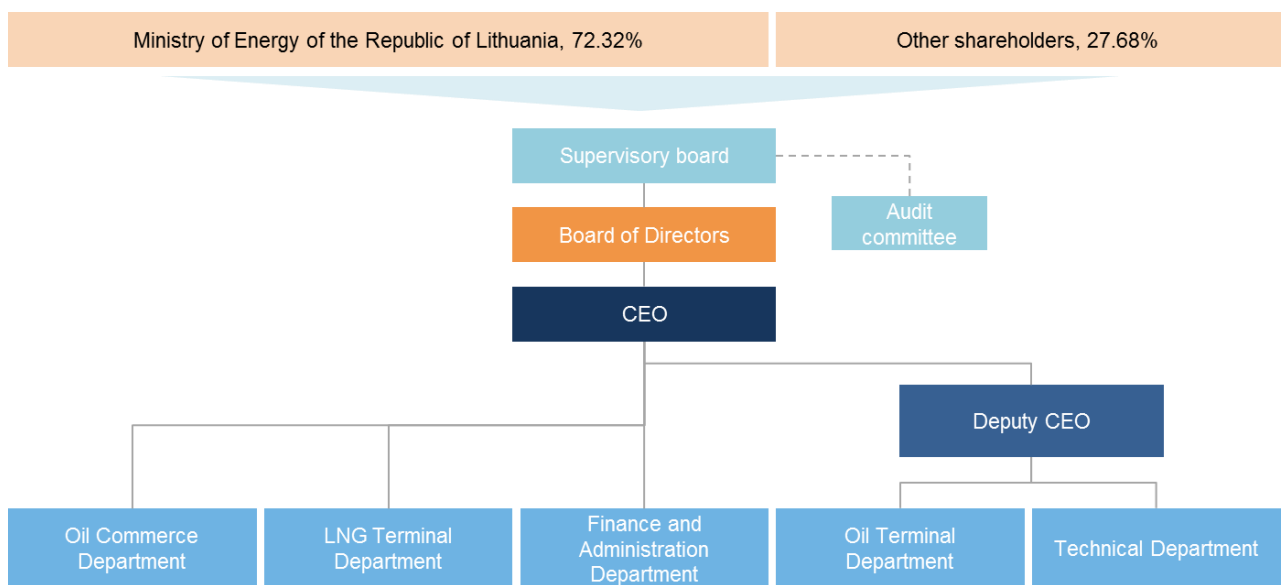
Management structure

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.

Organizational and management structure of the Company



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

The head of the Company who is also a member of the Board or authorised Director of any other department of the Company always participates in the Shareholders Meetings while the member of the Supervisory board and the CFO participate depending on the questions addressed.

In the last general meeting of Shareholders the following representatives of the Company took part: General manager of the Company, Director of Finance and Administration Department, Head of Law department and auditor of independent Audit Company.

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

The Supervisory Board by its decision has established an **Audit Committee** as an advisory body. The Audit Committee is comprised of 3 (three) members elected for the office term of the Supervisory Board. The "Rules of formation and conduct of the Audit Committee of SC Klaipedos 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 2015 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 2015 including, the Company constant Chairman of the Board has not been elected, therefore, every time by ad hoc principle the Chairman of the Board was elected from the Board members). The number

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

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

Members of the Supervisory Board as at 31 December 2015



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, member of the Board of state enterprise Ignalinos atominė elektrinė. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of SC Klaipėdos nafta.



Romas Švedas

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



Eimantas Kiudulas

(born in 1970) - Member of the Supervisory Board of the Company, member of the Audit Committee. Was elected as a member of Supervisory Board at the extraordinary general meeting of shareholders held on 11 February 2013 for the term of 4 years. Education: Vilnius University, faculty of economics (1994), ISM University of Management and Economics, module – management accounting: value analysis (2010). Employment - Klaipėda Free Economic Zone Management Company, CEO, member of the Board. Participation in the activity of other companies – owner of Eimantas Kiudulas individual enterprise, JSC LEZ projektu valdymas - member of the Board, JSC PO7 director, JSC Quantum capital member of the Board, JSC Metalo valdymo projektai - CEO, JSC Pro BioSanus - member of the Board. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of SC Klaipėdos nafta.

During 2015 no remuneration has been calculated for the member of the Supervisory Board. They did not receive any loans, guarantees or assets.

All members of the Supervisory Board have participated in all the meetings that took place in 2015.

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

Members of the Audit Committee as at 31 December 2015

**Linas Sasnauskas**

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

**Eimantas Kiudulas**

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

**Kasparas Zebrauskas**

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

On 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 Rimašauskas as from 31rd of January 2015.

During 2015 the calculated total remuneration for the Audit Committee members for the work in the Audit Committee amounts to EUR 15.2 thousand, the amounts per each remember are specified below. Members of the Audit Committee did not receive any loans, guarantees or assets.

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

All members of the Audit Committee participated in all the meetings that took place in 2015.

| Name | Position in the Company | The independence criteria | Cadency commencement date |
|---------------------|--|---------------------------|---|
| Simonas Rimašauskas | Chairman of Audit Committee | Independent | From 18 March 2013 until 31 January 2015 |
| Linas Sasnauskas | Chairman of the Audit Committee (from 21 September 2015) | Independent | From the 21 September 2015 (previously served as a member of the Audit Committee) |
| Eimantas Kiudulas | Member of Audit Committee | Independent | From the 18 March 2013 |
| Kasparas Žebrauskas | Member of Audit Committee | Independent | From the 14 September 2015 |

Members of the Board as at 31 December 2015**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: head manager and shareholder of JSC "Vadexsa". Since June 2015 Vice-president of the Association Baltic Institute of Corporate Governance. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of SC Klaipedos nafta.

**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; no shareholding (above 5 per cent) in the related companies of SC Klaipedos nafta.

**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, JSC BALTPPOOL, Board member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of SC Klaipedos nafta.

**Mantas Bartuska**

(born 1984) - Board member and General Director of the Company since 25 September 2014. Elected by the Supervisory Board until the term of office of the acting Board of Company. Earlier was employed as Director of Finance and Administration Department of the Company (since 18 May 2010). Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). 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; no shareholding (above 5 per cent) in the related companies of SC Klaipedos nafta.

