



2018

AB KLAIPĖDOS NAFTA

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

FOR THE FINANCIAL YEAR ENDED
ON 31 DECEMBER 2018



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AB "Klaipėdos nafta"

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of AB "Klaipėdos nafta", a public limited liability company registered in the Republic of Lithuania (hereinafter the Company), which comprise the statement of financial position as of 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities (regulation (EU) No 537/2014 of the European Parliament and of the Council). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the requirements of the Law on audit of financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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



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Key audit matter

Accounting for the planned demerger of LNGT activities into a newly established subsidiary

For legal, operational efficiency and risk management reasons management made a decision to initiate the process of preparation for the transfer of the Liquefied natural gas terminal and all related activities (hereinafter - LNGT activities) into a separate newly established wholly owned subsidiary. The expected demerger is planned to be in the form of assets exchange, with the Company transferring its LNGT activities related net assets in exchange for the newly issued shares of its subsidiary. Certain preparatory activities, including drawing up an internal plan of the expected demerger, commenced in 2018 (Note 2.25) and continue in 2019.

Based on the management analysis and judgements made, as disclosed in Note 2.25, a number of relevant actions were not completed and important consents or approvals, including by the European Commission, the banks financing the Company, the LNGT ship-owner and its banks, as well as the Board of the Company, were not received or made as of 31 December 2018. Due to that, the management concluded that the planned demerger does not meet the definitions of disposal group held for sale and discontinued operations under IFRS 5 „Non-current assets held for sale and discontinued operations“, as the planned demerger was not highly probable as of 31 December 2018. Accordingly, the measurement and presentation requirements specifically set in IFRS 5 with regard to a disposal group held for sale and discontinued operations were not applied in the financial statements.

Determining whether the transferable assets and related liabilities should be classified as a disposal group held for sale, whether the segment meets the definition of discontinued operations, and what are the resulting financial statement measurement and presentation consequences, requires management judgement. Due to the materiality of LNGT activities and the management judgement involved as described above, it is considered a key audit matter.

How the matter was addressed in the audit

Our audit procedures to address the matter, among others, included:

- Discussion with the management, including internal legal counsel, and their external consultants on the expected demerger, including the actions already made, as well as the actions which are still outstanding, but based on the management assessment are critical for the demerger to be highly probable to occur as of 31 December 2018;
- Assessment of whether the requirements of IFRS 5 were met with regard to the classification of LNGT activities related assets and liabilities as a disposal group held for sale and the requirements for classification as discontinued operations as of 31 December 2018;
- Overall assessment of the adequacy of the Company's disclosure included in Note 2.25 related to the planned demerger and key management judgments in relation to assessing the IFRS 5 criteria.

Revenue recognition of regulated activities of Liquefied natural gas terminal

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

Contingencies related to legal disputes

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

Our procedures included, amongst others, understanding of the process for revenue recognition of regulated activities of the LNG terminal and understanding of the regulatory environment changes by performing a review of the laws and regulations related to the LNG terminal activities. We have confirmed the amount of total revenue from the LNG terminal services recognized for the year 2018 with the transmission service operator, responsible for payment collection from the terminal users as well as carried out cut-off testing procedures. We have also performed audit procedures on segment disclosure, which includes regulated activity as a separate segment. Finally, we have assessed the adequacy of the Company's disclosures included in Note 2.22 and Notes 22, 30 about the accounting policy applied and legal regulation of the LNG terminal activities.

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

Disclosure of the new International financial reporting standard IFRS 16 „Leases” likely effect on the financial statements

As disclosed in Note 30 of the financial statements, the Company has signed several significant rent/lease agreements:

- On 2 March 2012 the Company concluded the Build, Operate and Transfer lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (hereinafter - FSRU rent).
- On 9 March 2015 the Company concluded the Liquefied Natural Gas Terminal jetty usage agreement (hereinafter - Jetty rent) with Klaipėda State Seaport Authority.
- On 4 November 2009 the Company concluded a land rent agreement with Klaipėda State Port Authorities until 2055.

At the inception of the above agreements the management has made an assessment and concluded that the above agreements do not meet the finance lease criteria according to International accounting standard 17 “Leases”, therefore, the agreements were treated and accounted for as operating lease. As a result of subsequent assessments made by the management, there were no changes in the contractual arrangements, which would lead to changes of classification of these leases as at 31 December 2018. However, the implementation of the new international lease accounting standard IFRS 16 “Leases” in the future will have a material effect on the financial statements of the Company and its assessment and disclosure (Note 30) requires significant management judgement (including, but not limiting to, determination of the lease payments in order to measure the lease asset and liability, covenants calculations and compliance assessment, etc.). Therefore, due to the reasons stated we considered this matter to be a key audit matter.

Our audit procedures included, amongst others, a review if there were any changes in the provisions of agreements and circumstances, which would have resulted in a different classification of the lease as at 31 December 2018. Furthermore, we have discussed with the management key judgements made while estimating the preliminary expected impact of the new accounting standard IFRS 16 „Leases” on the financial statements, have assessed the validity of the arguments supporting the estimations and have reviewed management prepared calculations of the likely impact on the financial statements of the aforementioned new IFRS. Moreover, we have considered the adequacy of the Company’s disclosure in Note 30 of the financial statements of the likely effect of the new international lease accounting standard IFRS 16 “Leases” on the financial statements, including covenants compliance.

Other information

Other information consists of the information included in the Company’s 2018 Annual Report, including the Corporate Governance Report and the Corporate Social Responsibility Report, other than the financial statements and our auditor’s report thereon. Management is responsible for the other information presentation.

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

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

We also have to evaluate, if the financial information included in the Company's Annual Report, including Corporate Governance Statement, corresponds to the financial statements for the same financial year and if the Company's Annual Report, including Corporate Governance Report, was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of financial statements, in all material respects:

- The financial information included in the Company's Annual Report, including Corporate Governance Report, corresponds to the financial information included in the financial statements for the same year, and
- The Company's Annual Report, including Corporate Governance Report, was prepared in accordance with the requirements of the Law on Financial Reporting by Undertakings of the Republic of Lithuania.

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

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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



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

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

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

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

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholders in 2014 we have been appointed to carry out the audit of Company's financial statements for the first time. Our appointment to carry out the audit of the Company's financial statements in accordance with the decision made by General shareholders meeting has been renewed every two years and the period of total uninterrupted engagement is 5 years.

Consistency with the audit report submitted to the audit committee

We confirm that our opinion in the section 'Opinion' is consistent with the additional report which we have submitted to the Company and the audit committee.

Non-audit services

We confirm that to the best of our knowledge and belief, services provided to the Company are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Throughout our audit engagement period, we have provided to the Company non-audit services disclosed in the Company's financial statements (Note 24). There were no other undisclosed services provided to the Company.

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

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


Jonas Akelis
Auditor's licence
No. 000003

26 March 2019

STATEMENT OF FINANCIAL POSITION

	Notes	31-12-2018	31-12-2017
ASSETS			
Non-current assets			
Intangible assets	3	726	490
Property, plant and equipment	4	199,211	201,449
Long-term receivables and accrued rent income	8, 11	2,684	2,628
Investment in subsidiaries	6	203	200
Investment in associates	7	201	210
Total non-current assets		203,025	204,977
Current assets			
Inventories	9	1,747	1,126
Prepayments		534	246
Trade receivables	10	12,452	11,998
Contract assets	11	374	-
Prepaid income tax		1,671	384
Other receivables	12	86	767
Short term deposits	13	-	65,000
Cash and cash equivalents	14	73,238	16,747
Total current assets		90,102	96,268
Total assets		293,127	301,245

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION (CONT'D)

	Notes	31-12-2018	31-12-2017
EQUITY AND LIABILITIES			
Equity			
Share capital	1,15	110,376	110,376
Share premium		3,913	3,913
Legal reserve	15	10,750	9,899
Reserve for own shares	15	15,929	15,929
Other reserves	15	42,945	43,196
Retained earnings		11,577	17,031
Total equity		195,490	200,344
Non-current amounts payable and liabilities			
Deferred income tax liability	26	623	363
Non-current employee benefits	16	271	265
Loans	17	73,474	76,105
Grants related to assets	2.20	4,287	3,749
Total non-current amounts payable and liabilities		78,655	80,482
Current amounts payable and liabilities			
Current employee benefits	16	30	26
Loans	17	2,649	246
Loan interests	17	29	28
Grants related to assets	2.20	355	257
Trade payables	18	9,374	13,641
Payroll related liabilities	19	1,996	2,680
Contract liabilities	2.22; 30	3,374	-
Prepayments received	2.22; 30	-	2,642
Other payables and current liabilities	21	1,175	899
Total current amounts payable and liabilities		18,982	20,419
Total equity and liabilities		293,127	301,245

Explanatory notes are an integral part of these financial statements.

Chief Executive Officer	Mindaugas Jusius		26 March 2019
Chief Financial Officer	Jonas Lepšas		26 March 2019
Chief Accountant	Rasa Tamaliūnaitė		26 March 2019

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2018	2017
Sales	22; 2.22	-	106,484
Revenue from contracts with customers	22; 2.22	99,998	-
Cost of sales	23	(82,682)	(82,739)
Gross profit		17,316	23,745
Operating expenses	24	(5,727)	(6,217)
Other income and (expenses)		276	79
Profit from operating activities		11,865	17,607
Income from financial activities	25	231	139
Expenses from financial activities	25	(283)	(285)
Share of the associate's profit or (loss)	7	44	52
Profit before tax		11,857	17,513
Income tax (expenses)	26	(280)	(482)
Profit for the year		11,577	17,031
Other comprehensive income (expenses)		-	-
Items that will not be subsequently reclassified to profit or loss		-	-
Items that may be subsequently reclassified to profit or loss		-	-
Total comprehensive income		11,577	17,031
Basic and diluted earnings (losses) per share, in EUR	27	0.03	0.04

Explanatory notes is an integral part of these financial statements.

Chief Executive Officer	Mindaugas Jusius		26 March 2019
Chief Financial Officer	Jonas Lenkšas		26 March 2019
Chief Accountant	Rasa Tamaliūnaitė		26 March 2019

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 2016	110,376	3,913	9,209	15,929	39,748	13,794	192,969
Net profit for the year	-	-	-	-	-	17,031	17,031
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	17,031	17,031
Dividends declared	28	-	-	-	-	(9,656)	(9,656)
Transfers between reserves	-	-	690	-	3,448	(4,138)	-
Balance as at 31 December 2017	110,376	3,913	9,899	15,929	43,196	17,031	200,344
Net profit for the year	-	-	-	-	-	11,577	11,577
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	11,577	11,577
Dividends declared	28	-	-	-	-	(17,031)	(17,031)
Share based payments	2.21	-	-	-	600	-	600
Transfers between reserves	-	-	851	-	(851)	-	-
Balance as at 31 December 2018	110,376	3,913	10,750	15,929	42,945	11,577	195,490

Explanatory notes is an integral part of these financial statements.

Chief Executive Officer	Mindaugas Jusius		26 March 2019
Chief Financial Officer	Jonas Lenkšas		26 March 2019
Chief Accountant	Rasa Tamaliūnaitė		26 March 2019

CASH FLOW STATEMENT

	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from operating activities			
Net profit	25	11,577	17,031
Adjustments for noncash items:			
Depreciation and amortization	3, 4	14,887	13,644
Change in vacation reserve	18	(3)	163
Impairment and write-off (reversal) of non-current tangible assets	3, 4	(38)	(277)
Profit (loss) from write-off and sales of non-current tangible assets		(125)	-
Share-based payment expenses		600	-
Change in non-current liabilities for employees	15	11	14
Change in allowance in inventory	9	(53)	(8)
Contract assets	11	(374)	-
Accrued income	8,11	539	466
Income tax expenses	26	280	482
Share of (profit) or loss of equity-accounted investees	7	(44)	(52)
Change in allowance for doubtful trade and other receivables	10	(251)	769
Interest income	25	(56)	(35)
Interest expenses	25	208	198
Other non-cash adjustments		192	226
		27,350	32,621
Changes in working capital			
(Increase) decrease in inventories	9	(537)	285
Decrease (increase) in prepayments made		(287)	476
Decrease (increase) in trade and other accounts receivable	10	(203)	(2,140)
Decrease (increase) in other accounts receivable	11	(510)	(97)
Increase (decrease) in trade and other payables	17, 20	821	(100)
(Decrease) increase in prepayments received		(2,642)	284
Increase (decrease) in contract liabilities		3,374	-
Increase (decrease) in other current liabilities and payroll related liabilities	18	(561)	(107)
		26,805	31,222
Income tax (paid)		(1,308)	(1,667)
Interest received	24	56	35
Net cash flows from (used in) operating activities		25,553	29,590
Cash flows from investing activities			
(Acquisition) of property, plant, equipment and intangible assets	3, 4	(17,790)	(27,978)
Income from sales of non-current assets		250	-
Short term deposits (placed)/received	12	65,000	(65,000)
(Acquisition) of other investments	7	(2)	(4)
Dividends received	7, 24	54	56
Net cash flows from (used in) investing activities		47,512	(92,926)

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.

CASH FLOW STATEMENT (CONT'D)

	Notes	For the year ended 31 December 2018	For the year ended 31 December 2017
Cash flows from financing activities			
Dividends (paid)	28	(17,031)	(9,656)
Loans received (paid)	17	(246)	46,700
Interest and fee related to loans (paid)		(190)	(242)
Grants, subsidies received	2.20	893	1,225
Net cash flows from (used in) financing activities		(16,574)	38,027
Net increase (decrease) in cash flows		56,491	(25,309)
Cash and cash equivalents on 1 January	14	16,747	42,056
Cash and cash equivalents on 31 December	14	73,238	16,747
Other non-financial information related to cash flows:			
Liability for property, plant and equipment outstanding as at year end		2,316	3,673
Accrual on construction-in-progress		59	338

Explanatory notes are an integral part of these financial statements.

Chief Executive Officer	Mindaugas Jusius		26 March 2019
Chief Financial Officer	Jonas Lenkšas		26 March 2019
Chief Accountant	Rasa Tamaliūnaitė		26 March 2019

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The main activities of the Company include operation of oil terminal, oil products transshipment and other related services, as well as operation of the liquefied natural gas terminal (hereinafter referred to as “LNGT”) with a purpose 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. That was the start of the LNG terminal activity. In the end of 2018 Management of the Company initiated the process of preparation to transfer LNG terminal and all related operations into a separate newly established wholly owned subsidiary of the Company. For this purpose, UAB “SGD terminalas” with minimum share capital was incorporated (for more details refer to Note 2.25).

As of 31 December 2018 all the shares were owned by 2,191 shareholders (as of 31 December 2017 all the shares were owned by 2,178 shareholders). The Company’s share capital – EUR 110,375,793.36 (one hundred ten million three hundred seventy-five thousand seven hundred ninety-three and 36 cents) is fully paid. It is divided into 380,606,184 (three hundred eighty million six hundred six thousand one hundred eighty-four) ordinary shares with a par value of twenty nine (0.29) cents, 72.32 % of the shares (275,241,290 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

The Company has not acquired any own shares and has arranged no deals regarding acquisition or transfer of its own shares during the years 2018 and 2017. The Company’s shares are listed in the Baltic Main List on the NASDAQ Vilnius Stock Exchange (ISIN code LT0000111650, abbreviation KNF1L).

As of 31 December 2018 and 31 December 2017 the shareholders of the Company were:

	31 December 2018		31 December 2017	
	Number of shares held (thousand)	Part of ownership (%)	Number of shares held (thousand)	Part of ownership (%)
State of Lithuania represented by the Ministry of Energy (Gediminas av, 38/2, Vilnius, 302308327)	275,241	72.32	275,241	72.32
Concern UAB Achemos grupė (Jonalaukis village, Jonava district, 156673480)	39,605	10.41	39,113	10.28
Other (less than 5 per cent each)	65,760	17.27	66,252	17.40
Total	380,606	100.00	380,606	100.00

The average number of employees in 2018 was 391 (382- in 2017).

Financial statements approval

The Company’s management approved these financial statements on 26 March 2019. The Company’s shareholders have a legal right to confirm these financial statements or not to confirm them and to require the management to prepare new financial statements.

2 ACCOUNTING PRINCIPLES

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

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

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

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

The Management of the Company concluded that the subsidiaries UAB SGD logistika and UAB SGD terminalas 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

2 ACCOUNTING PRINCIPLES (CONT'D)

2011 on the Consolidated financial statements of the Groups of Companies, because its assets at the end of the financial year has not exceeded 5 percent of the Company's assets, and net sales for the reporting period did not exceed 5 percent of the Company's net sales for the corresponding period. Based on the above, as well as overall materiality assessment made the Company's management decided not to prepare consolidated financial statements and the consolidated annual report.

2.1. Basis for preparation of the financial statements

Statement of compliance

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

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

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2018:

- **IFRS 9 Financial Instruments**
The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. According to new standard financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income and those to be measured subsequently at fair value through profit or loss. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity is required to present the effects of changes in own credit risk of financial liabilities. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-months ECL. The model includes operation simplifications for lease and trade receivables. For trade receivables, the Company applies the simplified approach in calculating ECLs. The effect of IFRS 9 application is disclosed in note 2.8.
- **IFRS 15 Revenue from Contracts with Customers**
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures are 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 management of the Company made an assessment of the effect of the new Revenue standard IFRS 15 on the Company's financial statements. The main areas of potential effect identified were related to tiered pricing, take or pay and oil transshipment services in progress at the year-end where the management of the Company made further analysis. The effect of IFRS 15 application is disclosed in note 2.22 Revenue recognition.
- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Company's performed analysis showed that a performance obligation is satisfied over time (income from oil transshipment services is recognized over time). These amendments have no significant impact on the Company's financial statements. Further information on changed accounting policies is provided in note 2.22 Revenue recognition.

2 ACCOUNTING PRINCIPLES (CONT'D)

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

- IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company has no share-based payment transaction with net settlement features. Therefore, these amendments do not have any impact on the Company's financial statements.
- IAS 40: Transfers to Investment Property (Amendments)
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Company does not have any investment property, so the amendment to IAS 40 has no impact on the Company's financial statements.
- IFRIC INTERPRETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Company does not have material receipt or payment of advance consideration in a foreign currency, so the IFRIC interpretation 22 does not have significant impact on the Company's financial statements.

The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle, which is a collection of amendments to IFRSs. As to the management of the Company, these adoptions had no impact on the Company's financial statements.

Ø *IAS 28 Investments in Associates and Joint Ventures*: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Standards issued but not yet effective and not early adopted

- IFRS 16: Leases
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Management has assessed the application of the standard and included mandatory disclosures in the financial statements (note 30).
- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company has not evaluated the impact of the implementation of this amendment.