Independent member of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. Member of the Board M. Bartuska receives remuneration only based on the employment (as General Director), additionally for work in the Board is not been paid. Members of the Board in 2015 did not receive any loans, guarantees or assets. In 2015 for the independent members of the Board total remuneration amount comprise EUR 23.6 thousand.

| Name | Position in the Company | The independence criteria | Board member from the date |
|---------------------|--|---------------------------|----------------------------|
| Rytis Ambrazevičius | Member of the Board | Independent | From the 24 October 2011 |
| Mindaugas Jusius | Member of the Board | Independent | From the 24 October 2011 |
| Dainius Bražiūnas | Member of the Board | - | From the 25 July 2014 |
| Mantas Bartuška | Member of the Board, Head manager of the Company | - | From the 25 September 2014 |

All member of the Board of the Company attended all the Board meetings held during the year 2015.

The Directors of the Company as at 31 December 2015



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; no shareholding (above 5 per cent) in the related companies of SC Klaipėdos nafta.



Marius Pulkauninkas

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



Gediminas Vitkauskas

(born 1957) – Director of Oil terminal department. Works at the Company since 16 October 1995. Education: Kaunas university of Technology, diploma of mechanical engineering (1980), Vilnius University, diploma of philologist, English lecturer (1987). No participation in other companies management. Gediminas Vitkauskas has 3,600 shares of the Company, that comprise 0,00001 per cent of share capital and voting rights; no shareholding (above 5 per cent) in the related companies of SC Klaipėdos nafta.



Tadas Matulionis

(born 1977) - Director of the LNG terminal department (by the 16 February 2015 this position was run by Rolandas Zukas). Works at the Company since 2 April 2013. Education: Kaunas university of Technology, Bachelor in telecommunication engineering (2001), Vytautas Magnus University, master of business administration (2004). No participation in other companies management. Tadas Matulionis has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of SC Klaipėdos nafta.



Genadijus Andrejevas

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



Darius Silenskis

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

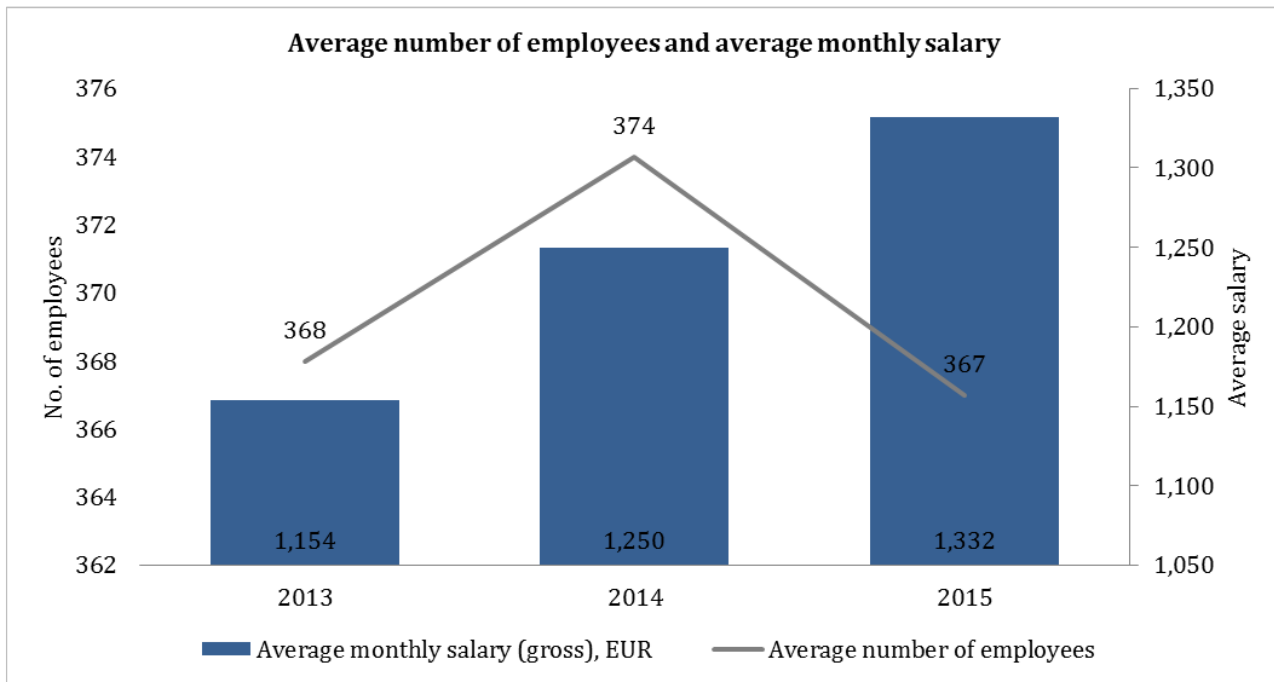
No members of the Company's management have been convicted of crimes against property, business or finances. Information about leading managers' salary is stated in chapter *Personnel*.

INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

Personnel

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

The average number of employees in 2015 (total number 367) has an increase by 7 employees or 1.9 per cent compared with 2014. The employees' number reduction is related with organizational changes of the Company's with a purpose for optimization of operating costs.



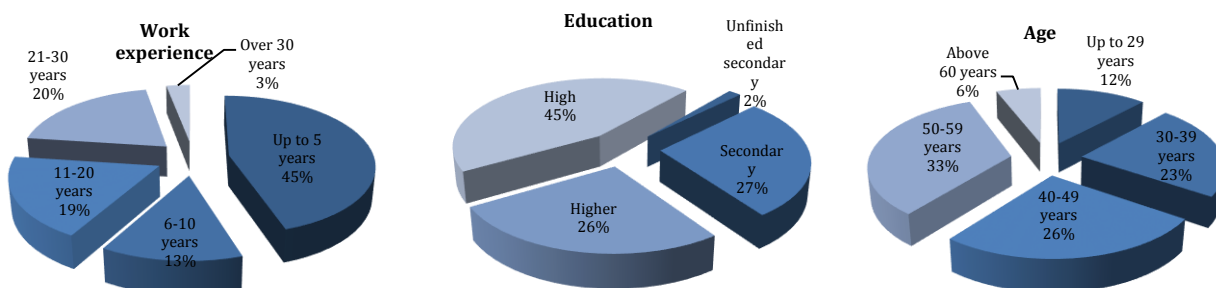
In 2015 (see the table below) from the total number of employees, workers comprised 52 per cent (in 2014 – 56 per cent), specialists 38 per cent (in 2014 – 35 per cent), managing personnel - 10 per cent (in 2014 - 9 per cent.).

Employees of the Company according to categories

| Employee category | Average number of employees | | Change in per cent |
|------------------------|-----------------------------|------------|--------------------|
| | 2015 | 2014 | |
| Managers ¹⁾ | 36 | 34 | 5.9 |
| Specialists | 140 | 130 | 7.7 |
| Workers | 191 | 210 | -9.1 |
| Total | 367 | 374 | -1.9 |

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

As at 31 December 2015 in the Company were employed 75 per cent of males and 25 per cent of females (correspondingly 73 and 27 per cent as of 31 December 2014). The average ages of the Company's employees – 45 years. 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.

Average monthly salary according to employee groups

| Employee group | Average monthly salary (gross), EUR | | Change, %. |
|-------------------------------|-------------------------------------|--------------|------------|
| | 2015 | 2014 | |
| Managers ¹⁾ | 3,513 | 3,423 | 2.6 |
| Specialists | 1,611 | 1,587 | 1.5 |
| Workers | 1,127 | 1,041 | 8.3 |
| Average of the Company | 1,332 | 1,250 | 6.6 |

Notes:

¹⁾ 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 2015: EUR 2,157 thousand (in that amount taxes paid by the employer included EUR 512 thousand) when in 2014 – EUR 1,958 thousand (including EUR 465 thousand of taxes paid by the employer); on the average EUR 60 thousand to each manager of the Company per year (in 2014 EUR 58 thousand for manager).

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

The Company's Employee's remuneration consists of: i) payable fixed compensation for the work done - monthly salary; ii) lump sum payment – remuneration to certain employees 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. Total 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 annual bonus allocation. These bonuses depend from the achievement of the goals set directly for person or for the Company. Employee performance management is one of the most important management and effective leadership techniques that help achieve the organizational goals and create positive relationships between managers and their subordinates that allow planning employees' career and increasing their motivation. An annual interview at the Company is a tool for employee performance management that ensures that employees' personal goals are set in accordance with the Company's goals. The annual interview helps to assess the employee's goal achievement as well as set new goals and form the feedback culture between a supervisor and a subordinate. During the interview opportunities for competence development, learning, and career are discussed.

For the last four 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 2015 revealed that 70.64 per cent of employees are satisfied with their work environment, the Company and its culture (by 2.21 per cent lower comparing to the results of 2014 but greater by 0.16 per cent comparing to 2013 and greater by 3.97 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. Involved Companies's personnel in 2015 amounted 59.80 per cent and by 2.2 per cent lower compared to 2014, but in 2015 reduced uninvolved personnel by 1.2 per compared to 2014 (when it was 9.10 per cent).

Management of the Company payroll system

All Company's 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. According to the procedures applicable at the moment, the Board of the Company also approves the fixed monthly salary for the Directors taking current labour market salaries into consideration. This enables the Company to employ highly qualified employees suitable for such positions and whose qualifications can contribute to the achievement of the Company's goals. As for Directors' incentive, the Board of the Company has approved the procedure for bonuses of executives of Klaipėdos Nafta according to which the Directors are encouraged not only to achieve the Company's annual goals but also to exceed them. The size of annual bonuses for these employees depends on: i) the percentage by which the budgeted net profit has been exceeded and ii) the part by which the Company's annual goals have been achieved. In any case, however, the maximum amount of annual bonuses to be paid to all directors shall not exceed three 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 decide to resign or are compulsorily retired. There are no additional payments in the form of shares or other compensations for execution of duties at the Company or in case of leaving. The Company has not established any periodicity for introduction of changes in salaries. The 1st day of April of 2015 was the last time the system of Directors' remuneration and its payment was changed.

The Collective Agreement

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

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

- An annual one-time allowance equal to 2.5 MM is paid before the 1 September to an employee having three or more children under the age of 18;
- Funeral allowance is paid to the employees of the Company after the death of a family member (spouse, parent, child, adopted child);
- A one-time funeral allowance is paid to the family of a deceased employee;
- A one-time allowance equal to 2 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 2015 year 68 (2014 – 56) employees has used these social benefits.

Development of Competencies

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

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

✓ External personnel carrying out works at the territory of the Company shall be acquainted (instructed) with the requirements on Occupational Safety and Health, Fire Safety and Civil Protection Instructions applicable at the terminals. In 2015 the Company instructed a total of 765 external employees.

✓ In accordance with the requirements of the regulatory acts of the Republic of Lithuania, the Company makes lists of mandatory certificates in respect of each post along with the terms for recertification done on a periodic basis; in addition, the Company accordingly organizes timely training for employees and certification for works to be safely performed. Periodical trainings (exercises), intended to the development of emergency response practical skills, are continually conducted at the Company. In 2015 the Company organized 22 such trainings. A total number of 223 employees were trained and/or certified.

✓ In 2015 the procedure of internal trainings for the employees of production subdivisions was approved, and all the necessary programs, employee trainings and certification are designed under this procedure. 14 internal training programs were approved in 2015 according to which 30 employees were trained and/or certified. The rest of necessary internal training programs will be approved in 2016. Internal trainings as well as periodic certifications are organized for the purposes of acquiring and renewing professional knowledge, learning and testing skills of the Company's specific production technological processes and equipment, and maintaining employees' high professional standards. The general trainings for the development of competencies of employees are performed by sending staff to the seminars and conferences organized by external parties or by organizing internal trainings. The annual employee training plans are made on the basis of the following: Company's strategy, the objectives of human resources development, needs expressed by the staff of subdivisions, needs reflecting in the interviews about annual evaluation of employees as well as in the documents on evaluation given at the end of adaptation period of new-hires. In 2015 two teamwork trainings were organized. One of them was meant to emphasize and show the importance of the Company's processes and personal participation, and to enhance cooperation. The other was Company-oriented and employees' social responsibility-oriented training. Over 130 executives and experts participated in these teamwork trainings. In the year of 2015, on average employees had a training/improved their professional skills spending 7,538 working hours (or an average of 2.6 days a year per person for trainings) on training and development, out of which:

- ✓ Executives received 1,261 hours (or an average of 4.5 days per person) of training;
- ✓ Experts received 4,336 hours (or an average of 3.9 days per person);
- ✓ Employees received 1,941 hours (or an average of 1.3 days per person).