2 ACCOUNTING PRINCIPLES (CONT'D)

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

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The Company has not yet evaluated the impact of the implementation of this amendment.
- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment.
- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment.
- **IFRIC INTERPRETATION 23: Uncertainty over Income Tax Treatments**
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This Interpretation has not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this interpretation.
- **IFRS 3: Business Combinations (Amendments)**
The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment.
- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**
The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment.

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The Company has not yet evaluated the impact of the implementation of this amendment.

2 ACCOUNTING PRINCIPLES (CONT'D)

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

- Ø *IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- Ø *IAS 12 Income Taxes*: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- Ø *IAS 23 Borrowing Costs*: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

· Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Company has not yet evaluated the impact of the implementation of the revised Conceptual Framework.

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.

2.2. 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.

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.3. Operating segments (Cont'd)

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

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

2.4. Investment in subsidiaries

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

2.5. Investment in associates

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

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

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

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

Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the 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 2018 and 31 December 2017). Intangible assets with finite lives are amortized over the useful economic lives of 3 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 programs are recorded as an expense as incurred.

2 ACCOUNTING PRINCIPLES (CONT'D)

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 including borrowing costs are consistent with the expected pattern of economic benefits from items of non-current tangible assets. In case external and (or) internal impairment indications exist at the date of the statement of financial position, the Company performs detailed impairment testing in order to ensure that non-current tangible assets are accounted for at value not higher than their recoverable amount.

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

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

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

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

Depreciation is calculated on a straight-line basis. The Company has revised depreciation rates for tangible and intangible assets as at 31 December 2018. It is a change in accounting estimate therefore it will be accounted for in a prospective manner.

The amount of change results in decrease in depreciation expenses for the year of 2019 amounting to thousand 1.300 EUR.

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

Description	Applicable until 31 December 2018	Applicable after 1 January 2019
Non-current intangible assets	3	3 - 15
Non-current tangible assets		
Land	-	-
Buildings	38-60	30-60
Constructions	15-30	15-60
Technological machinery, equipment and systems	5-55	5-55
Furniture	4-6	4-8
Measuring, controlling devices, tools	4-10	4-15
Computers and communication equipment	4	4
Vehicles and other tangible assets	6	6

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8. Financial instruments

From 1 January 2018

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied IFRS 9 prospectively, with an initial application date of 1 January 2018. No practical expedients have been used. The Company has not restated the comparative information, which continues to be reported under IAS 39. There were no differences arising from the adoption of IFRS 9 that have been recognised directly in retained earnings as at 1 January 2018.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company's financial statements. The following are the changes in the classification of the Company's financial assets:

- Trade receivables and other non-current and current financial assets (i.e., Loans) classified as Loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as debt instruments at amortised cost beginning 1 January 2018.

There were no changes in classification and measurements for financial liabilities.

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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

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

The Company's business model for managing financial assets refers to how the Company manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. A regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8 Financial instruments (Cont'd)

Subsequent measurement

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

- Amortised cost (debt instruments);
- Fair value through OCI with recycling of cumulative gains and losses upon derecognition (debt instruments). The Company did not have such items as at 31 December 2018 and 2017;
- Fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Company did not have such items as at 31 December 2018 and 2017;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2018 and 2017.

Financial assets at amortised cost (debt instruments)

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

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the statement of comprehensive income when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade, other current and non-current receivables and contract assets.

Impairment of financial assets

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

- Disclosures for significant assumptions (Note 2.25)
- Trade receivables, including contract assets (Notes 10 and 11).

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8 Financial instruments (Cont'd)

Significant assumptions: Provision for expected credit losses of trade receivables

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

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

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The information about the ECLs on the Company's trade receivables is disclosed in Note 10.

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

Upon adoption of IFRS 9 the Company did not recognise additional impairment on the trade receivables and contract assets, as in accordance to the management estimate considering the Company's clients creditworthiness and amounts repayment, estimated potential credit losses are immaterial.

ii) Financial liabilities

Initial recognition and measurement

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

Subsequent measurement

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

Loans, borrowings and other payables

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

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

iii) Offsetting of financial instruments

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8 Financial instruments (Cont'd)

Before 1 January 2018

Financial assets – initial recognition and measurement

Financial assets are classified either 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.

The purchases and sales of financial assets are recognised at the trade date.

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

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

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

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

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

The Company did not have any financial assets and financial liabilities at fair value through profit or loss as of 31 December 2017 and as of 31 December 2016.

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 less any allowance for impairment. 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.

2.9. Derecognition of financial instruments

Financial assets

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

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

Financial liabilities

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

2.10. Employee benefits

Social security contributions

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

Non-current employee benefits

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

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

2.11. Inventories

Inventories are measured at the lower of cost and net realisable value after impairment evaluation for obsolete and slow moving inventories. 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 are written-off (Note 9)

In order to reflect true and fair view for obsolete and slow moving inventories the Company revised its accounting estimate of impairment for obsolete and slow moving inventories. The Company as of 31 December 2018 accounted for allowance for obsolete and slow moving inventories that did not move for over 12 months and in other occasions, if there's clear evidence that net realisable value is lower than inventory book value (as of 31 December 2017 impairment was accounted for inventories that did not move for 6 months or longer).

2.12. Cash and cash equivalents

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

2.13. Short term deposits

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.14. Borrowing costs

Borrowing costs

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

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

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

During the year 2018 and 2017 the Company did not capitalize borrowing costs due to the reason that all outstanding borrowings were related to assets which were not qualifying for borrowing costs capitalization in accordance with IAS 23. Per management judgement made, such specific borrowings outstanding during financial year but with which related assets are already constructed (and not qualifying for borrowing costs capitalization) are not treated as part of general borrowings, and therefore, not allocated to other qualifying assets outstanding during the year.

2.15. Finance 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.

Finance leases

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

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

The Company did not have any finance lease contracts as of 31 December 2018 and as of 31 December 2017.

Operating leases

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

The Company as a lessee

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

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, including also adjustments in respect of prior years. The tax rates used to compute the amount are those that are enacted by the date of the Statement of Financial position.

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

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

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

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

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

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

A deferred tax asset is recognised in the Statement of Financial position to the extent the Management 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 shares changes without causing a change in the economic resources, the weighted average of ordinary registered shares is adjusted in proportion to the change in the number of shares as if this change took place at the beginning of the previous period presented. Since there are no instruments reducing profit (loss) per share, there is no difference between the basic and diluted earnings per share (Note 27).

2.19. Provisions

General

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.19. Provisions (Cont'd)

Greenhouse gas (GHG) emissions

The Company applies a 'net liability' approach in accounting for the emission rights received. It records the emission allowances granted to it at a nominal (null) amount, as it is allowed by IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance". Liabilities for emissions are recognised only as emissions are made (i.e. provisions are never made on the basis of expected future emissions) and only when the reporting entity has made emissions in excess of the rights held. Costs of allowances are recorded under cost of sales caption in the profit (loss) (Note 23).

2.20. Grants

Asset-related grants

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

	2018	2017
Balance as at 1 January	4,006	2,781
Received during the year	893	1,177
Reclassified	-	48
Amortisation	(156)	-
Compensation of costs	(54)	-
Written-off	(47)	-
Balance as at 31 December	4,642	4,006
Current	355	257
Non-current	4,287	3,749

The Company has no unfulfilled conditions or contingencies attached to these grants as at 31 December 2018 and as at 31 December 2017.

Income-related grants

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

2.21 Share-based payments

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.21 Share-based payments (Cont'd)

Given that in 2019 employees, working in the Company at the moment when audited results for financial year 2018 will be presented, will be granted Company's shares, management of the Company made a following determination of the situation:

- Arrangements presented by the Company qualify as equity-settled arrangement;
- Grant date will be set by the Board after financial statements of the Company for year ended 31 December 2018 will be approved by the shareholders;
- No market nor non-market related vesting conditions;
- Vesting period – year 2018;
- A share-based payment is initial recognised for at the estimated fair value of the shares at the grant date under equity (other reserves) and re-measured at each reporting date in respect of fair value at the grant date. Changes in fair value are recognised as employee benefits expense in the statement of comprehensive income.

Based on management's best estimate share-based payments reserve is accounted at fair value as of 31 December 2018 (Notes 15 and 19).

2.22. Revenue recognition

IFRS 15 Revenue from Contracts with Customers (starting 1 January 2018)

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive additional disclosures presented in the financial statements.

The Company adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. No practical expedients have been used. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to contracts that are not completed as at 1 January 2018.

The adoption of IFRS 15 did not have a material impact on profit (loss), other comprehensive income, Company's financial position or the Company's operating, investing and financing cash flows. The comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations as it is permitted in using a retrospective modified method as disclosed below:

Statement of comprehensive income for the year 2018

	Notes	2018 under IFRS 15	2018 under IAS 11 and IAS 18	Increase / (decrease)
Sales	22; 2.22	-	99,998	(99,998)
Revenue from contracts with customers	22; 2.22	99,998	-	99,998
Cost of sales	23	(82,682)	(82,682)	-
Gross profit		17,316	17,316	-
Operating expenses	24	(5,727)	(5,727)	-
Other income and (expenses)		276	276	-
Profit from operating activities		11,865	11,865	-
Income from financial activities	25	231	231	-

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition

Expenses from financial activities	25	(283)	(283)	-
Share of the associate's profit or (loss)	7	44	44	-
Profit before tax		11,857	11,857	-
Income tax (expenses)	26	(280)	(280)	-
Profit for the year		11,577	11,577	-
Other comprehensive income (expenses)		-	-	-
Items that will not be subsequently reclassified to profit or loss		-	-	-
Items that may be subsequently reclassified to profit or loss		-	-	-
Total comprehensive income		11,577	11,577	-
Basic and diluted earnings (losses) per share, in EUR	27	0.03	0.03	-

Statement of financial position as at 31 December 2018 (assets)

	Notes	2018 under IFRS 15	2018 under IAS 11 and IAS 18	Increase / (decrease)
ASSETS				
Non-current assets				
Intangible assets	3	726	726	-
Property, plant and equipment	4	199,211	199,211	-
Long-term receivables and accrued rent income	8, 11	2,684	2,684	-
Investment in subsidiaries	6	203	203	-
Investment in associates	7	201	201	-
-Total non-current assets		203,025	203,025	-
Current assets				
Inventories	9	1,747	1,747	-
Prepayments		534	534	-
Trade receivables	10	12,452	12,452	-
Contract assets	11	374	-	374
Prepaid income tax		1,671	1,671	-
Other receivables	12	86	460	(374)
Short term deposits	13	-	-	-
Cash and cash equivalents	14	73,238	73,238	-
Total current assets		90,102	90,102	-
Total assets		293,127	293,127	-

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (Cont'd)

Statement of financial position as at 31 December 2018 (liabilities)

	Notes	2018 under IFRS 15	2018 under IAS 11 and IAS 18	Increase / (decrease)
EQUITY AND LIABILITIES				
Equity				
Share capital	1,15	110,376	110,376	-
Share premium		3,913	3,913	-
Legal reserve	15	10,750	10,750	-
Reserve for own shares	15	15,929	15,929	-
Other reserves	15	42,945	42,945	-
Retained earnings		11,577	11,577	-
Total equity		195,490	195,490	-
Non-current amounts payable and liabilities				
Deferred income tax liability	26	623	623	-
Non-current employee benefits	16	271	271	-
Loans	17	73,474	73,474	-
Grants related to assets	2.20	4,287	4,287	-
Total non-current amounts payable and liabilities		78,655	78,655	-
Current amounts payable and liabilities				
Current employee benefits	16	30	30	-
Loans	17	2,649	2,649	-
Loan interests	17	29	29	-
Grants related to assets	2.20	355	355	-
Trade payables	18	9,374	9,374	-
Payroll related liabilities	19	1,996	1,996	-
Contract liabilities	2.22; 30	3,374	-	3,374
Prepayments received		-	3,374	(3,374)
Other payables and current liabilities	21	1,175	1,175	-
Total current amounts payable and liabilities		18,982	18,982	-
Total equity and liabilities		293,127	293,127	-

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

The management considers the effect of other matters to the revenue recognition such as:

- 1) Whether there are multiple performance obligations within the contracts;
- 2) Whether there is any form of variable consideration (except for instant discounts mentioned above) and what are related constrains, if any;
- 3) Whether there are non-monetary items considerations or significant financing components;
- 4) Whether there are other promises which should considered as a part of transaction cost;
- 5) Whether the promises (if such) are consideration paid or payable to a customer;
- 6) Whether there are any upfront payments;
- 7) Whether the Company acts as an agent or as a principal while providing services or selling goods.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (Cont'd)

The Company has following main revenue streams (Note 22):

- Income from LNGT services (63% from total sales revenue)

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

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

- Oil products transshipment services (34% from total sales revenue)

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

- ü By providing the services of loading of oil products, the Company does not create an alternative use of the assets, which it could sell as goods.
- ü The Company shall have the unconditional refund right for the performed share of production. In the event the client does not perform or is behind the schedule in performing his obligations, the Company, having notified the client, has the right to suspend the provision of services and/or to detain the oil products within the terminal until the client's obligations are fulfilled. All the consequences and losses arising from the detention of oil products and/or suspension of the provision of services shall be borne by the client.
- ü With the client's delay in dispatching the oil products from the terminal, additional storage fees shall be applied. This way the Company shall not only compensate the expenses of storage of oil products, but also obtain income.
- ü In the event the client terminates the agreement in a unilateral manner, he usually has to pay the take-or-pay fee, if such was specified in the contract, or the difference in the oil product quantity between the planned minimum annual amount of reload and the actually reloaded amount.

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

- Other activities (3% from total sales revenue)

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (Cont'd)

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

Volume based tiered pricing

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

Take-or-Pay

The Company calculates monthly, quarterly or annual Take-or-Pay fees to certain customers once the loading quantities specified in the contract with customer are not achieved. Due to the fact that the most probable loading quantity is agreed with the customer in the contract and only due to certain unforeseen circumstances arisen in the market, the loading quantity cannot be reached. Take-or-Pay is calculated at the period-end however Management believes that there is no significant impact on financial statements for year ended 31 December 2018 as no significant Take-or-Pay transactions occurred in 2018 and 2017.

Contract assets – accrued income

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

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

Contract liabilities – prepayments received

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

Trade receivables

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

Sales (until 1 January 2018)

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

Income from oil products handling

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

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.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (Cont'd)

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

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

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

Prices set for the LNGT services for the year 2018 and 2017:

- LNG regasification service price fixed part is approved by the NCC based on LNG regasification service price cap set by NCC:
 - price of variable part for the year 2018 set by the resolution No. O5E-328 on 17 November 2017, is 0,10 Eur/MWh
 - price of variable part for the year 2017 set by the resolution No. O3E-369 on 17 November 2016, is also 0,10 Eur/MWh
- LNG reloading service price is set by NCC on 20 November, 2014 by the resolution No. O3-896. LNG reloading price is set for 5 years period.
- LNG regasification service price fixed cap is being adjusted on yearly basis.

Sales of goods

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

Interest income

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

Dividends income

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

Rent income

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

Income from fines and penalties

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

2.23. 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 ACCOUNTING PRINCIPLES (CONT'D)

2.24. Impairment of non-financial assets

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

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

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

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

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.

2.25. 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 (except of those disclosed in Notes 2.8, 2.22, 10):

Useful lives of intangible assets and property, plant and equipment

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

In order to reflect the real usage of non-current intangible and tangible fixed assets, the Company revised the useful lives from 1 January 2019 in the financial accounting (Note 2.7)

Impairment losses of property, plant and equipment

The Company at each reporting date inspects and reviews the physical condition and assesses the technical performance of property, plant and equipment. Other external indicators of possible impairment, such as technological changes in the market and operations, are also taken into account. If during the inspection an item of property, plant and equipment is found to be not operating as it was expected (or other traits that the item is obsolete or damaged are visible), the Company assesses its recoverable value and if found to be lower than its cost value,

2 ACCOUNTING PRINCIPLES (CONT'D)

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

recognizes impairment expenses. If during the inspection it is concluded that previously impaired item can be reallocated to other technological line or it is possible to use it in other than previously expected activities, its impairment is reversed to the amount its recoverable amount exceeds its written down cost value. As assumptions of possible assets usage change, the uncertainty of estimations of their value exist and changes over the time based on new circumstances and new information available.

As to IAS 36 requirement the Management has performed an impairment indication review for property, plant and equipment and prepared a detailed discounted cash flow financial model for valuation of LNG small scale reloading station assets impairment testing purposes. Main assumptions of impairment testing model and sensitivity analysis are provided in property, plant and equipment note (Note 4).

Determination of classification between operating vs finance lease

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

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

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

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

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

On 2 March 2012 the Company concluded Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU). FSRU has arrived to the Seaport of Klaipėda at 27 October 2014 and was taken over by the Company on 27 November 2014. Based on the Company's view, under IFRS FSRU lease shall be classified as operating lease from Hoegh LNG Ltd. to AB Klaipėdos nafta under the Time Charter Party (TCP) entered into between the parties (Note 30).

Based on IFRS criteria (IAS 17), the following facts and circumstances were taken into consideration by the Management of the Company when concluding on the substance of the lease:

- § A number of risks and rewards incidental to ownership are not transferred. Hoegh LNG Ltd carries a number of substantial risks attached to the FSRU in relation to the TCP;
- § No financial investment decision has been accepted yet to exercise the purchase option;
- § TCP contract was signed between unrelated third parties; consequently, TCP conditions reflect FSRU market price;
- § There are no similar contracts in the market for comparison purposes;
- § Management has assessed the estimated economic life to be 40 years, while FSRU lease period is of 10 years;
- § The Company has an agreement on assignment of claim rights and a maximum pledge agreement with UAB Hoegh LNG Klaipėda which maximum amount of USD 50,000 thousand per one year as at 31 December 2018 and as at 31 December 2017. Agreement 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.
- § 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 regasification projects without major modifications, that is not specific to the Company's business needs;
- § The Company does not have a cancellation right, but a standard termination regime is applied under the TCP;
- § Hoegh LNG Ltd. carries all residual value risk;
- § No secondary charter period stated in the TCP.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.25. Use of estimates and judgements (Cont'd)

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

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

Provisions and contingent liabilities

The Company distinguishes between:

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

The Management of the Company decides to recognise provisions or to disclose contingent liabilities related to legal disputes based on each legal dispute adverse impact probability, expected amount of the obligation, reliability of amount estimation. Analysis is performed together with the internal and (or) external lawyers (Note 30).