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

SOCIAL RESPONSIBILITY OF THE COMPANY

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

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

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

In 2015 m. the Company allocated EUR 140 thousand (in 2014 – EUR 129 thousand). In 2015 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. The Company also supports the local sportsmen: encourages and stimulates activities of disables sportsmen; organization of championships and other cultural, sports, and education initiatives, support religion communities.

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

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

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

Work safety

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

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

Health of employees

The Company is one of the few companies in Lithuania that has a licensed health center. It provides the first aid, initial preventive practical and theoretical health support, preventive employees' health care, infection control, control of risk factors for hazards; the center also organizes medical check-up prior to employment and while being in employment. Both employers and employees are advised on health matters. In 2015, 120 employees had medical check-ups, 60 employees participated in the first aid and hygiene awareness training.

Physical medicine and rehabilitation room with modern science approved practice-proven equipment is set in the Company's health center. A range of physiotherapy treatments based on the doctor's referral are provided. Employees are provided with free vaccines against tick-borne encephalitis, typhoid, influenza and other illnesses. In 2015, 195 employees were vaccinated.

In its health center the Company organizes, at its own expense, preventive – rehabilitation treatment to the employees that work in the increased pollution conditions. During 2015 these services were used by 95 employees.

Environment protection

In the process of planning new activities or operating existing terminals of oil production as well as liquefied natural gas, and running the Subačius fuel storage facility, the Company follows the fundamental principles of environment protection which are set in the National environment protection strategy (decision of 16/06/2015 No. XII-1626 “Regarding the Approval of the National Environment Protection Strategy” adopted by the Seimas of the Republic of Lithuania).

Share of partnership and responsibility, society interaction and communication principle. The Company commits itself to make public authorities and the public aware of future projects as soon as possible so that the interested parties could get access, at an early stage of project development, to the planned activities and measures, which are intended to be implemented in order to ensure environmental and public health protection. The interested parties are given opportunities to provide comments and proposals on future projects. For example, more than once and at an early project implementation stage of LNG distribution station, public authorities, responsible for environmental protection, public health protection, fire safety, and executive institutions of self-government have been presented with design solutions for LNG distribution station; potential harmful effects on the environment and human health have been discussed as well as their reduction and compensation measures, which would be implemented at the stages of construction works and operation. The Company takes and implements constructive proposals put forward by public authorities.

From the very beginning of the implementation of LNG distribution station project the Company has been providing the society with an opportunity to get familiar with prospective economic activities, to make comments and proposals relating to such activities. Mass media has been the means of informing the public about prospective economic activities. Local newspapers of Klaipėda city, regional newspapers have published some articles on LNG distribution station; articles have been also published on a number of websites. A few documentaries about LNG application opportunities and infrastructure have been broadcasted on LRT TV programme, in addition the film “LNG clean fuel” has been made specifically for this project (online reference <https://www.youtube.com/watch?v=1DktwAivkOk>; https://www.youtube.com/watch?v=rKv9_4D2tAU), special booklets on LNG distribution station have been printed and distributed to the public.

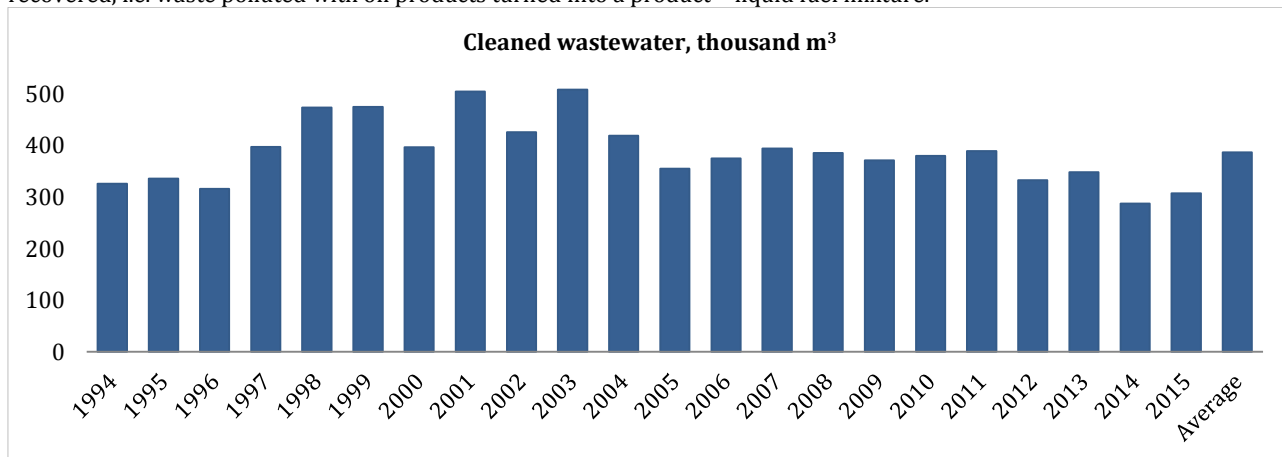
It is noted that the Company takes and implements constructive proposals relating to prospective projects put forward by public authorities, communicates and cooperates with public authorities and the general public as well.

Principle of ecological effectiveness. The purpose of this principle is to consume less energy and other natural resources for the same volume of services. During 2015, the Company renewed a part of its heat exchangers system. With the renewed part of heat exchangers system, the procedures for unloading a set of rail wagons will take shorter time on average and will save thermal energy. This renewal of a part of heat exchangers will enable implementation of the Principle of Pollution Prevention as reduced need for vapour in the boiler room will result in decreased amount of gas combustion, thus a smaller amount of nitrogen oxides and carbon monoxides will be emitted into the atmosphere. Shorter time for unloading a set of rail wagons will reduce emissions of air pollutants, namely, volatile organic compounds (hereinafter referred to as VOC).

In order to decrease volume of consumed paper, improve procedures of document management and reduce costs, the Electronic documents management system (DocLogix) was installed in the Company which allows managing and archiving all documents in electronic way. This measure enables the Company to achieve significant paper savings.

Principle of Pollution Prevention. A number of environment protection measures have been implemented in the Company in order to reduce environmental pollution:

➤ The Company has its own wastewater treatment plants which are capable of cleaning industrial and surface sewage of oil product terminal up to an approved normative limit; afterwards, the purified wastewater is discharged into the natural environment – the Curonian Lagoon. The Company’s wastewater treatment plants within the territory of Klaipėda State Seaport serve as a seaport reception facilities which receive bilge water (water polluted with oil products) from vessels. During 2015, about 50 vessels/tankers discharged their bilge water into the Company’s wastewater treatment plants; this amount constituted 51.5 percent of the total volume of hazardous waste received and treated by the Company. It handled around 17.1 thousand tons of hazardous waste per year which was polluted with oil products. Part of this hazardous waste has been recovered, i.e. waste polluted with oil products turned into a product – liquid fuel mixture.



- ✓ Prevention of waste accumulation is conducted in the Company. Waste is collected separately from secondary raw materials suitable for processing. In 2015 oil product terminal, as a waste manager, handled 11.96 t (in 2014 – 14,690 t) of hazardous waste (bilge water, water polluted with oil products), and 2.1 t of biologically treated sludge. While

conducting its activities, the Company transferred 173 t (in 2014 – 260 t) of separated waste and 344.4 t (in 2014 – 26 t) of secondary raw materials (340 t of scrap metal and 4.4 t of paper) from oil production and liquefied natural gas terminals to other companies for further handling. In 2015 The Subačius storage facility accumulated 6.6 t (in 2014 – 33 t) of waste which was transferred to waste managers.

- VOC recovery unit with an efficiency of about 95 percent is in operation while stevedoring services, namely, discharge of light oil products from rail wagons into containers, are being provided at oil product terminal. When discharging gasoline from containers into a tanker, VOC vapour combustion unit with an efficiency of about 95 percent is in operation. Implementation of minimization measures for air pollution allows the Company to reduce its annual emission of VOC by about 125 t. Oil product terminal has over 70 percent of containers, used for storage/loading of oil products, with pontoons which help to reduce VOC release into the atmosphere.
- The Company performs monitoring of air pollutants emitted from stationary sources, also monitoring of impact on environment including observations of underground water, ambient air and surface water (the Curonian Lagoon). According to the analysis based on monitoring data of impact on ambient air quality and impact on surface water, the Company has not exceeded the permissible limit of pollution value, in addition monitoring results of impact on underground water show that “historical” pollution of soil and underground water with oil products has actually been decreasing within the territory of the Company.
- In 2015 the Company’s operating costs for environmental protection (including maintenance of waste treatment plants) amounted to EUR 828.3 thousand (in 2014 – EUR 953.2 thousand). Additionally, during 2015, EUR 29,3 thousand (in 2014 – EUR 31.3 thousand) were allocated for different environment protection studies (studies of polluting materials, etc.).

Principle of Responsibility (“polluter pays”). This principle is implemented each year by paying a tax into the public purse for environment pollution from stationary and mobile sources of pollution. The Company pays an annual tax of about EUR 7 thousand to the public purse for environment pollution from oil terminal. Since 2015, the Company has been compensating the expenditures related to environment pollution tax incurred by LNG floating storage and which are directly paid into the public purse by the vessel owner, i.e. Hoegh LNG. In 2015, the amount paid as environment pollution tax was EUR 137.6 thousand. (last year there were now free pollution permit units intended for this Project). Part of the money paid into the public purse is allocated for ongoing environment protection measures in municipalities where the Company carries out its activities.

The Company carries out its activities in accordance with the requirements of Environment Protection Agency provided for in environment protection licenses which were granted to oil product terminal and the Subacius fuel storage facility. The company has approved safety management policy, the main purpose of which is to ensure rational utilization of natural resources, and implementation of pollution minimization measures set in the environment protection licenses.

In order to prevent accidents/incidents which are likely to result in environment pollution, the Company has installed systems of automatic fire detection and extinguishing, computer-assisted control of loading process; and technologies for air, soil and water protection against pollution in accordance with the EU standards. The management of extreme situations, fire protection and territory protection comply with the requirements of the Republic of Lithuania institutions of fire protection, labour security, civil safety, environment protection, port control. About once a year, the inspectors of competent institutions carry out analysis of danger and risk at the Company’s terminals and SFB. Managers of the Company take careful note of provided recommendations and develop risk minimization plans that are involved in Company’s investment plans.

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

OTHER INFORMATION

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

Transactions with related parties

The Company did not have any transactions or agreements with the members of its Supervisory Board and the Board. More information regarding transactions with related Parties is presented in the Explanatory note to the Company's financial statements for 2015. In 2015 there were no changes in type of transactions with related parties, which could have made impact on the Company's financial activity. All transactions with the related parties have been performed under market conditions (following the arm's length principle).

Information about the audit

During the General Meeting of Shareholders of the Company which took place on 30 April 2015 of the Company, the shareholders have appointed JSC Ernst & Young Baltic to audit financial statements of the years 2015-2016, assess the annual statement and perform the audit report. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of auditing services EUR 14.5 thousand for the each financial year (2015 and 2016). JSC Ernst & Young Baltic also performed the audit financial year 2014 audited financial statements, annual report. JSC KPMG Baltics performed the audit of financial status reports and related reports on changes in common incomes, authorized capital and cash flows for the time period 2008-2013 as well as for the accounting policies and other supplementary notes.

Conformation 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 2015 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

AB KLAIPĖDOS NAFTA GOVERNANCE REPORTING

The public limited liability company Klaipedos nafta (hereinafter referred to as the "Company"), acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

Summary of the Corporate Governance Report:

Stock company Klaipedos nafta aims to make its corporate management and internal processes in a way to ensure transparent, effective and profitable activities. The internal control processes and management practices implemented within the Company are in line with the best management practice principles.

The company's management structure and managing bodies are described in detail in the article *Management of the Company* of the annual report. In this paragraph also provided corporate management scheme, connection with the other bodies and short description of the functions of the each managing body. Also in mentioned paragraph is found the information regarding remuneration for service in the collegial bodies and amount accounted for the each member of the bodies.

In order that all management and supervision bodies of the Company exactly and clearly understand the targets, directions and objectives the corporate strategy is being prepared where foreseen long term strategic goals and tasks. The Board of the Company is responsible for the strategy setting of the Company. The up to date corporate strategy goals are described in the paragraph *The Company's Strategy*.