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. One of the key positions from which the Company recognizes deferred income tax is investment incentive. The Company recognizes deferred tax asset arising from the investment incentive only to the amount of budgeted forthcoming one year profit before taxes. This judgement is based on difficulties to reliably forecast if the Company will earn sufficient taxable profit in the future to utilise the full investment incentive available (which can be utilised only if the Company has sufficient taxable profit). One of the main triggers for inability to reliably forecast the taxable profit is LNG activities which are regulated and its revenue is generated based on the tariff set by the regulator (note 30). The tariff for the subsequent year is set based on the budgeted expenses. If actual LNG expenses are higher than

2 ACCOUNTING PRINCIPLES (CONT'D)

2.25. Use of estimates and judgements (Cont'd)

budgeted, this negatively affects pre-tax income. Due to the stated reasons, the management is able to forecast the pre-tax income for deferred tax realization purposes only for the one forthcoming year.

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).

Expected demerger of regulated LNGT activities to a newly established subsidiary

In late 2018 management initiated the process of preparation to transfer LNG terminal and all related operations into a separate newly established wholly owned subsidiary of the Company (hereinafter "SPV"). This would be a downstream demerger transaction whereby the Company would retain control of LNG terminal through its investment in SPV. As part of this process, the Company would transfer borrowings, backed by state guarantee and related to LNG terminal operations, to SPV. For this purpose, UAB "SGD terminalas" with minimum share capital was incorporated.

It is planned as a group reorganisation and not a divestiture as the demerger will be effected downstream into wholly owned by the Company subsidiary. There is a substantial uncertainty as to when the transaction could be completed, as besides decisions needed from the Board and General meeting of Shareholders, it will also require approval by the European Commission due to the transfer of existing state guarantee to a different legal entity (SPV).

Management concluded that the criteria in IFRS 5 for held for sale classification of the LNG terminal business were not met as of 31 December 2018, as Management assessed that the assets and liabilities related to LNGT activities (hereinafter "LNGT net assets") are not available under immediate sale and the sale cannot be classified as highly probable as of 31 December 2018.

Management's conclusion that LNGT net assets are not available for immediate sale and the sale cannot be classified as highly probable as of 31 December 2018 is made because of the following reasons:

- § Absence of Board decision;
- § Absence of decision of General Meeting of Shareholders;
- § Approvals from the European Commission ("EC") and banks (lenders) to transfer the debt are required, as related borrowings carry state guarantee as part of state aid by the Lithuanian government;
- § Approval from FSRU owner and the banks is required;
- § Consents from third parties (other suppliers and services providers) are required (for liabilities and rights transfer),
- § License from National Commission for Energy Control and Prices (NCECP) is required.

All of the above mentioned are interlinked and related and no decisions and approvals were in place as of 31 December 2018. At the day of this report, only some of the requests are submitted but no clear understanding is available as to when the answers can be received and what they would be, therefore the status is pending and Management has not addressed the Board for corresponding decision yet.

2.26. Contingent assets

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

2.27. Financial guarantee contracts

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.28. 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).

2.29. Offsetting

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

2.30. Fair value

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

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

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

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

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

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

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

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

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

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.30. Fair value (cont'd)

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

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

3 INTANGIBLE ASSETS

	Software
Acquisition:	
Balance as of 31 December 2016	1,504
Acquisitions	138
Sold and written-off property	(13)
Transfers from construction in progress	223
Balance as of 31 December 2017	1,852
Acquisitions	54
Sold and written-off property	(70)
Transfers from construction in progress	488
Balance as of 31 December 2018	2,324
Accumulated amortization and impairment:	
Balance as of 31 December 2016	1,105
Amortization for the year	270
Sold and written-off property	(13)
Balance as of 31 December 2017	1,362
Amortization for the year	302
Sold and written-off property	(66)
Balance as of 31 December 2018	1,598
Net book value as of 31 December 2016	399
Net book value as of 31 December 2017	490
Net book value as of 31 December 2018	726

The non-current intangible asset amortization amounts to EUR 302 thousand for the year 2018 (EUR 270 thousand – in 2017). EUR 193 thousand of amortization has been included into cost of sales (EUR 169 thousand - in 2017) and the remaining amount has been included into operating expenses in the Statement of comprehensive income.

Part of the intangible asset with the acquisition cost of EUR 585 thousand as of 31 December 2018 was completely amortised (EUR 604 thousand on 31 December 2017), however, it was still in operation.

4 PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost						
Balance as of 31 December 2016	38	156,450	148,068	11,936	18,727	335,219
Acquisitions	-	133	551	545	29,556	30,785
Advance payments	-	-	-	1	1,078	1,079
Retirements and disposals	-	(12)	(1,529)	(23)	-	(1,564)
Transfers from inventories	-	-	-	-	4	4
Transfer to construction in progress	-	-	(62)	-	62	-
Transfers from construction in progress	-	493	2,751	1,902	(5,146)	-
Transfer from construction in progress to intangible assets	-	-	-	-	(223)	(223)
Transfer to inventory	-	-	-	-	(17)	(17)
Balance as of 31 December 2017	38	157,064	149,779	14,361	44,041	365,283
Acquisitions	-	221	476	484	11,245	12,426
Advance payments	-	-	-	26	1,030	1,056
Retirements and disposals	-	(128)	(1,494)	(90)	(102)	(1,814)
Transfers from inventories	-	-	-	-	43	43
Transfer to construction in progress	-	-	-	-	-	-
Transfers from construction in progress	-	6,176	28,680	5,546	(40,402)	-
Transfer from construction in progress to intangible assets	-	-	-	-	(488)	(488)
Transfer to inventory	-	-	-	-	(372)	(372)
Balance as of 31 December 2018	38	163,333	177,441	20,327	14,995	376,134
Accumulated depreciation and impairment:						
Balance as of 31 December 2016	-	66,189	79,522	6,382	201	152,294
Depreciation for the year	-	4,548	6,580	2,254	-	13,382
Retirements and disposals	-	(11)	(1,371)	(19)	-	(1,401)
Impairment for the year (reversal)	-	(32)	(408)	(1)	-	(441)
Balance as of 31 December 2017	-	70,694	84,323	8,616	201	163,834
Depreciation for the year	-	4,599	7,485	2,688	-	14,772
Retirements and disposals	-	(127)	(1,432)	(86)	-	(1,645)
Impairment for the year (reversal)	-	(1)	(46)	(2)	11	(38)
Balance as of 31 December 2018	-	75,165	90,330	11,216	212	176,923
Net book value as of 31 December 2016	38	90,261	68,546	5,554	18,526	182,925
Net book value as of 31 December 2017	38	86,370	65,456	5,745	43,840	201,449
Net book value as of 31 December 2018	38	88,168	87,111	9,111	14,783	199,211

In 2018 the Company reviewed property, plant and equipment and reversed impairment of EUR 38 thousand for the assets (in 2017 the Company reviewed property, plant and equipment and reversed impairment of EUR 441 thousand), which were not in use due to the changed technological conditions and which was previously impaired. In the current reporting period previously, impaired non-current tangible assets were started to be used or written off. The reversal of impairment of such non-current asset items was included into operating expenses in the Statement of comprehensive income during the year 2018 and 2017.

In 2018 and in 2017, the Company has not booked additional impairment for property, plant and equipment.

The depreciation of the non-current tangible assets amounts to EUR 14,722 thousand for the year 2018 (EUR 13,382 thousand – in 2017). EUR 31 thousand of depreciation charge was transferred to inventory value (EUR 9 thousand – in 2017), EUR 158 thousand was reimbursement of the costs according the grant agreement (EUR 11 thousand - in 2017), EUR 14,571 thousand of depreciation charge has been included into cost of sales (EUR 13,164 thousand - in 2017) and the remaining amount EUR 201 thousand (EUR 198 thousand – in 2017) 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 34,583 thousand as of 31 December 2018 was completely depreciated (EUR 30,613 thousand on 31 December 2017), however, it was still in operation.

4 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Company's Liquefied natural gas terminal property, plant and equipment amounting to EUR 50,102 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 2018 (the Company had pledged asset amounting to EUR 55,116 thousand as of 31 December 2017).

During 2018 the Company continued works in the following projects:

LNG reloading station construction. During the first part of the year 2018 the Company performed project-finalizing works of LNG reloading station, which is located in a territory of Company's oil terminal. Additionally, testing related to usage of automatic equipment and quality control of ongoing works were performed during the year. Since the end of 2017 till the final acceptance of project (October 2018) LNG reloading station was working at commissioning mode. During 2018, investment amounted to EUR 773 thousand. During 2018 transfers from construction in progress class to property, plant and equipment related to LNG reloading station amounted to EUR 28,837 thousand which represents the major part of transfers between classes.

As at 31 December 2018, the Company performed the impairment test of property, plant and equipment attributed to LNG reloading station project by comparing discounted future cash flows forecasted for period till year 2045 (end of estimated useful life of assets) to carrying amounts of this cash generating unit (CGU). The main assumptions used to perform the test were reloading tariffs, LNG reloading volumes, operating expenses and the discount rate, estimated as weighted average cost of capital (WACC) that as of 31 December 2018 was equal to 6.8 % (pre-tax, real prices). Since the LNG small scale terminal is an unique and new project, with no or very little similar projects in the market, main assumptions were based on the Management judgement, available LNG market development studies and other publicly available data sources. Sensitivity analysis was performed by the Management:

Assumption	Change in assumption	Effect of change on Net present value of CGU	Impairment indication
Change in expected reloading volume growth till maximum LNG reloading station capacity reached	-10%	(2,792)	-
	10%	1,137	-
Change in total yearly operating expenses	-5%	(634)	-
	5%	636	-
Change in LNG reloading tariff (EUR/MWh)	-5%	(2,214)	-
	5%	2,214	-
Change in WACC	-1%	5,292	-
	1%	(4,375)	(1,466)

Based on impairment test results no impairment recognized for PPE of Small Scale LNGT as at 31 December 2018, however as sensitivity analysis shows the impairment of EUR 1,466 thousand would be recognized if WACC used in the model was higher by 1% while other assumptions remain unchanged. As of the date of these financial statements, the Company's Management believes that the current approach is reasonable and supportable considering market situation and knowledge at their disposition.

Expansion of LFO Park in Klaipėda oil terminal. Project comprise of construction of 7 new LFO tanks with a purpose to increase transshipment volumes and flexibility of services. Project was finished in the first half of 2018. Total amount of the project EUR 7.3 million.

The second stage investment in the expansion of the light oil products storage tank park. The project started in July 2017. As of 31 December 2018 the value of construction in progress, included prepayments, amounted to EUR 12,543 thousand (during 2018 investment amounted to EUR 9,849 thousand).

Development of the railroad tracks (comprise of the acquired equipment). As of 31 December 2018 the value of construction in progress amounted to EUR 1,636 thousand. (during 2018 investment amounted to EUR 11 thousand).

Other projects under construction. As of 31 December 2018 the value of constructions in progress amounted to EUR 604 thousand.

5 INFORMATION ABOUT SEGMENTS

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

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

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

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

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

5 INFORMATION ABOUT SEGMENTS (CONT'D)

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

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

As of 31 December 2017 there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 91,206 thousand:

Customer A – EUR 66,563 thousand (SGD – EUR 66,563 thousand);
Customer B – EUR 17,416 thousand (KNF – EUR 17,069 thousand and SNT – EUR 347 thousand);
Customer C – EUR 7,227 thousand (KNF – EUR 7,227 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 2018 and 2017 are described below:

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	SGD	SNT	GDP	KNF	Total
Revenues from sales to external customers	68,201	2,432	380	35,471	106,484
Profit before income tax	6,700	498	(1,595)	11,910	17,513
Segment net profit (loss)	6,516	484	(1,551)	11,582	17,031
Interest revenue	34	-	-	1	35
Interest expense	(177)	-	(14)	(7)	(198)
Depreciation and amortisation	(5,652)	(903)	(1)	(7,087)	(13,643)
Write-off of non-current tangible assets	(1)	-	-	(162)	(163)
Impairment of non-current tangible asset (reversal)	-	(30)	-	(411)	(441)
Net profit (loss) part in the associates	-	-	-	52	52
Acquisitions of tangible and intangible assets	388	208	17,341	12,986	30,923
Segment total assets*	66,481	12,645	29,822	110,550	219,498
Loan and related liabilities	76,440	-	(61)	-	76,379
Segment total liabilities	84,168	158	9,092	7,483	100,901

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

The Company's customers are both Lithuanian and foreign. Sales revenue by geography in 2018 is as follows: Lithuanian clients – EUR 85,236 thousand, foreign clients – EUR 14,762 thousand (in 2017 – EUR 90,968 thousand and EUR 15,518 thousand, respectively).

All property, plant and equipment is located in Lithuania.

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

6 INVESTMENT IN SUBSIDIARIES

On 20 November 2015 the subsidiary of AB Klaipėdos nafta - joint stock company - UAB SGD logistika (Burių str. 19, 91003 Klaipėda, 304139242) was established and registered. UAB SGD logistika's objective is to perform activities of operating and managing a liquefied natural gas bunkering carrier.

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

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

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

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

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

As of 31 December 2018 there are no circumstances or information available to the management indicating that SGD logistika may be found liable for any significant liabilities arising from the aforementioned joint venture agreement which would lead to significant losses and as result of that – impairment of the Company's investment in SGD logistika.

On 27 December 2018 the subsidiary of AB Klaipėdos nafta - joint stock company - UAB SGD terminalas (Burių str. 19, 91003 Klaipėda, 304139242) was established and registered. UAB SGD terminalas objective is to perform activities of operating and managing a whole structure of LNG terminal in Klaipėda (Note 2.25).

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

Financial information regarding UAB SGD logistika and UAB SGD terminalas is presented in tables below as of 31 December 2018 and 31 December 2017.

Financial position of subsidiaries is, as follows:

	UAB SGD logistika		UAB SGD terminalas		Total	
	2018	2017	2018	2017	2018	2017
Non-current assets	3	46	-	-	3	46
Current assets	186	192	3	-	189	192
Non-current liabilities	-	-	-	-	-	-
Current liabilities	128	43	-	-	128	43
Equity	61	195	3	-	64	195

Comprehensive income of subsidiaries is, as follows:

	UAB SGD logistika		UAB SGD terminalas		Total	
	2018	2017	2018	2017	2018	2017
Income	-	-	-	-	-	-
(Losses)	(133)	(3)	-	-	(133)	(3)
Profit (loss)	(133)	(3)	-	-	(133)	(3)

7 INVESTMENT IN ASSOCIATES

Sarmatia Sp. z o.o.

As at 31 December 2018 and 2017 the Company owns 1% of the authorised capital of the international pipeline company Sarmatia Sp. z o.o. During the year 2017 the Company purchased 35 shares with per par value of PLN 500 each (EUR 3 thousand). As a result of associate financial performance 100% impairment for investment to Sarmatia Sp. z o.o was accounted for as at 31 December 2018.

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

BALTPPOOL UAB

As at 31 December 2018 and 2017 the Company owns 33 percent of BALTPPOOL UAB shares and their voting rights at the General Meeting of the Shareholders of BALTPPOOL UAB. During the year 2018 and 2017 the Company did not have purchased additional shares of BALTPPOOL UAB.

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

Financial information regarding the Company's investments into Sarmatia Sp. z o. o. and BALTPPOOL UAB is presented in tables below as of 31 December 2018 and 31 December 2017:

The associate's financial position:

	Sarmatia Sp. z o. o		BALTPPOOL UAB		Total	
	2018*	2017	2018	2017	2018	2017
Non-current assets	-	-	40	37	40	37
Current assets	-	597	65,134	51,540	65,731	52,137
Non-current liabilities	-	-	(12)	-	(12)	-
Current liabilities	-	(748)	(64,553)	(50,986)	(65,301)	(51,734)
Equity	-	(151)	609	591	458	440

The associate's comprehensive income:

	Sarmatia Sp. z o. o		BALTPPOOL UAB		Total	
	2018*	2017	2018	2017	2018	2017
Income	-	23	903	736	903	759
(Losses)	-	(382)	(723)	(579)	(723)	(961)
Profit (loss)	-	(359)	180	157	180	(202)

*as of the date of these financial statements, the financial data of the associate for the year 2018 were not available yet. As previously disclosed investment into associated was fully impaired as of 31 December 2018.

Structure of the Company's investments in the associates as at 31 December 2018 and 31 December 2017 was as follows:

	Ownership interest (%)		Investment value		Comprehensive income (loss)	
	2018	2017	2018	2017	2018	2017
Sarmatia Sp. z o.o.	1.00	1.00	-	14	(14)	-
BALTPPOOL UAB	33.00	33.00	201	196	59	52
Total	-	-	201	210	45	52

Investments into associates, net value:

	Sarmatia Sp. z o. o		BALTPPOOL UAB		Total	
	2018	2017	2018	2017	2018	2017
Book value at start period	14	11	196	200	210	211
Acquisition during the year	-	3	-	-	-	3
Change in value (impairment)	(14)	-	59	52	45	52
Dividends	-	-	(54)	(56)	(54)	(56)
Book value at end of period	-	14	201	196	201	210

8 LONG-TERM RECEIVABLES AND ACCRUED RENT INCOME

Long-term receivables and accrued income consists of receivable from Luminor bank and long term rent revenue accrual arising from Subačiaus fuel storage reservoirs rent agreement.

The receivable amount from Luminor bank (restricted cash) (594 thousand EUR) is accounted for based on the Guarantee Agreement (note 30). The amount is expected to be recovered on 12 January 2020, if the Company will ensure the implementation of measures provided in the Company's waste reduction plan.

Subačiaus fuel storage reservoirs rent agreement signed with the Lithuanian petroleum products Agency in 2012 for the duration of 10 years is treated as an operating leasing contract. The rent tariffs are different for the first 5 years and for the remaining period. Therefore, the rent income is recognized on a straight line basis over the lease term, i.e. the incomes are calculated on average tariff of the all leasing term (10 years), balances as of 31 December 2018 and 2017 respectively amounted to 2,089 thousand EUR and 2,628 thousand EUR.

The future minimum lease payments under non-cancellable operating rent in the aggregate and each following periods disclosed below:

	2018	2017
Balance as at 31 December	2,089	2,628
Not later than one year	552	539
Later than one year and not later than five years	1,537	2,089
Later than five year	-	-

In 2018 income from Subačiaus fuel storage reservoirs rent reduced by EUR 539 thousand (for 2017 - EUR 532 thousand).

9 INVENTORIES

	31-12-2018	31-12-2017
Diesel fuel for the LNG Terminal purpose	651	770
Oil products for sale	134	-
Liquefied natural gas	357	221
Fuel for transport and other equipment	32	34
Spare parts, construction materials and other inventories	1,636	1,218
Total inventories	2,810	2,243
Write-down of spare parts, construction materials and other inventories	(1,063)	(1,117)
Total inventories	1,747	1,126

As of 31 December 2018 the Company accounted for allowance of inventories in the amount of EUR 1,063 thousand (EUR 1,117 thousand on 31 December 2017), that have been written-down to the net realisable value. Inventory allowance has been accounted mostly for construction materials and spare parts, which were not used during the reconstruction (1996 – 2005). Inventory accounting policy including principles of inventory allowance calculations is described in Note 2.11.

The reversal of write-off of inventories to the net realizable value of EUR 53 thousand for the twelve months ended of 31 December 2018 (reversal of write-off of inventories to the net realizable value amounts to EUR 8 thousand as of 31 December 2017) are included under operating expenses in the profit (loss).

Oil products for sale are energy products collected in the Waste Water Treatment Facilities. On 31 December 2018 the Company had 2.4 thousand tons of oil products for sale (no such products as of 31 December 2017).

As of 31 December 2018 the Company stored 198 thousand tons of oil products delivered for transshipment in its storage tanks (198 thousand tons as on 31 December 2017) (the quantities are unaudited). Such oil products are not recognised in the Company's financial statements. They are accounted for in the off-balance sheet accounts as the Company has no ownership rights into oil products. The oil products belonged to third parties are insured by the Company in order to cover the loss or damages incurred (if any).

As of 31 December 2018 the Company stored 1.4 thousand MWh (as of 31 December 2017 – 1.4 thousand MWh) (the quantities are unaudited) natural gas in the connecting pipeline for the Liquefied natural gas terminal activities. As of 31 December 2018 in the Liquefied natural gas reloading station the Company owned 9.8 thousand MWh natural gas (as of 31 December 2017 – 4.6 thousand MWh), (the quantities are unaudited).

9 INVENTORIES (CONT'D)

As of 31 December 2018 the Company stored 679 thousand MWh (As of 31 December 2017 – 919 thousand MWh) (the quantities are unaudited) of natural gas products delivered for transshipment in the Liquefied natural gas terminal. Such natural gas products are not recognised in the Company's financial statements. They are accounted for in the off-balance sheet accounts as the Company has no ownership rights for these products. The Company is responsible for the insurance of the products.

As of 31 December 2018 in the Liquefied natural gas reloading station the Company stored 8.5 thousand MWh natural gas products that, belonged to the third parties (As of 31 December 2017 – 23 thousand MWh) (the quantities are unaudited). Such natural gas products are not recognised in the Company's financial statements. They are accounted for in the off-balance sheet accounts as the Company has no ownership rights for these products

10 TRADE RECEIVABLES

	31-12-2018	31-12-2017
Receivables from LNG terminal activities	9,805	9,488
Receivables for transshipment of oil products and other related services	3,157	3,271
Less: impairment allowance	(510)	(761)
	12,452	11,998

	31-12-2018	31-12-2017
Receivables from third-party customers	2,527	2,243
Receivables from related parties	9,925	9,755
Total	12,452	11,998

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

On 31 December 2018 and on 31 December 2017 the Company did not have any trade debts denominated in other currency.

The Company has recognized impairment allowance in the amount of EUR 510 thousand on 31 December 2018 (EUR 761 thousand on 31 December 2017).

Change in allowance for receivables for the years 2018 and 2017 has been included into operating expenses in the statement of the comprehensive income.

The age analysis of trade receivables as of 31 December 2018 and 2017 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	
2018	8,729	3,514	-	5	127	77	12,452
2017	8,766	2,935	70	180	47	-	11,998

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.

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

10 TRADE RECEIVABLES (CONT'D)

may include observable data indicating that there has been an adverse change in the payment status of debtors, or national or local economic conditions that correlate with the group of receivables.

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

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

11 CONTRACT ASSETS

Contract assets comprise accrued income for storage of oil products as of 31 December 2018 calculated as percentage of completion based on expenses incurred from the total estimated cost of contracted services. Upon completion of transshipment of oil products and acceptance by the customer, the amounts initially recognised as contract assets are reclassified as trade receivables. Comparatives were not restated – it was disclosed under other receivables as of 31 December 2017 (Note 12).

12 OTHER RECEIVABLES

	31-12-2018	31-12-2017
Short-term accrued income for storage of oil products	-	597
VAT receivable	35	33
Receivable grant	20	9
Real estate tax receivable	-	4
Other receivables	31	124
Total	<u>86</u>	<u>767</u>

13 SHORT TERM DEPOSITS

	31-12-2018	31-12-2017
Short-term bank deposits at the commercial banks	-	65,000

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

As of 31 December 2017 the Company had 2 term deposits at banks, amounted to EUR 65,000 thousand, with maturity of more than 3 months. Annual interest rate range from 0 to 0.02 per cent.

14 CASH AND CASH EQUIVALENTS

	31-12-2018	31-12-2017
Cash at bank	<u>73,238</u>	<u>16,747</u>

As of 31 December 2018 and 2017 the Company had no one night term deposits.

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

Currency	31-12-2018	31-12-2017
EUR	68,656	12,374
USD	4,582	4,373
	<u>73,238</u>	<u>16,747</u>

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

14 CASH AND CASH EQUIVALENTS (CONT'D)

	31-12-2018	31-12-2017
A	-	7,166
A +	1,828	663
AA -	39,616	8,918
BBB+	31,794	-
	<u>73,238</u>	<u>16,747</u>

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

15 ISSUED CAPITAL AND RESERVES

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

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.

The Company as at 31 December 2018 under other reserves accounted for EUR 600 thousand reserve for share-based payments as defined under IFRS 2. As described in Note 2.21, up to 50% of annual bonuses for the year 2018 will be paid in shares of the Company. Remaining amount of bonus accrual is accounted under short-term liabilities (Notes 2.21 and 19).

16 NON-CURRENT EMPLOYEE BENEFITS

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

As of 31 December 2018 the Company reclassified a portion of non-current employee benefits under short term liabilities. The comparative figures have been restated as well.

On 31 December 2018 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were EUR 301 thousand (EUR 291 thousand – in 2017) as follows:

	2018	2017
Start of period	291	277
Calculated per year	18	67
Paid per year	(8)	(53)
End of period	<u>301</u>	<u>291</u>
Current	30	26
Non-current	<u>271</u>	<u>265</u>

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

	31-12-2018	31-12-2017
Discount rate	1.41%	1.43%
Staff turnover rate	6.64%	7.65%
Future salary increases	<u>2.3%</u>	<u>2.1%</u>

17 LOANS

	31-12-2018	31-12-2017
European Investment Bank's loan	54,312	54,351
Nordic Investment Bank's loan	21,811	22,000
Payable loan interest	29	28
	<u>76,152</u>	<u>76,379</u>

A credit contract dated as at 9 July 2013 was concluded by the Company with European Investment Bank (EIB) to grant a credit up to EUR 87,000 thousand to implement LNGT project. According to the contract, EIB 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 comprising bank margin and EURIBOR rate and is close to borrowing market interest rate, and whose margin will be submitted by the EIB in payment offers. The contract also provides that minimum credit tranche is EUR 15,000 thousand, and the whole credit sum must be paid to the Company over no more than 6 tranches. The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee (Note 30).

On 20 December 2013, the Company received the first payment (tranche) in the amount of EUR 15,000 thousand. Repayment period of first tranche is from 20 December 2018 to 20 December 2033. The loan must be repaid over 61 payments. In December 2018 a first repayment of this credit in amount of EUR 246 thousand was made by the Company. Loans bears floating interest comprised as fixed margin + 3 months EURIBOR. The interest is paid quarterly.

On 28 November 2014, the Company received the second EIB loan payment (tranche) in the amount of EUR 15,000 thousand. Repayment period until 28 November 2034 is provided for the second part of the loan. The loan must be repaid over 61 payments. Loans bears floating interest comprised as fixed margin + 3 months EURIBOR. The interest is paid quarterly.

On 15 December 2017, the Company received the last payment (tranche) in the amount of EUR 24,700 thousand. Repayment period until 20 September 2034 is provided for the third part of the loan; the loan must be repaid over 57 payments. Loans bears floating interest comprised as fixed margin + 3 months EURIBOR. Interest rate is considered as zero, if 3 months EURIBOR + margin is below zero. The interest is paid quarterly. The effective interest rate has no significant effect on results of the Company, therefore it is not disclosed in the financial statements.

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 2018 and as of 31 December 2017.

Loan repayment schedule:

	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Schedule as at 31 December 2018	-	246	984	19,179	56,045	76,454
Schedule as at 31 December 2017	-	-	246	16,709	59,745	76,700

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 signed NIB loan amount reduction to EUR 22,000 thousand.

According to the Loan contract, the term of the credit is up to 20 years, interest: floating, which particular rate will be provided in the NIB disbursement offer. The Loan contract also provides that the minimal payable amount of credit is EUR 7,000 thousand, and all the credit amount must be paid to the Company in no more than 5 payments. 100% of the Company's financial obligations under the Loan contract are secured by a State guarantee (Note 29).

On 31 August 2017, the Company has withdrawn the amount of EUR 22,000 thousand. Repayment period from 19 June 2019 to 19 June 2034. Loan must be repaid over 31 payments. Loan bears floating interest comprised as fixed margin + 6 months EURIBOR. The interest is paid quarterly.

On 28 April 2017 the Company has concluded the Credit Agreement with the Nordic Investment Bank (NIB) regarding granting a credit of up to EUR 20,400 thousand for the implementation the liquefied natural gas (LNG) reloading station and oil terminal expansion investments in Klaipėda.

17 LOANS (CONT'D)

According to the Loan contract, the term of the credit is up to 11.5 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 5,000 thousand, and all the credit amount must be paid to the Company in no more than 4 payments. The loan is available for drawing until 15 December 2019.

The Company did not use the loan from NIB during the year 2018 and 2017.

The Company has EUR 20,400 thousand of undrawn loans as at 31 December 2018 and as at 31 December 2017 and the amount fully consists of Nordic Investment Bank (NIB) loan.

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

Non-current interest bearing loans and borrowings, including interest payable as at 1 January 2017	29,724
Additional loan disbursements (Cash flows)	46,700
Interest and loan administration fee charged	178
Interest and loan administration fee paid (Cash flows)	(242)
Other payments / reclassifications	19
Non-current interest bearing loans and borrowings, including interest payable as at 31 December 2017	76,379
Additional loan disbursements (Cash flows)	-
Loan repayments (Cash flows)	(246)
Interest and loan administration fee charged	208
Interest and loan administration fee paid (Cash flows)	(190)
Other payments / reclassifications	1
Non-current interest bearing loans and borrowings, including interest payable as at 31 December 2018	76,152

18 TRADE PAYABLES

	31-12-2018	31-12-2017
Payables for FSRU operating leasing	3,727	3,994
Payable to contractors*	2,316	7,185
Other payments related FSRU	1,390	488
Payable for rent of land	393	393
Payable for gas services	447	371
Payable for railway services	253	291
Other trade payables	848	919
Total	9,374	13,641

*Payable amounts to contractors have decreased significantly during 2018 mainly due to finished LNG reloading station which was transferred to exploitation in 2018 and related payable amounts settled before 31 December 2018.

On 31 December 2018 trade payables of EUR 4,837 thousand were denominated in USD (EUR 4,202 thousand – on 31 December 2017).

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

19 PAYROLL RELATED LIABILITIES

	31-12-2018	31-12-2017
Accrual of annual bonuses*	603	1,246
Accrued vacation reserve	1,049	1,052
Salaries payable	13	11
Social insurance payable	329	368
Income tax payable	1	3
Other deductions	1	-
Total	1,996	2,680

*The Company as at 31 December 2018 accounted for EUR 600 thousand reserve for share-based payments under other reserves as defined under IFRS 2. As described in Note 2.21, up to 50% of annual bonuses for the year 2018 will be paid in shares of the Company (Notes 2.21 and 15).

20 PROVISIONS

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

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

As of 31 December 2018 the Company has accounted for a provision under other payables and current liabilities item of EUR 278 thousand in regard to the emission made which exceed available at that time emission rights (as of 31 December 2017 – EUR 148 thousand).

21 OTHER PAYABLES AND CURRENT LIABILITIES

	31-12-2018	31-12-2017
Accrued expenses and liabilities	526	519
Accrued tax expenses and liabilities	385	289
Shareholders related liabilities	180	-
Other liabilities	84	91
Total	1,175	899

In relation with 8th November 2018 decision of Shareholders to increase share capital of the Company by issuing up to 478,642 new ordinary shares with par value EUR 0.29 each, the Company concluded a share subscription agreement with the Ministry of Energy of the Republic of Lithuania regarding 346,154 share subscription (proportionally to shares owned). New share emission price was set at EUR 0.52 per share. Shares subscribed by Ministry of Energy of the Republic of Lithuania were paid by a non-monetary contribution (a sports hall with other engineering constructions, i.e. yard constructions) with fair value equal to EUR 180 thousand. An independent asset valuator confirmed fair value of an asset contributed. Ownership of the building was transferred to the Company in December 2018, however share capital increase was not registered yet as of 31 December 2018, therefore amount of EUR 180 thousand was recorded as liabilities to shareholders until share capital increase will be registered.

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

22 REVENUE FROM CONTRACTS WITH CUSTOMERS (SALES)

	2018	2017
Income from LNGT services regulated by NCC	63,008	66,563
Sales of oil transshipment services	33,935	34,357
Other sales related to LNG terminals activity	1,495	1,647
Other sales related to transshipment	1,194	1,587
Sales of consulting services	366	495
Sales of inventories	-	1,835
Total	99,998	106,484

The Company and BNK (UK) Limited which is an affiliate of the leading exporter of Belarusian oil products – ZAT Belaruskaja neftenaja kompanija, on 12 December 2018 extended a long term contract on provision of oil products transshipment services through AB Klaipėdos nafta terminal (hereinafter – the Contract). The terms of the Contract are valid until 31 December 2019. During this period BNK (UK) undertakes to transship heavy fuel oil produced in Belarusian oil refineries OAO Mozyrskij NPZ and OAO Naftan through the Company's terminal.

On 31 December 2018 the Company and UAB Viada LT signed a contract for provision of oil products transshipment services into trucks with obliging quantity of oil products for delivery and transshipment for 2019. The terms of the contract are valid until 31 December 2019.

On 26 April 2018 the Company and Vitol S.A. signed a contract for services related to oil products transshipment. The contract was valid until 31 December 2018. In January 2019 the contract was extended until 31 December 2019.

On 4 April 2018 the Company and K2 SAGL (registered in Switzerland) signed a contract for provision of oil products transshipment services into trucks in AB Klaipėdos nafta oil terminal for one year period. On 30 November 2018 the contract was extended until 31 December 2019.

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

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

For the year 2017 LNG terminal additional security supplement tariff is applied to Terminal users, who regasify gas via LNG terminal and use gas transmission system. LNG terminal additional security supplement tariff is set by NCC by the resolutions annually and is dedicated to cover operating costs of LNG terminal, its infrastructure and tie-in, independently from gas volumes regasified and submitted to gas transmission system. LNG terminal supplement tariff is calculated according to the formula and methodology set out in NCC Resolution No. O3-367 issued on 13 September, 2013 and its subsequent amendments.

During 2018 the Company continued to work with its main LNG terminal users: UAB Lietuvos energijos tiekimas (formerly known as two companies UAB Lietuvos dujų tiekimas and UAB LITGAS) and AB Achema.

23 COST OF SALES

	2018	2017
FSRU rent and other expenses	48,079	49,547
Depreciation and amortization	14,684	13,487
Wages, salaries and social security	7,784	7,592
Railway services	2,077	2,526
Natural gas	3,223	2,937
Rent of land and quays	2,319	2,300
Electricity	1,518	1,196
Insurance of assets	437	454
Tax on environmental pollution	267	165
Tax on real estate	338	312
Repair and maintenance of non-current assets	581	713
Cost of sold inventories	-	265
Transport	299	274
Services for tankers	203	187
Work safety costs	130	105
Rent of facilities	75	70
Other	668	609
Total	82,682	82,739

24 OPERATING EXPENSES

	2018	2017
Salary, social security taxes	3,580	3,665
Consulting and legal costs	323	258
Depreciation and amortisation (Notes 3, 4)	310	299
Communication costs	189	168
Expenses for Business trips	150	135
Charity	137	167
Advertising and external communication costs	132	247
Expenses for refresher courses	101	89
Representation, advertising	51	93
Property, plant and equipment impairment change, (reversal)	(38)	(441)
Expenses related to the management of securities	39	51
Impairment of doubtful receivables	(251)	769
Repair and maintenance of non-current assets	5	13
Other	999	704
Total	5,727	6,217

In 2018 operating expenses decreased mainly due reversal of the impairment of doubtful receivable as well as due to decrease in costs for advertising and external communication.

- Consulting and legal costs contain EUR 24 thousand expenses incurred for financial statutory and regulatory activities audits performed by external auditor of the Company for the year ended 31 December 2018 (EUR 24 thousand – for the year ended 31 December 2017).
- Non-audit services provided in year 2018 by external auditors amount to 110 EUR (2017 – 920 EUR).