Paragraph *Risk factors and risk management* describes the main risks the Company is facing in its activity, also short risks identification and they mitigation processes implemented within the Company are included.

| PRINCIPLES / RECOMMENDATIONS | Yes and No Not applicable | COMMENTARY |
|--|------------------------------|---|
| Principle I: Basic Provisions The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value. | | |
| 1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value. | Yes | The development strategy and objectives of SC Klaipedos nafta have been set up in its internal documents (Annual Report placed publicly on the website of SC NASDAQ Vilnius) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment, declaring how it plans to act in the interests of the shareholders and increase shareholders' equity. The Articles of Association of the Company are publically announced on NASDAQ Vilnius Stock Exchange's and Companys website, according to the procedures defined for the companies listed on the regulated market. |
| 1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value. | Yes | The General Meeting of Shareholders and the Board of the Company adopt the main strategic resolutions, making impact on the shareholders value increase. During the year under review, the General Meeting of Shareholders of the Company and the Board adopted decisions related with implementation of the strategic projects of the Company, core decisions related with activities of the Company. The Company's Supervisory Board and its advisory body, Audit Committee have ensured active monitoring and supervision of the Company's activity. |
| 1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders. | Yes | The Company's Supervisory Board, its advisory body - Audit Committee, the Company's Board and the Company's General Manager implement this recommendation. The documents regulating the activities of the management and supervisory bodies were approved providing the principles and procedures for the cooperation between the Company's management and supervisory bodies, and regular supervision and control carried out by the supervisory bodies additionally ensure the proper functioning of the |

| PRINCIPLES / RECOMMENDATIONS | Yes and No Not applicable | COMMENTARY |
|---|------------------------------|--|
| | | governing bodies in order to maximize the benefit for the company and its shareholders. If necessary, general meetings are organized, where the members of the Company's Board, Supervisory Board, and Audit Committee are invited. |
| 1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected. | Yes | <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"> 1. Employees – since its establishment the Company has been cooperating and performing social partnership with the representatives of its employees (the Board of the Company by its resolutions assigns additional means for the execution of the Collective Agreement and extra stimulation of the employees, etc.); 2. Creditors - the Company takes on and fulfils its financial and other obligations in accordance with the budget approved by the Board of the Company and the LNG terminal project investment financing plan provided within it; 3. Suppliers – the Company's Boards adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association; 4. Clients –the Company's Boards adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association; 5. Other persons (local company) – by the resolution of general shareholders meeting part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the annual support budget, including the projects plan which is made based on the principles that the prioritized support for Klaipeda region and focusing on the support to be annually dedicated for both local companies and institutions and organizations located near the Company. |
| <p>Principle II: The corporate governance framework The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p> | | |
| 2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process. | Yes | The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, was also created within the Company. |
| 2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies. | Yes | The Supervisory Board of the Company is responsible for the effective supervision of the activities of the Company's management bodies (it elects and recalls members of the Board; should the Company operate in the red it should discuss fitness of the members for the position; it supervises the activities of the Board and the Chief Executive Officer; submits proposals and comments to the General Meeting of Shareholders regarding the strategy of the Company's operation, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts). |

| PRINCIPLES / RECOMMENDATIONS | Yes and No Not applicable | COMMENTARY |
|--|---------------------------|---|
| | | <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> |
| <p>2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.</p> | Yes | <p>The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.</p> |
| <p>2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.</p> | Yes | <p>The Company has set up a collegial supervisory body - the Supervisory Board. The internal regulations for election of collegial body the Supervisory Board by the Company's shareholders meeting are set in the way ensuring: minor shareholders' interests are properly represented, this body accountability to the shareholders and objective supervision of the Company's activity and its managing bodies.</p> <p>The management system of the Company ensures that collegial supervisory body elected by the shareholders operates properly and effectively, and the rights assigned to it has to ensure effective supervision of the managing bodies and protection of the all shareholders interests.</p> |
| <p>2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.</p> | Yes | <p>The Board of the Company is comprised of five members elected by the Supervisory Board¹.</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>From 01-02-2015 till 14-09-2015 after resignation of a member of Audit Committee there were only two members in place. 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> |
| <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</p> |

¹ Note: During 2015, 4 out of 5 Board members were acting in the Company.

| PRINCIPLES / RECOMMENDATIONS | Yes and No Not applicable | COMMENTARY |
|--|------------------------------|--|
| | | <p>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. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to 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 person². 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>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.</p> | | |
| <p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p> | Yes | <p>The collegial body of the Company is elected following the order established by the Law on Companies of the Republic of Lithuania and the Articles of Association of the Company. Additional candidates for the members of the collegial body elected by the General Meeting of Shareholders, according to the procedures defined, can be delegated by all shareholders holding the amount of shares giving them not less than 1/20 of the total votes.</p> |
| <p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p> | Yes | <p>Information about the candidates to become members of a collegial body is presented in advance publishing this information on the website of SC Nasdaq Vilnius before the General Meeting of Shareholders or publishing it during the meeting for the shareholders participating in the General Meeting of Shareholders if the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest, and for this purpose they submit declarations about the absence of conflict of interest and are obliged to immediately inform the body by which they were elected of any new circumstances that may lead to the conflict of interest.</p> <p>The Company informs the public of the positions by the collegial body in its annual and six month interim</p> |

² In 2015 there was no Chairperson of the Board, so every time one of the Board members is elected as the chairperson of the Board under the principle *ad hoc*. The Company's Chief Executive Officer was four times elected as the chairperson of the meeting *ad hoc*.

| PRINCIPLES / RECOMMENDATIONS | Yes and No Not applicable | COMMENTARY |
|---|---------------------------|---|
| | | report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies. |
| 3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body. | Yes | All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests to the Company's body that elects them. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body. The information about the composition of the Company's collegial bodies and the competences of their members are publicly disclosed to the shareholders in SC Nasdaq Vilnius Stock Exchange website and Company's website oil.lt and annual report of the Company (in 2015 there were no changes in collegial managing bodies; in 2015 one member of Audit committee has changed). Investors' relations tools are to be developed further regarding these questions. |
| 3.4 In order to maintain a proper balance in terms of the current qualifications possessed by its members, the desired composition of the collegial body shall be determined with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies. At least one of the members of the remuneration committee should have knowledge of and experience in the field of remuneration policy. | Yes | The collegial body ensures that its members are competent however periodic evaluation is not performed. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit were appointed questioning if Audit Committee, acting collegially, shall have recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market. |
| 3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge. | Not applicable | The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation. Up to now there has been neither need nor practice in the Company to offer a special tailored program focused on introducing all new members of the Supervisory Board with their duties, corporate organization and activities and to organize annual examinations. However, the Company's chief executive officers personally inform and introduce the Company's organization and activity to the new members of the collegial bodies. |
| 3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient number of independent members. | Yes | Since over 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, 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. During the year under review, the Company's Board had 2 independent members (out of 4), Audit Committee had 3 independent members (out of 3), and the Supervisory Board had 1 independent member (out of 3). |