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

	2018	2017
Interest income	56	35
Fines income	176	104
Financial income, total	<u>232</u>	<u>139</u>
Penalty expenses	-	(8)
(Losses) from currency exchange	(58)	(79)
Interest (expenses)	(208)	(198)
Other financial activity (expenses)	(17)	-
Financial activity expenses, total	<u>(283)</u>	<u>(285)</u>

26 INCOME TAX

	2018	2017
Current income tax expense		1,439
Previous year income tax expense	21	-
Deferred tax expenses (income)	259	(957)
Income tax expense (income) recorded in the profit (loss)	<u>280</u>	<u>482</u>

Reconciliation between income tax expense of the Company and the result of taxable income of the Company multiplied by income tax rate for the years 2018 and 2017 is as follows:

	2018	2017
Accounting profit before tax	11,857	17,513
Applying 15 % profit tax rate of the Company	1,779	2,627
Deductible expenses of income tax (charity)	(41)	(40)
Investment projects' relief	(1,927)	(1,439)
Non-deductible expenses of income tax	354	439
Non-taxable income	(165)	(148)
Income tax from dividends	-	-
Applying 15% standard income tax	<u>-</u>	<u>1,439</u>
Effective rate	<u>0.00%</u>	<u>8.22%</u>

Deferred income tax consists of:

	Statement of Financial position		Statement of Comprehensive income	
	2018	2017	2018	2017
Investment projects' relief	1,240	1,677	437	(790)
Accelerated depreciation for tax purposes	227	239	12	11
Write-offs of inventories to realizable value	159	168	9	1
Accrued annual bonuses	174	187	13	(14)
Impairment of non-current assets	41	47	6	66
Long-term employee benefit liability	53	44	(9)	(2)
Vacation reserve	3	38	35	(6)
Other temporary differences	48	21	(28)	(10)
Associates' equity method	8	6	(2)	(1)
Accrued income	(313)	(394)	(81)	(80)
Investment incentive of non-current assets	(2,263)	(2,396)	(133)	(132)
Deferred income tax expenses/ (income) recognised in profit (loss)	<u>-</u>	<u>-</u>	<u>259</u>	<u>(957)</u>
Deferred income tax assets/ (liabilities), net as at the year-end	<u>(623)</u>	<u>(363)</u>	<u>-</u>	<u>-</u>

26 INCOME TAX (CONT'D)

As of 31 December 2018 the Company's Management's judgement was not to recognize as deferred tax asset amounting up to EUR 867 thousand from the investment incentive in the amount of up to EUR 5,778 thousand, whose expiry date is 2022, up to EUR 4,399 thousand from the investment incentive in the amount of up to EUR 29,329 thousand, whose expiry date is 2021 and up to EUR 2,077 thousand from the investment incentive in the amount of up to EUR 13,848 thousand, whose expiry date is 2020 (as of 31 December 2017 amounted up to EUR 4,399 thousand from the investment incentive in the amount of up to EUR 29,329 thousand, whose expiry date is 2021, up to EUR 2,269 thousand from the investment incentive in the amount of up to EUR 15,128 thousand, whose expiry date is 2020 and up to EUR 74 thousand from the investment incentive in the amount of up to EUR 492 thousand, whose expiry date is 2019) as the Management does not expect to use the investment incentive to decrease taxable profit in the future.

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

While assessing deferred income tax asset and liability components as of 31 December 2018 and 2017 the Company has used the income tax rate of 15 %.

27 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

Basic earnings per share are calculated by dividing net profit of the Company by the weighted average number of ordinary shares outstanding. 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:

	2018	2017
Net profit attributable to shareholders	11,577	17,031
Weighted average number of ordinary shares (thousand)	380,606	380,606
Earnings and reduced earnings (in EUR)	0.03	0.04

The Company, in calculations of diluted earnings per share (DEPS) as of 31 December 2018, did not include the shares that are likely to be granted to employees in the year 2019, as of the date of these financial statements there are no contracts signed with employees regarding share grants and no exact quantities of shares that will be granted for each employee determined yet. Among other things, shares will be granted to employees from own shares acquired by the Company, therefore it is likely, that the final quantity of shares will remain unchanged after distribution of shares

28 DIVIDENDS

	2018	2017
Dividends declared	(17,031)	(9,656)
Weighted average number of shares (thousand)	380,606	380,606
Dividends declared per share (expressed in EUR per share)	0.0447	0.0254

The General Meeting of the Shareholders held on 21 April 2018 approved profit appropriation for the year 2017 and allocated to the Shareholders dividends in the amount of EUR 17,031 thousand for 2017. The General Meeting of the Shareholders held on 21 April 2017 approved profit appropriation for the year 2016 and allocated to the Shareholders dividends in the amount of EUR 9,656 thousand for 2016.

The outstanding amount of declared dividends to the shareholders, who were not reached from the stated addresses, is accounted as current amounts payable and liabilities in the Statement of financial position as of 31 December 2018. As of 31 December 2018 the outstanding amount of dividends not paid during the previous financial year amounted to EUR 114 thousand (EUR 77 thousand as of 31 December 2017).

29 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer of the Company – AB Amber Grid – on 31 December 2018 accounted for approximately 75% (about 74% as of 31 December 2017), AB Orlen Lietuva – on 31 December 2018 accounted for approximately 9% (about 8% as of 31 December 2017), K2 - on 31 December 2018 accounted for approximately 5% (no trade receivable from this customer as of 31 December 2017) of the total Company's receivables from all its customers. The average payment term for AB Amber Grid is 20 calendar days, AB Orlen Lietuva - 10 calendar days, for K2 – 5 working days, VJ Lietuvos naftos produktų agentūra – 20 calendar days, BNK (UK) Limited– 5 calendar days, UAB Neste Lietuva – up to the 15th of the following month, whereas the usual payment terms for all other customers is 5 days. A possible credit risk for the Company's customers is managed by a continuous monitoring of outstanding balances.

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

On 29 September 2016 UAB SGD logistika, which is a wholly-owned subsidiary of the Company, signed the amendments of hereinabove mentioned joint venture agreement with partner Bomin Linde LNG GmbH & Co. KG (now - Nauticor GmbH & Co. KG) on joint performance of the activities of operating the LNG vessel. Following the amended agreement, in Blue LNG GmbH & Co. KG - a joint venture, established in Germany, UAB SGD logistika holds 10% of the authorised capital - Nauticor GmbH & Co. KG holds 90% of the authorised capital. According to the amended joint venture agreement the Company hereby unconditionally and irrevocably guarantee to - Nauticor GmbH & Co. KG the due and punctual performance of all obligations of UAB SGD logistika. According to the amended joint venture agreement the Company 1) unconditionally and irrevocably guarantees to - Nauticor GmbH & Co. KG the due and punctual performance of all obligations of UAB SGD logistika. The estimated maximum amount obligations guaranteed by the Company decreased to up to EUR 4,000 thousand due to change in part in the joint venture as well as clarification of the charter rate; 2) shall guarantee under a first demand guarantee for the obligations of Blue LNG GmbH & Co. KG which would charter and operate a liquefied natural gas bunkering carrier, to pay the charter rate for the carrier to the extent that UAB SGD logistika undertakes to pay such charter rate.

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

The management believes that as of 31 December 2018 the risk related with the realization of the guarantees issued is low and therefore, there is no provision accounted for in regard to this in the financial statements for the year ended 31 December 2018.

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 reasonably likely circumstances, which would raise 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.

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

The Company's assets held to maturity bear fixed interest rates. The Company holds money and time deposits on the accounts of major Lithuanian banks, which are granted with Standard Poor's 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 2018 increase in EURIBOR interest rate by 10 basis points would increase yearly interest expenses amount by EUR 76.4 thousand (as of 31 December 2017 – EUR 76.7 thousand).

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

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 Klaipėda, Klaipėdos nafta pays FSRU lease on monthly basis, whereas lease is calculated on a daily rate basis. Charter hire element, Opex element and Management fee are denominated in USD and total 146,050 USD/day.

As of 31 December 2018 and as of 31 December 2017 and during the 2018 and 2017 respectively changes in USD exchange rates did 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 2018 were 4.75 and 4.65, respectively (4.78 and 4.73 as at 31 December 2017).

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 or higher than 1.

The table below summarises the maturity profile of the Company's financial liabilities as of 31 December 2018 and 2017 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	9,374	-	8,060	1,314			9,374
Other current liabilities	605	-	133	472			605
Loan and interest	76,454	-	272	2,536	19,714	55,222	77,744
Balance as of 31 December 2018	86,433	-	8,465	4,322	19,714	55,222	87,723
	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	13,641	-	9,619	4,022	-	-	13,641
Other current liabilities	607	-	254	353	-	-	607
Loan and interest	76,700	-	25	378	17,268	60,439	78,110
Balance as of 31 December 2017	90,948	-	9,898	4,753	17,268	60,439	92,358

EUR 1,314 thousand of the EUR 9,374 thousand trade and other payables as at 31 December 2018 (EUR 4,022 of the EUR 13,641 thousand amount as at 31 December 2017) 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 76,454 thousand of EUR 86,433 thousand as at 31 December 2018 (EUR 76,700 thousand of EUR 90,948 thousand as at 31 December 2017) is repayable EIB and NIB loans.

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

The biggest trade and other payable amounts are to PPS Pipeline Systems GmbH, UAB Hoegh LNG Klaipėda, UAB Arimetras, RAB SKH branch in Lithuania, SE Klaipėda State Seaport Authority as at 31 December 2017.

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

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.

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	
	2018	2017	2018	2017
Financial assets				
Trade receivables	12,452	11,998	12,452	11,998
Short term deposits	-	65,000	-	65,000
Cash	73,238	16,747	73,238	16,747
Short-term accrued income	404	774	404	774
Financial liabilities				
Loan and interest	76,152	76,379	72,853	72,776
Trade payables	9,374	13,641	9,374	13,641
Accrued expenses	820	519	820	519

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

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

No transfers occurred between levels in the hierarchy by re-assesing categorisation as at 31 December 2018 compared to 31 December 2017.

Capital management

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

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

There were no changes in the authorised capital during the year 2018 and 2017.

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 2018 and as of 31 December 2017.

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 Klaipėda 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 2018 the Company's land rent expenses amounted to EUR 626 thousand (EUR 790 thousand – in 2017).

Total amount of future minimum payments of land rent:

	31-12-2018	31-12-2017
Within one year	630	790
From one to five years	2,520	3,160
After five years	20,156	25,280
	<u>23,306</u>	<u>29,230</u>

On 9 March 2015 the Company concluded the Liquefied Natural Gas Terminal jetty usage agreement with the Klaipėda 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.

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 2018 and in the 2017 the Company's jetty rent expenses amounted to EUR 165 thousand.

Total amount of future minimum payments of jetty rent:

	31-12-2018	31-12-2017
Within one year	165	165
From one to five years	660	660
After five years	6,762	6,927
	<u>7,587</u>	<u>7,752</u>

On 2 March 2012 the Company signed the 10 years Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) with a purchase option. FSRU has arrived to the Seaport of Klaipėda at 27 October 2014 and was taken over by the Company on 27 November 2014. There were no changes in the BOT lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) in the year 2018 and 2017, which would lead to changes in classification of this lease as at 31 December 2018 and 2017.

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.

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

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Operating lease commitments (cont'd)

FSRU operating lease costs accounted during the years 2018 and 2017:

	2018	2017
Charter Hire Element	42,653	44,297
OPEX Element	1,952	1,799
Management Fee	644	652
Crew Costs	2,747	2,720
	<u>47,996</u>	<u>49,468</u>

On 31 December 2018, the total amount of future minimum payments of FSRU operating lease amounted to EUR 263,615 thousand (on 31 December 2017 – EUR 289,626 thousand):

	31-12-2018	31-12-2017
Within one year	43,896	41,908
From one to five years	175,703	167,748
After five years	44,016	79,971
	<u>263,615</u>	<u>289,627</u>

The Company is adopting IFRS 16 for the financial year beginning as of 1 January 2019. The modified retrospective approach is applied.

On 31 December 2018 the Company has assessed the impact of the implementation of this standard as of 1 January 2019. The Company has used future minimum lease payments for the assessment as of 31 December 2018. At the lease period end the Company has an option to purchase FSRU. Based on decision of the Management of the Company, the exercise price of the purchase option for FSRU is not included into the lease payments due to the absence of Board decision as well as the decision of General Meeting of Shareholders to purchase FSRU. Changes in LNG regulation in December 2018 ensure the need of LNG service, however it does not oblige the Company to purchase FSRU. There is availability of alternative to purchase another FSRU due to increased supply in the market for FSRU. No penalties or additional costs determined in the contract in the case to refuse to purchase FSRU. No significant improvement undertaken that have a significant economic benefit for the Company.

Remaining future minimum lease payments discounted to present value using incremental borrowing rate (0.7% for FSRU lease and 2% - for land and jetty rent) at date of initial application.

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

Based on assessment made by the Management of the Company, implementation of the standard will significantly increase lease assets and financial liabilities. Estimated IFRS 16 application effect on the Company's financial statements as at 1 January 2019 is stated below:

	Land rent	Jetty rent	FSRU lease	Total
Right-of-use-asset as at 1 January 2019	16,359	4,942	257,274	278,575
Long term financial liabilities as at 1 January 2019	15,741	4,780	213,684	234,205
Short term financial liabilities as at 1 January 2019	618	162	43,590	44,370
Depreciation costs for 2019	442	107	42,879	43,428
Interest costs for 2019	327	99	1,801	2,227

It is expected that the Company's EBITDA (non-IFRS measure) will increase because expenses for off balance sheet rent are excluded from it. Instead of rent costs the Company will record depreciation and interest costs from 1 January 2019. In light of the above, according to preliminary evaluation, the Company will have EUR 43,428 thousand depreciation costs and EUR 2,227 thousand interest costs for the year 2019.

Due to the fact that FSRU lease contract denominated in a foreign currency (USD), the Company will have to remeasure this liability using exchange rate at each reporting date. Any changes to the lease liability due to exchange rate changes are recognised in a statement of comprehensive income. In future it could result in volatility in profit or loss from recognition of foreign currency exchange gain or losses. As at 31 December 2018 the Company has not selected the way how to mitigate this effect.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Operating lease commitments (cont'd)

The terms and condition of the contracts mentioned above with all later additions do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent.

The Company as at 31 December 2018 complied with all financial and non-financial covenants set per loan agreements, however application of IFRS 16 shall have significant impact on at least two of financial covenants. Management has started communication with banks regarding review of covenants package and treatment of covenants starting 1 January 2019. At the date of these financial statements it is not clear yet how lenders will treat effect of IFRS 16 in respect of calculations of covenants. Management believes that agreement will be made with banks till next covenants review which is done on semi-annual basis.

Legal disputes

- By decision of the Court of Appeal of Lithuania rendered on 17 June 2014 in the case based on the lawsuit filed by UAB Naftos grupė against the Company for payment of alleged damages of EUR 5 million, returning of the excess petroleum products allegedly owned by UAB Naftos grupė and stored by the Company, and declaring the service agreement No 12-12-2005 of 22 December 2004 terminated due to alleged fault of the Company.

By the above-said decision of the Court of Appeals of Lithuania, decision of 20 May 2013 of the Vilnius Regional Court that had considered the case as a court of first instance, was partially changed as follows:

- ū The clause of the Agreement granting the Claimant UAB Naftos grupė the exclusive right to tranship the vacuum gas oil was declared invalid by the court at the Company's request as it is in contravention of the imperative provisions of competition law;
- ū Payment of EUR 865 thousand as damages was awarded against the Defendant (the Company) for the benefit of the Claimant, together with 6% interest p. a. on the awarded amount for the period from the institution of the proceedings (18 April 2011) until complete
- ū execution of the court decision, i. e. only about one-half of the amount which had been awarded against the Company for the benefit of UAB Naftos grupė by the court of first instance, and UAB Naftos grupė claims for damages related to the loss of business was rejected;
- ū the litigation costs were allocated between the parties accordingly.

On 25 July 2014, the Supreme Court of Lithuania decided to accept a cassation appeal filed by AB Klaipėdos nafta in which the Company requested the court to review part of the decision rendered by the Court of Appeal of Lithuania on 17 June 2014 in the case based on the above-mentioned lawsuit filed by UAB Naftos grupė and the Company's counter-claim against UAB Naftos grupė for declaring the agreement invalid, payment of damages and unjustified enrichment. The Supreme Court of Lithuania has held that the cassation appeal filed by the Company meets the requirements laid down in the Code of Civil Procedure of the Republic of Lithuania, therefore, it was accepted for consideration in cassation proceedings.

By its judgment of 8 May 2015, the Supreme Court of Lithuania reversed the decisions of the court of first instance and the court of appeal and referred the case back to the court of first instance for re-consideration. By its decision of 11 September 2015, the Vilnius regional Court renewed the trial and included the Competition Council of the Republic of Lithuania in the proceedings.

On 13 December 2015, the Competition Council presented its conclusion in the civil case, stating that it cannot provide a detailed assessment of whether provisions of the Agreement are consistent with the Law on Competition due to insufficient evidence. The civil case was suspended until decision is rendered in the criminal proceedings as described below.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017.

- AB Klaipėdos nafta was recognised as a civil claimant (claim amount EUR 20.9 million) in the criminal case in which charges had been brought against former management of AB Klaipėdos nafta and against UAB Naftos grupė and UAB Artilona. The amount of the updated claim is EUR 20.9 million.

The trial started in September – October 2015: the indictment was brought against the accused and the updated statement of claim was filed.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Legal disputes (cont'd)

All witnesses specified in the indictment were questioned and all telephone conversation recordings were heard. The accused were questioned.

On 27 December 2017, the Klaipėda Regional Court as the court of first instance handed down a conviction in the criminal case. The court ruled as follows:

- ü To award against Artūras Urbutis, Antanas Urbutis, Svetlana Popova, Andrejus Vaičiulis, Jurgis Aušra, Ričardas Milvydas and UAB Naftos grupė, jointly and severally, payment of damages amounting to EUR 20,9 million for the benefit of the Company, together with a 5 % interest p. a. on the awarded amount for the period from the effective date of the indictment until complete execution of the court decision on payment of damages;
- ü To award against Artūras Urbutis, Antanas Urbutis, Svetlana Popova, Andrejus Vaičiulis, Jurgis Aušra and Ričardas Milvydas payment of EUR 1,7 thousand each for the benefit of the Company as representation costs.

Management of UAB Naftos grupė appealed against the judgment of Klaipėda Regional Court whereby actual custodial sentences had been imposed upon them; the case has been referred to a court of appeal.

- On 28 July 2016 AB Achema filed a complaint to the General Court of the European Union (EGC) concerning the reversed decision to align State aid to the Company. The defendant in the case- The European Commission. In December 2017 by request of the Company, EGC included the Company in the case as an interested party. A court hearing is scheduled on 20 March 2019. The anticipated time of the proceedings including both instances is approximately 4-5 years.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017.

- AB Achema has filed 10 complaints concerning the decisions of the National Commission for Energy Control and Prices (NCC) to the Vilnius Regional Administrative Court. The Company is included as an interested third party in these cases. With these complaints AB Achema requests the court to reverse the decisions or parts of the decisions of the NCC concerning the price setting of the natural gas supply security supplement added to the natural gas transmission tariff.

9 of the administrative proceedings are suspended until the complaint of AB Achema to the EGC has been investigated. 1 case is being investigated. The Company has filed a statement on 5 February 2019.

As of 31 December 2018, AB Amber Grid has calculated for AB Achema interest and fines totaling EUR 2,909 thousand (as of 31 December 2017 amounting to EUR 2,611 thousand) for delayed payments of the security component to the upper ceiling of the natural gas transmission price. According to the contract and the law, Amber Grid AB applies payments received to fines and penalties in the first instance. The Company does not recognise such fines and penalties received as income until the court decision is rendered.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017, as the Company is included in the case as an interested third party.

In 2018 the Company was a defendant in 4 cases concerning the loss compensation due to establishment of servitudes. As of 31 December 2018, 2 of these cases have ended with unfavorable decisions to the Company and by paying EUR 141 thousand to the plaintiffs, 1 case has ended with a favorable decision to the Company and 1 case is still being investigated.

On 19 June 2018, the Klaipėda Regional Court has taken a decision in the case being investigated with which it was decided:

- ü The part of the case concerning the compensation of EUR 86.7 thousand loss is suspended;
- ü The defendant (the Company) is to pay EUR 1.8 thousand proceeding costs to the plaintiff;
- ü The other part of the lawsuit is rejected;
- ü The plaintiff is to pay EUR 1.1 thousand proceeding costs to the defendant (the Company).

On 19 July 2018 the plaintiff filed an appeal and on 20 July 2018 the Company filed an appeal. A court proceeding has not been appointed yet.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Legal disputes (cont'd)

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017.

- On 13 August 2018 a lawsuit was filed by a contractor UAB Tetas to the Company requesting to reverse a EUR 25,5 thousand unilateral inclusion based on the work contract and the Company to pay UAB Tetas a debt of EUR 25,5 thousand, interest on arrears and proceeding costs. The dispute rises from the work contract according to which UAB Tetas was significantly late in accomplishing work. On 3 October 2018 the Court made a decision in which it denoted that the preparation for the case will be performed by the way of preliminary documents. Both sides have provided the preliminary documents. On 21 January 2019 UAB Tetas provided new proof to the court. On 22 January 2019 the appointed court proceeding did not take place due to illness of the judge. A new proceeding date has been appointed to 25 March 2019.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017.

- On 30 November 2016, AB Klaipėdos nafta received a notice from the Vilnius Regional Court (the 'Court') informing that UAB Krovinių terminalas (the 'Claimant') had filed a lawsuit against the Company and AB ORLEN Lietuva claiming payment of damages due to violations of competition law. On 1 December 2016 the Company published a notice of a material event regarding the lawsuit filed by UAB Krovinių terminalas.

The Claimant, inter alia, requests the Court to: (i) award payment of EUR 5,995 thousand as damages against the Company for the benefit of the Claimant; (ii) declare the agreement on the terminal concluded by and between the Company and AB ORLEN Lietuva on 17 November 2011 (as amended) (the 'Agreement') as null and void from the date of its conclusion; and (iii) apply a provisional injunction, i. e. to suspend execution of part of the provisions of the Agreement.

The Court examined the application for provisional injunction on 9 December 2016. In the opinion of the Company's management, the lawsuit is unjustified. The Company submitted a reply to the lawsuit within the set time limit. On 9 December 2016, the Company received the decision on provisional injunction rendered by the Vilnius Regional Court, whereby UAB Krovinių terminalas application for provisional injunction in the case concerning payment of damages for the violations of competition law was rejected. UAB Krovinių terminalas submitted a cross-appeal. The decision of 9 December 2016 was upheld by the Court of Appeal of Lithuania.

On 5 January 2018, UAB Krovinių terminalas filed an application for the reduction of the amount of claim and for inclusion of evidence in the case. UAB Krovinių terminalas has reduced its claim and is requesting from the Company:

ü To award payment of EUR 4,823 thousand;

On 9 March 2018 the Court made a decision according to which the plaintiff UAB KROVINIŲ TERMINALAS is obliged to provide additional evidence. After UAB KROVINIŲ TERMINALAS provided the additional evidence, the Company provided clarifications and also provided additional evidence to the case.

On 15 October 2018 a court proceeding had been appointed, but it was postponed.

On 13 February 2019 and 15 February 2019 court proceedings of the case was examined on its merits. On 7 March 2019 Vilnius Regional Court has rejected the claim of UAB KROVINIŲ TERMINALAS to AB Klaipėdos nafta and AB ORLEN Lietuva for damages due to alleged breach of the competition law and to entitle the Company to full compensation of litigation expenses incurred. The judgement of the Court may be appealed to the Court of Appeal of Lithuania within 30 days after its announcement.

Management's opinion is that the Company is unlikely to suffer any material additional expenses related to the claim and therefore it is unnecessary to account for the provisions as on 31 December 2018 and as on 31 December 2017.

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Guarantees

- The Company has Guarantee Agreement with AB SEB bank for the amount of EUR 1,448 thousand as of 31 December 2018 (EUR 1,448 thousand as of 31 December 2017) in order to secure due fulfilment of custom tax obligations in the customs warehouse. The guarantee is valid until 31 December 2018.
- The Company has Guarantee Agreement with AB SEB bank for the amount of EUR 610 thousand as of 31 December 2018 (EUR 590 thousand as of 31 December 2017) in order to secure due fulfilment of excise tax obligations in the excise warehouse. The guarantee is valid until 3 November 2019.
- The Company has Guarantee Agreement with AB SEB bank for the amount of EUR 594 thousand as of 31 December 2018 (EUR 498 thousand as of 31 December 2017) only for ensuring of implementation of measures provided in the Company's waste management activity termination plan. The guarantee is valid until 12 January 2019.
- The Company has Guarantee Agreement with AB SEB bank for the amount of EUR 100 thousand as of 31 December 2018 in order to secure due fulfilment of tax obligations. This guarantee was issued due to changes in the Law of Energy of the Republic of Lithuania. Based on this the companies engaged in wholesale of bulk oil products should provide the guarantee to the State Tax Inspectorate. The guarantee is valid until 31 January 2019.
- The Company has Guarantee Agreement with AB Luminor bank for the amount of EUR 594 thousand as of 31 December 2018 only for ensuring of implementation of measures provided in the Company's waste management activity termination plan. The guarantee is valid until 12 January 2020.
- The Company has Guarantee Agreement with OP Corporate Bank plc Lithuania branch for the amount of EUR 36 thousand as of 31 December 2018 (EUR 36 thousand as of 31 December 2018) in order to secure due fulfilment of transit procedure for LNG reloading. The guarantee is valid until 5 December 2019.
- The Company has Guarantee Agreement with Ministry of Finance of the Republic of Lithuania to secure the Company's contractual obligations including interest payable to EIB under the credit contract for up to 20 years on partial funding of the LNGT project dated 9 July 2013 (note 16). Thus, up to 50% of the investments related to LNGT project implementation will be financed by EIB under the contract.
- The Company has Guarantee Agreement with Ministry of Finance of the Republic of Lithuania to secure the Company's contractual obligations including interest payable to Nordic Investment Bank, under the credit contract for up to 20 years on partial funding of the LNGT project (note 16). The amount of maximum mortgage is equal to EUR 34,754 thousand.
- The Company has an agreement on assignment of claim rights and a maximum pledge agreement with UAB Hoegh LNG Klaipėda which maximum amount of USD 50,000 thousand per one year as at 31 December 2018 and as at 31 December 2017. The said agreements are intended to secure obligations of the Company to Hoegh LNG Klaipėda under the Time Charter Party (Lease of a Floating Storage and Regasification Unit in conjunction with maintenance and operation services) agreement concluded on 2 March 2012.
- 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.
- Material contractual liabilities (acquisition of property, plant and equipment) amounted to EUR 19,037 thousand as of 31 December 2018 (EUR 32,018 thousand as of 31 December 2017).

Regulated profit of LNG terminal

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

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

30 COMMITMENTS AND CONTINGENCIES (CONT'D)

Regulated profit of LNG terminal (cont'd)

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

- LNG regasification service price fixed part that is approved every year by the resolution of the National Control Commission for Prices and Energy. This part of the price is included into the additional Security Supplement added to the gas transmission price;
- LNG regasification service price variable part that is received for the regasified volume directly from the clients and the tariff of which is approved by the NCC on an annual basis;
- LNG reloading service revenue for reloaded LNG quantity. The tariff of the LNG reloading service is set for a 5 year period.

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

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

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

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

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

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

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

In EUR thousand	2014	2015	2016	2017	2018 (unaudited by NCC)
Financial LNG terminal profit	600	6,981	3,518	6,516	4,214
Regulated profit (in terms of Methodic)	267	3,525	3,329	3,297	3,466
Difference	333	3,456	0,189	3,218	0,749
Difference (cumulative)	333	3,789	3,978	7,197	7,945

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

31 RELATED PARTY TRANSACTIONS

The related parties to the Company are defined as shareholders (refer to Note 1), employees, members of the Board, their close family members and companies that directly or indirectly (through the intermediary) control or are controlled by, or are under common control with, the Company, provided such relationship empowers one of the parties to exercise the control or significant influence over the other party in making financial and operating decisions.

- Purchases from State Klaipėda State Seaport Authority include land rent, jetty usage and FSRU port fee. Sales to State Klaipėda State Seaport Authority include income from the publicity of EU project, its coordination of activities and administration of EU support.
- Purchases from AB Lietuvos geležinkeliai comprise purchase of railway services.
- Purchases from UAB Lietuvos energijos tiekimas include purchases of natural gas. Sales to UAB Lietuvos energijos tiekimas include income from LNG regasification and reloading services.
- Sales to AB Amber Grid include income from additional security supplement to the price of natural gas' transmission. Sales to AB Amber Grid do not include interest and fines for AB Achema for delayed payments of the security component to the upper ceiling of the natural gas transmission price. These amounts are recognized and accounted for as received prepayments (as of 31 December 2018 – EUR 2,909 thousand, as of 31 December 2017 – EUR 2,611 thousand) (note 29).
- Sales to VĮ Lietuvos naftos produktų agentūra include income from rent of tanks.

31 RELATED PARTY TRANSACTIONS (CONT'D)

- Sales to UAB LITGAS include income from regasification services as well as income from LNG reloading from Reloading station to trucks.
- Purchases from AB Energijos skirstymo operatorius and UAB Energijos tiekimas include acquisition of electricity power.
- In 2017 the Company purchased works related to expansion of electric substation from UAB Tetas. No transactions occurred in 2018.
- Payable amount to the Ministry of Energy of the Republic of Lithuania comprises the debt to the shareholder concerning to increase in share capital by non-monetary contribution.
- Sales to Ministry of the Economy and Innovation of the Republic of Lithuania for 2018 and 2017 comprise income from storage of the stock of State reserve.
- In 2018 the Company made a payment of EUR 40 thousand to the subsidiary UAB SGD logistika for the purpose to cover the lack of working capital.
- In December 2018 subsidiary of AB Klaipėdos Nafta UAB SGD terminalas was established and registered. No other transactions occurred in 2018 (note 6).
- No transactions occurred between AB Klaipėdos nafta and BALTPPOOL UAB, except of dividends received amounting to EUR 54 thousand in 2018 (EUR 56 thousand in 2017) (note 7).
- No transactions occurred with Sarmatia Sp. z o.o. in 2018 and 2017 (note 7).

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

		Purchases	Sales	Receivables	Payables
State Enterprise Klaipėda State Seaport Authority, owned by the State of Lithuania represented by the Ministry of transportation	2018	2,319	4	-	393
	2017	2,317	-	-	393
AB Lietuvos geležinkeliai, owned by the State of Lithuania represented by the Ministry of transportation	2018	2,247	-	-	253
	2017	3,138	-	-	291
UAB Lietuvos energijos tiekimas (formerly UAB Lietuvos dujų tiekimas), owned by 100% UAB Lietuvos energija	2018	1,813	484	38	447
	2017	2,847	575	37	371
AB Amber Grid, owned by 96.6% UAB EPSO-G	2018	-	63,008	9,707	-
	2017	-	66,563	9,396	-
VĮ Lietuvos naftos produktų agentūra, owned by the State of Lithuania represented by the Ministry of Energy	2018	-	2,764	111	-
	2017	-	2,654	268	-
UAB LITGAS, owned by 100% UAB Lietuvos energija	2018	217	440	69	262
	2017	90	438	55	109
AB Energijos skirstymo operatorius, owned by 95% UAB Lietuvos energija	2018	600	-	-	78
	2017	575	-	-	79
UAB Energijos tiekimas owned by 100% UAB Lietuvos energija	2018	920	-	-	140
	2017	617	-	-	87
UAB Tetas owned by 100% Litgrid AB	2018	-	-	-	-
	2017	263	-	-	223
Ministry of Energy of the Republic of Lithuania, shareholder	2018	-	-	-	-
	2017	-	-	-	-
Ministry of the Economy and Innovation of the Republic of Lithuania	2018	-	10	-	-
	2017	-	10	-	-
UAB SGD logistika, subsidiary	2018	-	-	40	-
	2017	-	-	-	-
Other related parties	2018	2	-	-	-
	2017	5	9	-	-
Transactions with related parties, in total:	2018	8,119	66,710	9,965	1,573
	2017	9,852	70,249	9,756	1,553

31 RELATED PARTY TRANSACTIONS (CONT'D)

Management salaries and other payments

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

	2018	2017
Payroll related costs	2,658	2,595
Number of managers	40	37

During 2018 and 2017 the Management of the Company did not receive any loans, guarantees, and no other payments or property transfers occurred.

32 SUBSEQUENT EVENTS

- On the initiative and by the resolution of the Company's Board an extraordinary general meeting of shareholders of the Company was held on 8 February 2019. Agenda of the meeting:
 1. Regarding the remuneration of the members of the Supervisory Board.
- By the decision of the Board of 9th October 2018, the Company, on 2nd January 2019 decided to purchase the ordinary registered shares of AB Klaipėdos nafta, par value of which is equal to EUR 0.29 (twenty nine cents), consequently total nominal value including the shares already purchased would not exceed 1/10 of the Company's authorized capital and later provide such shares to its employees. A tender offer will be made to purchase its own shares via the securities market Nasdaq Vilnius AB. The Company, during the period from 7th January 2019 to 25th January 2019, has acquired 1,463,414 its own shares. The total price of the transaction amounts to EUR 599,999.74
- Vilnius Regional Court has rejected the claim of UAB KROVINIŲ TERMINALAS regarding the damages from the breach of the competition law. On 7 March 2019 Vilnius Regional Court has adopted a judgement to reject the claim of UAB KROVINIŲ TERMINALAS to AB Klaipėdos nafta and AB ORLEN Lietuva for damages from the breach of the competition law and to award the Company full compensation of litigation expenses. The judgement of the Court may be appealed to the Court of Appeal of Lithuania within 30 days after its announcement.
- With the permission of Ministry of Finance of the Republic of Lithuania, obtained by AB Klaipėdos nafta on 21st March 2019, came into force Company's board decision to increase the authorised capital of Company's subsidiary UAB SGD logistika in the amount of EUR 800 thousand.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Mindaugas Jusius, Chief Executive Officer of AB Klaipėdos Nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos Nafta, and Rasa Tamaliūnaitė, Chief Accountant, hereby confirm that to the best of our knowledge the above-presented Financial Statements of AB Klaipėdos Nafta for the year 2018, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of AB Klaipėdos Nafta.

Chief Executive Officer



Mindaugas Jusius

Chief Financial Officer



Jonas Lenkšas

Chief Accountant

Rasa Tamaliūnaitė



2018

AB KLAIPĖDOS NAFTA ANNUAL REPORT

FOR THE FINANCIAL YEAR
ENDING ON 31 DECEMBER 2018

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Abbreviations:

KN – AB Klaipėdos nafta

KNT – Klaipėda oil terminal;

SNT – Subačius oil terminal;

SGD -Segment of Liquefied Natural Gas Terminal activities

LNGT – Liquefied Natural Gas Terminal;

GDP – LNG reloading station project and its activity and international LNG projects development and consulting;

OP - Oil Products;

HFO – Heavy Oil Products;

LFO - Light Oil Products;

NCC - National Control Commission for Energy control and prices;

NIB - Nordic Investment Bank;

EIB – European Investment Bank.

GENERAL INFORMATION

Details about the Company (Issuer)

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

Reporting period

AB Klaipėdos nafta Annual Report for the year 2018 is prepared for the period from 1 January 2018 until 31 December 2018.

Annual Report for the year 2018 also includes:

- 2018 year Social Responsibility Report;
- 2018 year Governance Report.

Confirmation of responsible persons

Referring to the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuanian, Responsible Persons Mindaugas Jusius, Chief Executive Officer of AB Klaipėdos nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos nafta, and Rasa Tamaliūnaitė, Chief Accountant of AB Klaipėdos nafta, hereby confirm that to the best of our knowledge the Annual Report of AB Klaipėdos nafta for 2018 includes a fair review of the development and performance of the business and the present state of the Company together with the description of the main risks and uncertainties that are encountered

Persons responsible for the information submitted in the Annual Report

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

KEY OPERATING AND FINANCIAL INDICATORS OF AB KLAIPĖDOS NAFTA

		2018	2017	Change	
				+/-	%
KEY OPERATING INDICATORS					
Transshipment of oil products	thousand tons	6,694	7,177	-483	-6.7
LNG regasification	thousand MWh	9,196	12,646	-3,450	-27.3
KEY FINANCIAL INDICATORS					
Sales revenue	EUR`000	99,998	106,484	-6,486	-6.1
Gross profit	EUR`000	17,316	23,745	-6,429	-27.1
EBITDA ²⁾	EUR`000	26,949	31,339	-4,390	-14.0
Net profit	EUR`000	11,577	17,031	-5,454	-32.0
EBITDA margin	%	26.9%	29.4%	-2,5 p. p.	-
Net profit margin	%	11.6%	16.0%	-4,4 p. p.	-
		31-12-2018	31-12-2017	Change	
				+/-	%
Total assets	EUR`000	293,127	301,245	-8,118	-2.7
Shareholders' equity	EUR`000	195,490	200,344	-4,854	-2.4
Financial debts	EUR`000	76,152	76,379	-227	-0.3
Other debts	EUR`000	21,485	24,522	-3,037	-12.4
Return on equity (ROE) ²⁾	%	5.8%	8.7%	-2.8 p. p.	-
Return on assets (ROA) ³⁾	%	3.9%	6.3%	-2.4 p. p.	-
Debt ratio	%	0.50	0.50	-	-
Capital to assets ratio	%	0.67	0.67	-	-
Gross liquidity ratio (current ratio) ⁵⁾	%	4.75	4.78	-0.03 p. p.	-
Quick ratio ⁶⁾	%	4.65	4.72	-0.07 p. p.	-

¹ EBITDA = earnings before interest, taxation, depreciation and amortization;

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

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

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

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

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

A FOREWORD OF THE CEO

Dears,

The year of 2018 was full of challenges for KN: the situation in the market was tense and dynamic with the geopolitical environment being the intensive irritant and the growing costs being the major concern. Nevertheless, only a slight decrease was witnessed in the last year's flows of oil products and natural gas cargoes, if compared to 2017, and the company has managed to achieve the scheduled profitability indicators. In 2018, the net profit of KN reached EUR 11.6 million, EBITDA – EUR 26.9 million, and the return on equity – 5.8 % (in line with the minimum equity return requirement stipulated by the main shareholder).