| | | |
|---|------------|--|
| <p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <p>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</p> <p>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counseling 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 shareholders' meeting is the supervisory board) is non-executive director or</p> | <p>Yes</p> | <p>The criteria of independence of the collegial bodies have not been determined in the documents of the operation of the Company's collegial bodies, however, the appointment of the independent members for collegial bodies is governed by the applicable requirements of legal act, including the requirements of the Governance Code of the companies listed on the regulated market by SC Nasdaq Vilnius. In determining whether an audit committee member may be independent, the main criteria are applied that were established by the 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).</p> <p>In order to evaluate the independence of the candidates for the company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest of the collegial body and the Company.</p> <p>The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content but not the form.</p> |
|---|------------|--|

| | | |
|--|----------------|---|
| <p>member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> | | |
| <p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p> | Yes | <p>Refer to the comment regarding the item 3.7 above. In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies and in the Company's Articles of Association.</p> |
| <p>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.</p> | Not applicable | <p>Refer to the comment submitted regarding the item 3.6 above. The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies set out in the Code.</p> |
| <p>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.</p> | Yes | <p>There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information. The Company regularly specify in its published periodical reports the relation of the Company's collegial bodies to the Company, as well as information about possession (absence) of the Company's shares. The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.</p> |
| <p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.</p> | Yes | <p>Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings. A fixed monthly remuneration is paid, which depends on the actual time spent, but is limited to a maximum payable amount. The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board. The General Meeting of Shareholders has a right to reward (pay tantiemes) the work of independent members of the Supervisory board members for their work participation in the meetings of the Supervisory but only using the net profit and in compliance with applicable legal acts and the Company's Articles of Association.</p> |

Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting

The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring³ of the company's management bodies and protection of interests of all the company's shareholders.

| | | |
|---|------------|--|
| <p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.</p> | <p>Yes</p> | <p>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.</p> <p>In addition, the Board analyses and evaluates the company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders.</p> <p>The Board regularly analyses and assesses financial status of the Company, as well as periodic financial results, submits recommendations on the appropriate management of the Company to the Company's managing bodies.</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> | <p>Yes</p> | <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> | <p>Yes</p> | <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> | <p>Yes</p> | <p>The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. According to the Company's Articles of Association, in certain cases the most important decisions of the company shall be taken only after 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 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 insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.</p> | <p>Yes</p> | <p>According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.</p> |
| <p>4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies⁴. 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. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.</p> | <p>Yes</p> | <p>The Company's collegial bodies are independent from the Company's managing bodies and, according to the Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies</p> <p>The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations 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</p> | <p>Yes</p> | <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</p> |

| | | |
|---|---|--|
| <p>attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p> | | <p>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 vote for the adoption of the decisions on the relative issues.</p> |
| <p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgement and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p> | <p>Yes (in case of Audit committee)</p> | <p>The advisory body, i.e. Audit Committee, consist of three members.</p> |
| <p>4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p> | <p>Yes (in case of Audit committee)</p> | <p>Refer to the comment submitted regarding the item 4.7 above.</p> <p>The advisory body, the Audit Committed, formed by the Supervisory Board, comprises of three members.</p> <p>Form 01-02-2015 till 14-09-2015 after resignation of one Audit Committee member, there two members independent. After election the third member all three members are independent. The changes in Audit Committee members were announced by the Company issuing notifications on material events.</p> |

| | | |
|--|----------------|---|
| <p>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.</p> | Yes | <p>Refer to the comment submitted regarding the item 4.7 above.</p> <p>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.</p> <p>The main information about the Company's Audit Committee and its composition is published in the Company's annual report.</p> |
| <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. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</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"> 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. <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 shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p> | Not applicable | |
| <p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> | Not applicable | Refer to the comment submitted regarding the item 4.7 above. |

| | | |
|---|--|--|
| <p>1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body;</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) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company;</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members 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 shareholders meeting;</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</p> | | |
|---|--|--|

| | | |
|--|-----|---|
| <p>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 chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the exercise of its functions to the shareholders and be present at the annual general meeting for this purpose.</p> | | |
| <p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to | Yes | Refer to the comments submitted regarding the items 4.7 - 4.10 above. |

| | | |
|--|--|--|
| <p>recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p> | | |
|--|--|--|

| | | |
|---|------------|--|
| <p>4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p> | <p>Yes</p> | <p>The internal documents of the Company do not directly provide for a separate assessment for the collegial body, acting the supervision functions, activities because it was not required by the legal acts of the Republic of Lithuania.</p> <p>But on 12-06-2015 the Board of the Company decided to perform self assessment annually and on 12-06-2015 the first assessments was performed, based on the Board self assessments guidance prepared by the State Coordination Centre. The assessment is designed to evaluate organizational, teamwork, skills, competencies and performance efficiency aspects and whether the set goals have been achieved,</p> <p>Information about the collegial bodies organization itself and activity procedures are disclosed periodically in the annual report.</p> <p>The Company sets the goal for 2016 to improve the information announcement procedures of Company's internal organization indicating what essential changes were made based on the self assessment results.</p> |
| <p>Principle V: The working procedure of the company's collegial bodies The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.</p> | | |
| <p>5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.</p> | <p>Yes</p> | <p>A chairperson of the collegial body of supervision - the Supervisory Board and a chairperson of the collegial body of management - the Board implement this provision in the Company.</p> <p>In 2015 there was no Chairperson of the Board, so every time one of the Board members is elected as the chairperson of the Board under the principle ad hoc. The Company's Chief Executive Officer was four times elected as the chairperson of the meeting ad hoc.</p> |
| <p>5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month.</p> | <p>Yes</p> | <p>The documents of the operation of the Company provides that the meetings of the Company's Supervisory Board are convened at least once in a quarter according to need, and the ordinary meetings of the Company's Board are carried out according to the schedule approved by the Board, which during the reporting period provided frequency of the Board meetings, i.e. once in a calendar month or more often, thereby ensuring continuous solution of the essential Company's management issues.</p> |
| <p>5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.</p> | <p>Yes</p> | <p>The Company observes provisions stated in this recommendation. The members of the collegial body together with the convocation to the meeting receive a notice on the agenda of the meeting convened. According to the procedure and the terms provided in the documents of the operation of the Company, the Company's collegial bodies receive according to the set form written information about the matter under consideration when the decision is adopted, and when information is submitted only to collegial body's knowledge - on demand.</p> <p>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.</p> |

| | | |
|---|-----|---|
| 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. |
| Principle VI: The equitable treatment of shareholders and shareholder rights The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders. | | |
| 6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders. | Yes | The Company's capital consists of ordinary registered shares that grant the same rights to all their holders. |
| 6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares. | Yes | The Company observes provisions stated in this recommendation. |
| 6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed. | Yes | According to the Law on Companies of the Republic of Lithuania and Articles of Association all important transactions, and in set cases the key conditions of these transactions are approved by the Board, and also in cases prescribed by the Law on Companies an approval of the General Meeting of Shareholders is additionally received for such Board's decisions. |
| 6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. | Yes | All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of SC Nasdaq Vilnius Stock Exchange and on the Company's website (www.oil.lt). Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them. |
| 6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed. | Yes | Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.oil.lt). The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.oil.lt). Information indicated and the documents are published in the information disclosure system of SC Nasdaq Vilnius Stock Exchange in Lithuanian and English languages. |

| | | |
|--|----------------|---|
| 6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot. | Yes | The shareholders of the Company can implement their right to participate at the meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts. The Company also furnishes its shareholders with the opportunity to vote in advance in written by completing and submitting to the Company the general voting ballot. |
| 6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies. | 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 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>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>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.</p> | | |
| 7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible. | 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. For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations. During the reporting period, there are no cases identified of conflict of interests between the Company and the member of its supervisory and management. |
| 7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting. | 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. 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. |
| Principle VIII: Company's remuneration policy Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors. | | |
| 8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website. | Yes | The Company has no formal remuneration policy, but there are remuneration regulations in the collective agreement which key principles are described in the annual report, article about the employees. The information about the key principles of the Company's Directors remuneration, bonuses payments rules and other related information is revealed in the annual report of the year under review. The information about the Company's accrued average monthly remuneration (including according to the different categories of the employee) during the year under review is published on the website www.oil.lt . |
| 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. 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: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of | Yes | The information is presented in the annual report. |

| | | |
|--|-----|---|
| <p>the company concerned;</p> <p>12) A description of the main characteristics of supplementary pension or early retirement schemes for directors;</p> <p>13) Remuneration statement should not include commercially sensitive information.</p> | | |
| <p>8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.</p> | Yes | The information is presented in the annual report (if there was any such case). |
| <p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <p>1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting;</p> <p>2) The remuneration and advantages received from any undertaking belonging to the same group;</p> | Yes | |

| | | |
|---|----------------|--|
| <p>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;</p> <p>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;</p> <p>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;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p> | | |
| <p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p> | Not applicable | Refer to the comment in item 8.1 above. |
| <p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p> | Yes | The amount of annual bonuses depends on the predetermined and measurable performance criteria, i.e. on the level of the budgeted net profit achievement and realization of the set annual goals. |

| | | |
|--|----------------|--|
| 8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration. | Not applicable | During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company. |
| 8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| 8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof. | | |
| 8.11. Termination payments should not be paid if the termination is due to inadequate performance. | | |
| 8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting. | | |
| 8.13. Shares should not vest for at least three years after their award. | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| 8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria. | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| 8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components). | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| 8.16. Remuneration of non-executive or supervisory directors should not include share options. | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| 8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration. | Not applicable | Directors' remuneration setting function is performed by the Board of the Company. Shareholders are invited in all meeting of Shareholders where they can raise questions regarding remuneration of the Directors. |

| | | |
|---|----------------|---|
| <p>8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.</p> | Not applicable | There is no official remuneration policy at the Company. General principles of the remuneration are disclosed in the annual report. |
| <p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p> | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p> | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| <p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p> | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |

| | | |
|--|----------------|--|
| <p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p> | Not applicable | Refer to the comment submitted regarding the item 8.8 above. |
| <p>Principle IX: The role of stakeholders in corporate governance The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</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>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>9.2. 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>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p> | | |
| <p>Principle X: Information disclosure and transparency The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.</p> | | |
| <p>10.1. The company should disclose information on: The financial and operating results of the company; Company objectives; Persons holding by the right of ownership or in control of a block of shares in the company; Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; Material foreseeable risk factors; Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; Material issues regarding employees and other stakeholders;</p> | Yes | <p>Performance and corporate governance is regularly disclosed by distributing press posts about material events on SC Nasdaq Vilnius Stock Exchange website, as well as in the Company's annual reports and financial statements, press releases published in the exchange and in other public presentations of the Company activity.</p> <p>The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company's activity.</p> <p>The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC Nasdaq Vilnius Stock Exchange.</p> |

| | | |
|--|-----|---|
| <p>Governance structures and strategy.</p> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation 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>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 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.</p> <p>In its practice the Company focuses on publication of notifications about essential events before or after SC Nasdaq Vilnius Stock Exchange trading session.</p> |
| <p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.</p> | Yes | <p>Refer to the comment in item 10.5 above.</p> <p>Similarly to published information in the system of SC Nasdaq Vilnius Stock Exchange, information is also published on the Company's website.</p> <p>Access to information in the system of SC Nasdaq Vilnius Stock Exchange and on the Company's website is free for the shareholders.</p> |
| <p>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</p> | Yes | <p>The Company takes into account this recommendation and places the information on the Company's website.</p> |

| | | |
|---|-----|---|
| material events and changes in the price of the company's shares on the Stock Exchange on the company's website too. | | |
| Principle XI: The selection of the company's auditor The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion. | | |
| 11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements. | Yes | The Company observes this recommendation, annually, an independent firm of auditors conducts an audit of the Company's annual financial statements and report according to the International Accounting Standards and submits an independent auditor's report concerning financial statements. |
| 11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting. | Yes | The Company's Board (a collegial body) proposes a candidate firm of auditors to the General Meeting of Shareholders taking into account the results of Public Procurement of acquiring audit services. According to the practice established in the Company, the Company's Supervisory Board is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services. The Supervisory Board according to the Articles of Association of the Company can make their comments and suggestions over the Company's annual financial statements, annual report and profit allocation draft. |
| 11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting. | Yes | The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Boards as much as they consider it to be important. |