The product loading of Klaipėda and Subačius oil terminals reached 6.69 million tonnes in 2018 (7.18 million tonnes in 2017). The general decrease in the loading was determined by lower flows of refined oil products from the refinery of "Orlen Lietuva". However, despite the tension between the neighbouring states in the sector of oil and oil products logistics observed in 2018, KN was successful in preserving stable transit cargo flows. The general decrease in these flows amounted to 5.3% in 2018, and KN still occupies the leading position among all other oil product terminals of the Baltic Sea rim, except for the Russian port of Ust-Luga. In 2018, we further enhanced the competitiveness of KN Klaipėda oil terminal: we invested into the infrastructure, continued with the 2nd investment stage, during which 10 new facilities will be finished. The accomplishment of these projects is scheduled for 2019. After the 2nd stage of investments is accomplished, KN oil terminals will be able to reload higher amounts of oil products, and also to accept a wider range of types of oil products and their components.

The year of 2018 was also highly significant for the company's LNG activities. In the middle of the year, Klaipėda LNG terminal performed the 50th loading operation. Over the four-years operation, the Klaipėda terminal has established itself as one of the most efficiently operating terminals in Europe, whereas, gas cargoes from 4 different states have reached Lithuania thus ensuring Lithuania's energy independence as well as competitive and transparent global gas prices for consumers. The year ended with the decision of the state regarding the assurance of the long-term LNG import to the state after 2024, which is a new stage in the national energy history, and we believe, it will offer new possibilities for the regional leadership of our country. The year 2019 will be devoted to active preparation for the implementation of the state decisions delegated to KN, i.e. assurance of a sustainable financial model and the funds for the implementation of this decision, and the harmonisation of the financial model with the European Commission.

The LNG logistics chain of the Baltic Sea Region, the development of which was launched at the outset of 2019, has also been strengthened by the world's largest LNG feedering and bunker vessel "Kairos". The vessel used for LNG reloading operations from Klaipėda LNG terminal to the LNG distribution station situated next to the gates of the Port of Klaipėda has already performed two small-scale reload operations this January. The terminal of Klaipėda, the LNG distribution station and the bunker vessel strengthen KN as the provider of services along the value chain. In 2019, we will also pay a great deal of attention to the clarification of the regulated activities, assurance of solutions of long-term LNG import and development of LNG-related activities. With regard to the expanding opportunities, we also initiated organisational changes in 2018. We separated the development of international activities and efficient operation of Klaipėda LNG terminal into two separate services thus focusing on more efficient development of each field of operation. KN aspires to become the major global operator of LNG import terminals. To this end, we are developing a new 10 years' operational strategy, which must be drafted and presented to the shareholders and the public in 2019.

In 2018, we also paid a great deal of attention to the highlights of a responsible and communal business. In 2018, KN drafted the Plan of Environmental Measures. The plan provides for measures and obligations to further implement sustainable activities and assure the highest environmental standards. KN investments into the environmental field are expected to reach EUR 8 million by the end of 2021.

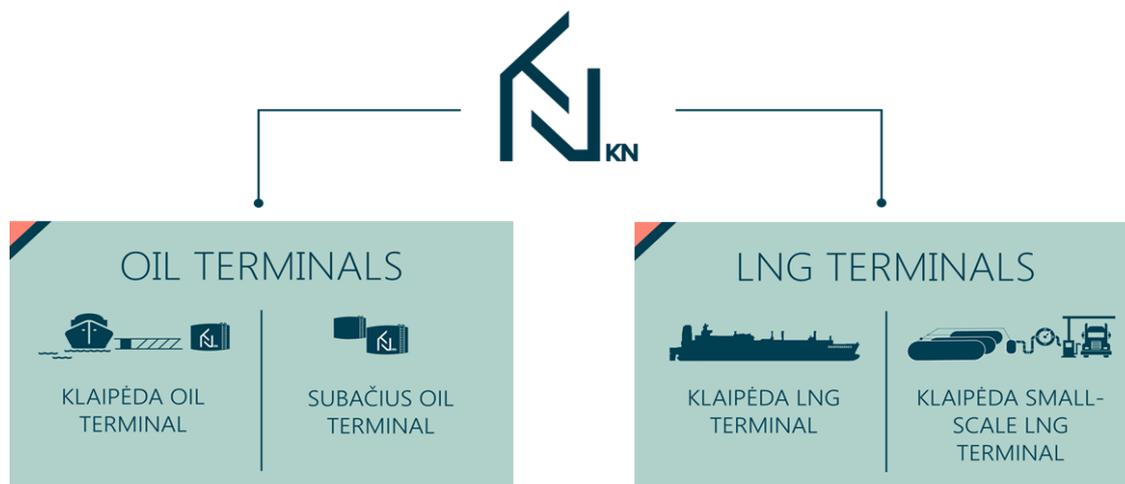
Seeking long-term goals of the organisation, last year the company paid a great deal of attention to the enhancement of the organisational culture: it further introduced updated virtues, on the basis of which the new Code of Conduct of KN was approved. The consistent changes in the organisational culture of KN also include the currently implemented changes in the system of motivation, which were approved last year and which provide for payment of part of rewards to employees via the shares of the company. With this decision the company seeks to enhance the employees' motivation for achievement of long-term goals of the company, enhance the employee involvement and promote the responsibility for common operational results. 2019 will be the year of implementation of intensive activities and ambitious plans. We believe that our focus on innovations as well as our boldness and inventiveness in our aspiration to be the first to apply innovative technological solutions will contribute to the growth of our competitiveness not only in Lithuania but also at the international level.

Mindaugas Jusius
Chief Executive Officer

INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES

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

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



Information about investment into other companies:

The Company has invested into the following companies as of 31 December 2018:

Name of the Company	Address	Ownership part, per cent	Activities
UAB SGD logistika	Burių Street 19, 91003 Klaipėda	100	Planned LNG transportation activities.
UAB BALTPPOOL	9 A. Juozapavičiaus str., LT-09311, Vilnius	33	Development of activity of energy resources (bio-fuel, gas) exchange, administration of Public Interest Services (PIS) funds.
Sarmatia Sp. z o.o.	ul. Nowogrodzka 68, Prima court, 02-014 Warsaw, Poland	1	Analysis and engineering of possibilities to construct oil pipeline between Asian states and the Baltic sea.
UAB SGD terminalas	Burių Street 19, 91003 Klaipėda	100	Operation (management) and development of the infrastructure of the liquefied natural gas terminal in Klaipėda.

Klaipėda oil terminal

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



The Company'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.

Klaipėda oil terminal's characteristics

Location	Territory of Klaipėdos nafta oil terminal
Oil product tanks	Total 35 tanks (additional 10 tanks after finishing the second stage of investment during the year 2019)
Volume of the tanks	Almost 461 cub. m thousand total volume (additional 120 thousand m ³ after finishing the second stage of investment during the year 2019)
The capacity of the oil terminal	Up to 800 thousand t / month
Jetties	2
Jetties' length	274 m each
Harbour entrance depth:	14.5 m
Tanker batch	Up to 100.000 t with 12.5 m depth
Railway	Two double-track tank wagon loading racks: <ul style="list-style-type: none"> ▪ Two tracks for petroleum products that do not require maintaining of specific temperature conditions (up to 2 x 30 tank wagons are services simultaneously); ▪ Two tracks for oil products that require maintaining of specific temperature conditions (up to 2 x 32 tank wagons are services simultaneously); ▪ One of the tracks is adapted to oil products of all types; ▪ 124 tank wagons can be loaded at the same time.
Road tanker loading	4 loading points at the same time
Modern laboratory	Able to detect the main quality parameters of oil products
Biological Waste Water Treatment Facilities waste water collected and treated annually	Up to 400 cub. m, thousand (160 m ³ /h)
Own boiler station of three boilers comprising total capacity	100 MWh

The processes of oil products transshipment service in the Company's oil terminal mainly include the following operations: i) reloading of oil products from rail tank-cars, ii) temporary storage of oil products in the terminal's tankers and iii) loading oil products into tank vessels.

The Company is also 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 for the exportation of imported LFO products.

Klaipėda oil terminal provides the following services:

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

SUBAČIUS OIL TERMINAL

After the approval of the share emission agreement with the Republic of Lithuania on 11 June 2012, the Company started to manage Subačius oil terminal (SNT).

After the takeover of Subačius oil terminal infrastructure the Company's activity and services have been diversified and expanded including services of long term oil product storage.



Subačius oil terminal's characteristics

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

Subačius oil terminal provides the following services:

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

The results of activities of Subačius oil terminal for 2018 are present in the Explanatory note "Information of segments" of the Company's financial statements for 2018.

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

LIQUEFIED NATURAL GAS TERMINAL

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

November 2014 upon the obtainment of natural gas liquefaction license issued by the National Commission for Energy Control and Prices.

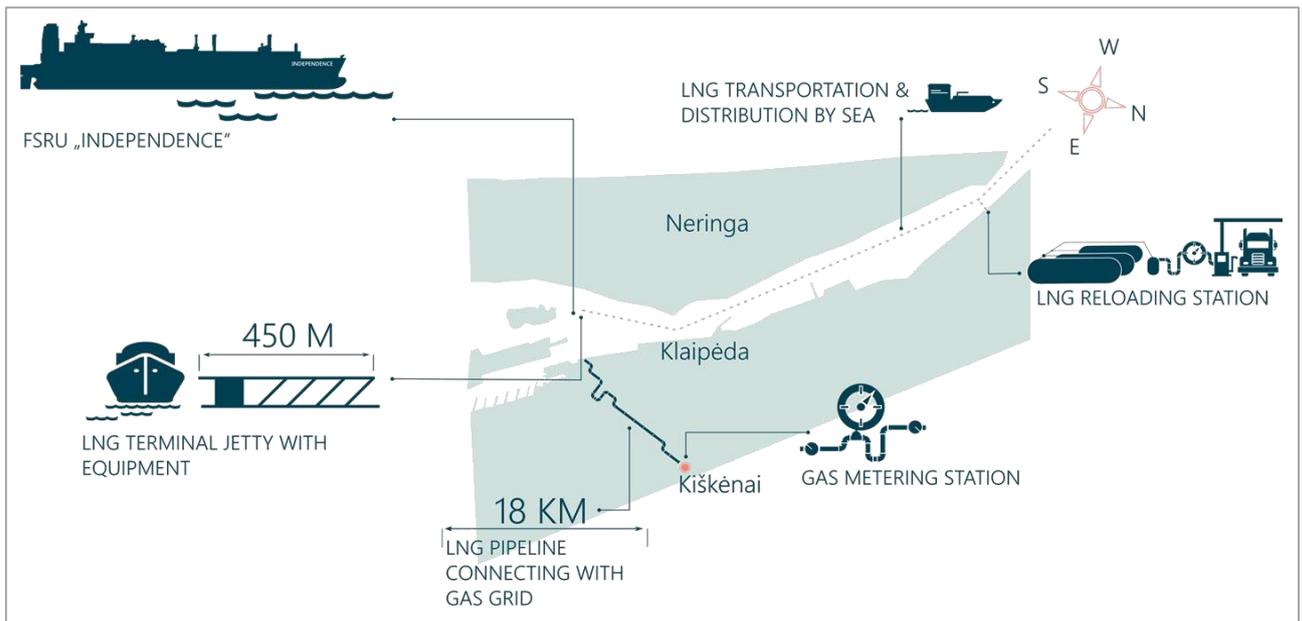
The LNG terminal supplements and expands the existing natural gas supply infrastructure, provides additional opportunities for supply diversification, eliminates the dependence on the single external supplier of natural gas, ensures safe natural gas supply, and complies with the requirements of the directive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

Infrastructure of the Liquefied Natural Gas Terminal

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

Klaipėda. The LNG terminal is connected to the transmission system operator's – AB Amber Grid – gas grid via 18 km long linking pipeline. The main function of the LNG terminal is to accept and store liquefied natural gas, re-gasify them and supply to the main gas system.

LNG terminal infrastructure



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 following the schedules of the clients are pumped through special equipment in order to have it regasified and supplied to the national gas grid.

In 2012 the Company signed the 10 years FSRU lease agreement with a purchase option with the Norwegian company Höegh LNG. The FSRU was 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)
Location	southern part of Klaipėda 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. Special facilities are installed on the jetty: a high pressure platform, a service platform, berthing and mooring platforms, catwalks, firefighting towers, a control room, fire warning equipment, technical maintenance cranes, high pressure loading arms and other necessary equipment and systems.



Connecting Gas Pipeline of the LNG Terminal

The terminal is connected to the natural gas transmission system operator's AB Amber Grid gas transmission network via 18 km length 700 mm diameter connecting

pipeline. Connection to the transmission network is equipped with the Gas Metering Station.

The LNG Terminal services

The Terminal shall provide i) LNG regasification, ii) 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 acceptance – 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 (re-export) – 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:

- Fixed part of LNG regasification service price is approved by the resolution of the National Control Commission for Prices and Energy (hereinafter - NCC) every year. This part of the price is included into the additional Security Supplement added to the gas transmission price;
- Variable part of LNG regasification service price is paid for the regasified volume by the clients and is approved by the NCC on an annual basis;
- LNG reloading service price set by the NCC on 20 November 2014 by the resolution No O3-896 and is fixed for 5 years.

Terminal service	Price set
LNG regasification service* variable price (applicable for 2016-2018)	0.10 Eur/MWh excluding VAT
LNG regasification service* variable price in 2019	0.13 Eur/MWh excluding VAT
LNG reloading service price (set for year 2015-2019)	1.14 Eur/MWh excluding VAT

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

The LNG terminal fully ensures the third party access requirements in accordance with EU laws. The terminal's activities are organized in observance with the Rules for Use of the Liquefied Natural Gas Terminal (hereinafter - Terminal rules), adopted after public consultations with

market parties and agreed with the NCC. The terminal's capacities are provided to the potential users on the same conditions in the way of public and transparent annual capacity allocation procedure or during the on-going period if there are any free capacities left.

KLAIPĖDA SMALL-SCALE LNG TERMINAL

The Company has marked the symbolic opening of the LNG Reloading Station in autumn 2017. Since start of operations 246 LNG semitrailers were loaded, which transported cargo across Baltic States and Poland.

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

The facility is designed to accept cargo from the small-scale LNG carriers, temporary store LNG, load LNG to LNG

semitrailers and to bunker LNG fuelled ships. It consists of five 1.000 m³ tanks.

LNG Reloading Station allows the third party access.

During 2018 five cargos were delivered by small scale LNG carriers. The entire cargo was reloaded into the LNG semitrailers and distributed to clients across Estonia, Latvia, Lithuania and Poland. The other part of LNG cargo was consumed by the company internally.

It is a commercial project implemented by the company, financed by the company and co-funded by EU within HEKLA and Blue Baltics project following CEF-Transport program.



Characteristics of the LNG Reloading Station

Commercial concept	Open access LNG terminal: LNG storage, truck loading, ship bunkering
Location	North of Klaipėda sea port, territory of Klaipėdos nafta oil terminal
Technology	Five bullet type storage tanks situated on the shore
Volume of the tanks	5 x 1,000 m ³
Annual technological capacity	250,000 m ³ a year
LNG receiving rate (from ship)	Up to 1,250 m ³ /hour
Daily truck loading capacity	24 trucks
Truck loading	2 truck loading bays (simultaneous load possible)
LNG truck loading rate	60 – 100 m ³ /hour
Bunkering rate	250 – 500 m ³ /hour
Boil of gas management	Gas pipeline connection with the Company's boiler house
Jetty	Length: 250 meters

Planned activities:

- Reloading of LNG from LNG carriers and temporary storage;
- Loading of LNG semitrailers;
- LNG bunkering directly to vessels.

Liquefied natural gas is the cleanest fossil fuel. LNG is an odourless, colourless, non-explosive, non-toxic and non-corrosive substance. The LNG reloaded to LNG semitrailers at Klaipėda LNG reloading station is the same as the gas used at home or for industry purposes, however, it will be in a liquid state: cooled to -161 degrees and taking up to 600 times less space than in the gaseous state.

Energy

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

Maritime

By implementing global clean fuel directives maritime sector shifts towards usage of cleaner and more efficient fuels. Namely LNG is a perfect substitution fuel to all pollution causing petroleum products. With the growing fleet of LNG powered vessel a demand for clean fuels is rising rapidly around the world.

Transport

Other transport sectors, maritime alike, are in search for alternatives. A number of countries, such as the Netherlands, have already developed LNG filling-station networks. LNG as fuel is most suitable for heavy duty vehicles.

THE COMPANY'S STRATEGY

In 2016 the Board of AB Klaipėdos nafta approved the corporate strategy for period 2016 - 2020 (hereinafter - the Strategy). The strategy analyses the Company environmental factors, establishes common strategic goals for the entire Company and for each individual activity, evaluates the historical financial information of the Company and establishes the strategic period's indicators that have to be reached. The Strategy foresees that the Company will seek to become one of the most efficient companies in Europe, will strive for change, activity diversification, new projects and services, which will form the basis for the Company's sustainable growth. The Company's achievements are expected to be visible and evaluated at the level of the State of Lithuania. The successful implementation of the LNG terminal project and the acquired experience provided the

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

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

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

General strategic objectives				
Increasing value of the company	Secure, reliable and efficient operation of oil and LNG terminals	Growth and diversification of activities	Improvement of internal processes	Development of competence
Strategic objectives for major activities				
Oil terminal	LNG terminal	LNG small scale activities	Long term fuel storage facilities	
<ul style="list-style-type: none"> Increase awareness and attractiveness to the owners of oil products Improve flexibility and capacity of oil transshipment 	<ul style="list-style-type: none"> Provide an alternative source for the supply of natural gas to Lithuania 	<ul style="list-style-type: none"> Create small scale LNG infrastructure 	<ul style="list-style-type: none"> Proper storage of national reserve of oil products 	
<ul style="list-style-type: none"> Enlarge the scope of activities and services provided 				
<ul style="list-style-type: none"> Ensure safe operations of the oil terminal 	<ul style="list-style-type: none"> Develop services related to the activities of LNG terminal 	<ul style="list-style-type: none"> Develop regional LNG market 	<ul style="list-style-type: none"> Increase long term storage capacity and volume of the activity 	

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 was paid by the gas consumers.

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

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

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

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

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

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

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

27th April 2018. An ordinary general meeting of shareholders of the Company have convened and:

- Approved the audited Financial Statements and Annual report of AB Klaipėdos nafta for the year 2017.
- Distributed the Company's profit for 2017, allocation of profit to dividends amounted EUR 17,031 thousand or EUR 0.0447 per share.
- Elected members of the Supervisory Board and determined fixed monthly remuneration for independent Supervisory board members and approved standard contract form, regarding the activity of independent Supervisory board member.

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

25th May 2018. The 50th LNG reloading operation was taken at the LNG terminal operated by the Company.

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

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

8th June 2018. AB Klaipėdos nafta has signed agreements with two LNG terminal users. UAB LITGAS and UAB Lietuvos dujų tiekimas have booked capacities from 1st October 2018 until 30th September 2018.

23th July 2018. An extraordinary general meeting of shareholders of the company adopted these decisions:

- To amend the Articles of Association of AB Klaipėdos nafta, presenting them as a new wording;
- To approve the amended Guidelines on determination the remuneration for the activity in AB Klaipėdos nafta collegial bodies.

21st August 2018. Andrius Varanavičius and Laura Garbenčiūtė-Bakienė are elected as independent Company's Audit Committee members by the decision of Supervisory Council of AB Klaipėdos nafta, until the end of term of office as a Company's acting Supervisory Council.

3rd September 2018. The amended of Articles of Association the Company had been registered in the Register of Legal Entities of the Republic of Lithuania. The Articles of Association had been amended taking into account the amendments of Law on Stock Companies of Republic of Lithuania.

8th November 2018. An extraordinary general meeting of shareholders of the company adopted these decisions:

- Approved AB Klaipėdos nafta rules for granting shares;
- Formed a reserve of AB Klaipėdos nafta for the acquisition of own shares, which shall be formed from an undistributed profit and not exceed AB Klaipėdos nafta capitalization of 1,5%;
- Increased authorized capital of the Company by additional contributions from EUR 110,376 thousand to EUR 110,515 thousands by issuing 478,642 units registered ordinary shares each with nominal value of 0.29 EUR.

3rd December 2018. Žana Kraučėnienė was elected as a member of the Audit Committee of the Company. She will be joining current members Andrius Varanavičius and Laura Garbenčiūtė-Bakienė.

27th December 2018. AB Klaipėdos nafta set up the subsidiary UAB SGD terminalas.

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

2nd January 2019. Mr. Ian Jonathan Bradshaw was elected by the decision of Supervisory Council as the independent Board Member of the Company until the end of the acting Board's tenure (27th of April, 2022).

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

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

acquisition: the provision of shares to the Company's employees.

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

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

BUSINESS ENVIRONMENT AND MARKET

Oil terminal business environment and market

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

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

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

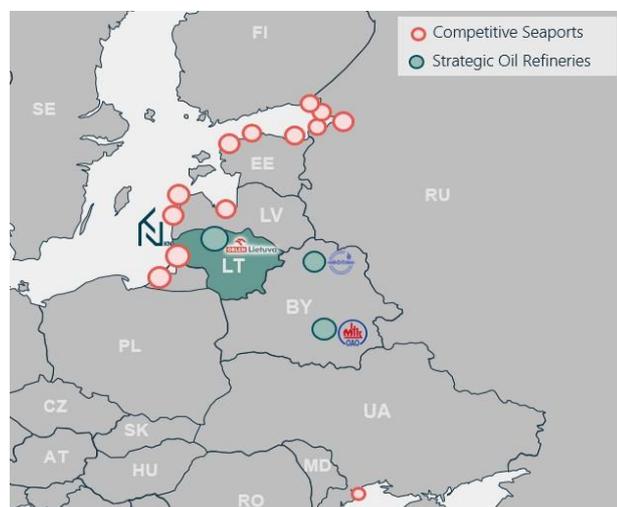
Major Company's competitors are oil terminals operating in the eastern coast of the Baltic Sea and Odesa port in Ukraine.

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

In the recent years oil products transshipment market is noticing Russian's willingness to reroute not only Russian, but also Belarussian origin oil products towards Russian ports.

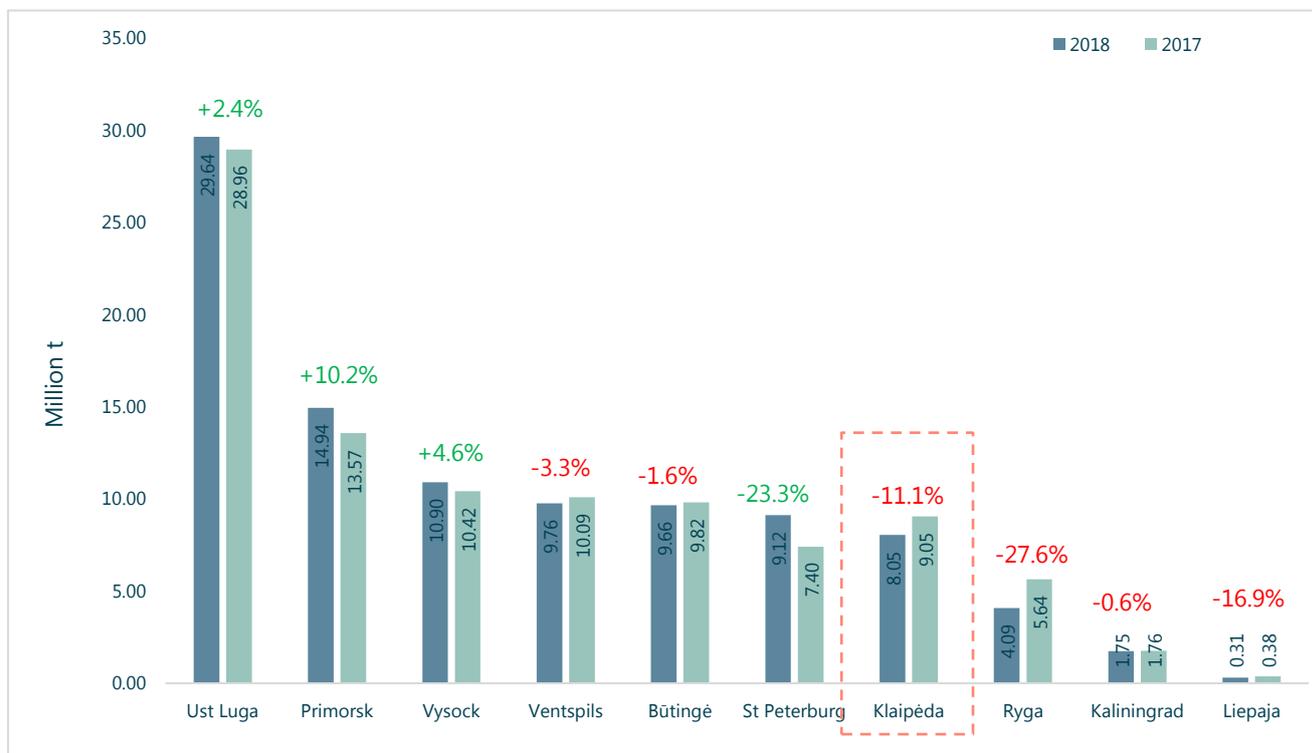
Oil products, refined in Russia oil refineries are attempted to be exported firstly via Russia's own seaports located on Finland Coast (St. Petersburg, Primorsk, Ust-Luga). Inter alia, it should be noted that Russia's aim to transship Russian origin oil products

mainly through its own sea ports has been highlighted recently. Due to this fact Estonian, and especially Latvian ports are noticeably losing Russian oil products thus potentially making them a significant competitor to Company's oil Terminal.



According to statistical data, oil terminals in the eastern coast of the Baltic Sea region (except Estonian ports) handled total 98.2 million t of oil products in 2018 that is by 1.2 per cent more comparing to 2017 when region handled 97.1 million t of oil products.

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



Prepared on the basis of Klaipėda Port Authority statistical data

Transshipment of oil products

In 2018 Company's oil terminals in total handled 6,694 thousand t of oil products. Klaipėda oil terminal handled 6,588 thousand t of oil, meanwhile Subačius oil terminal transshipment amounted to 106 thousand t. Comparing with 2017 (7,177 thousand t) petroleum products into its storage tanks was less by 6.7 per cent. The overall decrease in loading volumes for the twelve months mainly was affected by the lower quantities of light oil products from ORLEN Lietuva refinery.

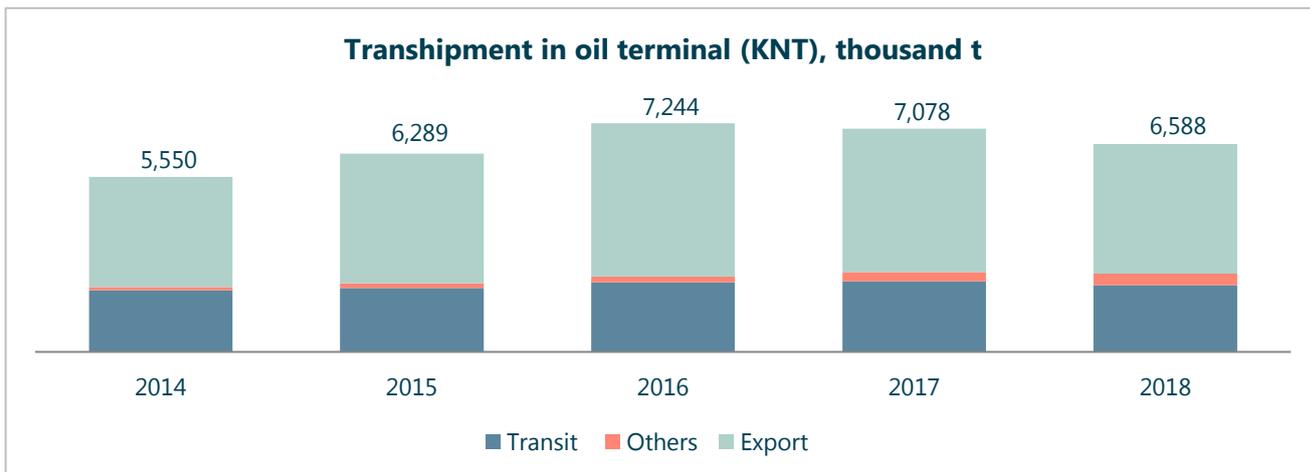
Total transit freights in 2018 year declined by 5.3 per cent: LFO declined by 4 times, while HFO transit even increased by 5.3 per cent.

Major Company's customer of transit transshipment in 2018 was BNK (UK) Limited, owned by one of the largest Belarusian oil product exporters – ZAT Belaruskaja Neftenaja Kampanija (BNK). In order to ensure constant and interrupted oil products transit volumes at terminal,

Company has concluded a long-term contract with BNK (UK) Limited on the provision of oil product transshipment services. The terms of the Contract are valid until the end of 2019 with the possibility of extension.

In 2018 AB "ORLEN Lietuva" transshipped less by 9,7 per cent oil products via Company's oil terminal comparing to 2017. KN has a long-term contract with ORLEN Lietuva AB on provision oil product handling services till the end of 2024.

In 2018 the Company successfully maintained cooperation with widely known wholesalers in Lithuania importing oil products (gasoline and diesel), which led to almost by 3 times increase in import volumes through Company's road tanker loading unit within the last 4 years.



In 2018 there were 105.6 thousand t of oil products handled in Company's Subačius oil terminal, more by 6.8 per cent (in 2017 – 98.9 thousand t).

KN in order to expand oil terminals scope of activities and diversify transshipment portfolio are continuously

cooperating and developing business relationships with international and regional oil products trading companies on provision oil products handling services via Company's oil Terminals.

LNG terminal activity environment review

LNG Terminal operation is regulated, thus the regulatory environment of its operation defines yield and profitability as well as the guidelines and scope of operation.

The order of the Minister of Transport and Communications of the Republic of Lithuania of 28 August 2018 Amending Order No. 3-246 of the Minister of Transport and Communications of the Republic of Lithuania of 30 June 2008 "On approval of the Rules for Imposing the Charges of Klaipėda State Seaport" specifies the rules of port charges for liquefied natural gas tankers of less than 25,000 gross tonnage.

Among the amendments to the legal acts, which are significant for the regulation of operation of the LNG Terminal, we should note the Law Amending Articles 2, 5, 7, 9, 20, 21, 25, 31, 37-1, 38, 39, 45, 46, 47 and Annex of the Republic of Lithuania Law on Natural Gas No. VIII-1973 and Supplementing the Law with Section Seven-1 which provides a legal basis for further formation of the regional market zone. It should be noted that the Law does not create a regional market, yet it creates preconditions for its formation, i.e. provides a legal basis for the creation of uniform rules of gas market operation, including the common pricing principles of gas transportation services that ensure a transparent, competitive and clear procedure for gas system users aiming at using the Baltic transmission systems.

The following relevant amendments to the Law on Liquefied Natural Gas Terminal have also been adopted:

The Law Amending Articles 5 and 9 of the Republic of Lithuania Law on Liquefied Natural Gas Terminal No. XI-2053 provides a legal basis for ensuring long-term LNG import to Lithuania, i.e. a basis for the Government and the operator of the LNG Terminal to make decisions with regard to acquisition of ownership in the LNG vessel until 31 December 2024 by choosing the most economically advantageous tender. It also creates a basis for the reduction of the fixed costs of operation of the LNG Terminal infrastructure by creating the conditions for cutting down the additional price component to natural gas users before the acquisition of the LNG vessel, during the period of operation of the LNG Terminal, and envisages state aid measures to achieve this goal.

Furthermore, the Law Amending Article 11 of the Republic of Lithuania Law on Liquefied Natural Gas Terminal No. XI-2053 (effective as of 01.01.2019) changes the model of realization of the LNG Terminal required quantity by providing for the realization of this quantity under market conditions and removing an obligation for regulated energy producers to acquire the share of this quantity from the designated supplier on the priority basis. The Law also establishes a duty for regulated energy producers, who use 50 GWh or more gas per year, to acquire 50 per cent of the required annual gas quantity on the exchange, and also establishes new principles of recognition of reasonableness of costs of realization of the LNG Terminal required quantity by the designated supplier and the costs of regulated energy producers incurred when acquiring gas on the exchange and through bilateral contracts.

Allocated LNG terminal capacities in 2018:

Allocated capacities	Terminal user	Amount of allocated capacities, kWh*	Period
LNG Regasification capacities**	UAB Lietuvos dujų tiekimas	917,000,000	From 1 October 2018 till 30 September 2019***
	UAB LITGAS	3,401,105,521	From 1 October 2018 till 30 September 2019***
	AB Achema	1,000,000,000	From 19 October 2018 till 30 November 2018

NOTES:

*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 capacities may be changed to LNG Reloading capacities during the Gas year.

*** From 1st January of 2019 UAB LITGAS after the reorganization procedure was merged with UAB Lietuvos Energijos Tiekimas (former name UAB Lietuvos Dujų Tiekimas), which took over all LITGAS UAB rights and obligations.

During 2018 in the LNG terminal:

- 10 LNG carriers (2017 – 15 LNG carriers) have been accepted;
- delivered 608.2 thousand tons of LNG (2017 – 839.8 thousand tons);
- regasified and into gas transmission system supplied 745 billion m³ of natural gas (2017 - 1.053 billion m³ of natural gas) ;
- approx 47.2 thousand m³ of LNG were reloaded to small-scale LNG carriers (total 9 LNG carriers) (2017 – 6 LNG carriers, 42.5 thousand m³ of LNG).

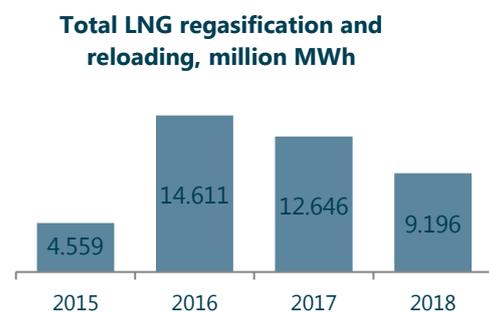
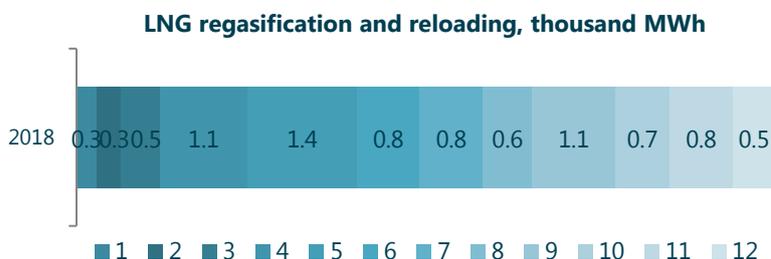
LNG terminal revenues in 2018 comprise EUR 64,371 thousand (in 2017 – EUR 68,201 thousand).

In 2018 there were 3 LNG terminal users – designated natural gas supplier UAB “LITGAS”, AB “Achema” and UAB “Lietuvos dujų tiekimas”.

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

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

LNG regasification in 2015-2018 volumes stated below in the charts:



Baltic States natural gas market

In case of need, the LNG terminal is able to supply natural gas to all three Baltic States. The total need for natural gas in Lithuania amounts to approximately 2.1-2.3 billion m³ per year. In 2017 Lithuania consumed approximately 2.306 billion m³ or 4.6 per cent more than in 2016 (2.204 billion m³) of gas. During the first ten months of 2018 in Lithuania consumed 1.833 billion m³ of gas. This ratio stayed almost in the same level as in 2017 (only 0.2 per cent less in 2018).

Latvia's and Estonia's gas markets are significantly small and in 2017 they respectively consumed 1.3 and 0.493 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 Baltic States.

After laying planned gas link between Lithuania and Poland (hereinafter – GIPL), there would be a possibility to supply LNG to Poland's market. The Polish market demonstrates clear potentials for

considerably bigger gas consumption; however, it has to be admitted that the degree of competition between Poland and other states-gas suppliers is also more intense. The date of finalization of the GIPL project in Republic of Lithuania territory is planned at the end of 2021. In 2017 Poland consumed approximately 20.381 billion m³ of gas. Comparing with previous years noticeable trend of consumption growth. In 2017 Poland most gas imported through it LNG terminal – Svinjouscie.

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 2020. The Company LNG terminal will get the possibility to expand the gas supply market to Finland, where the consumption reaches approximately 2.7 billion m³ per year.

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:

- Gas link between Lithuania and Poland (GIPL);

- Increasing the capacities of the gas supply link between Lithuania and Latvia;
- Increasing the capacities of the gas supply link between Latvia and Estonia;
- The Baltic Connector gas supply link between Finland and Estonia;
- Enlargement and modernization of Inčukalnis Underground Gas Storage Facility.

FINANCIAL RESULTS OF ACTIVITY

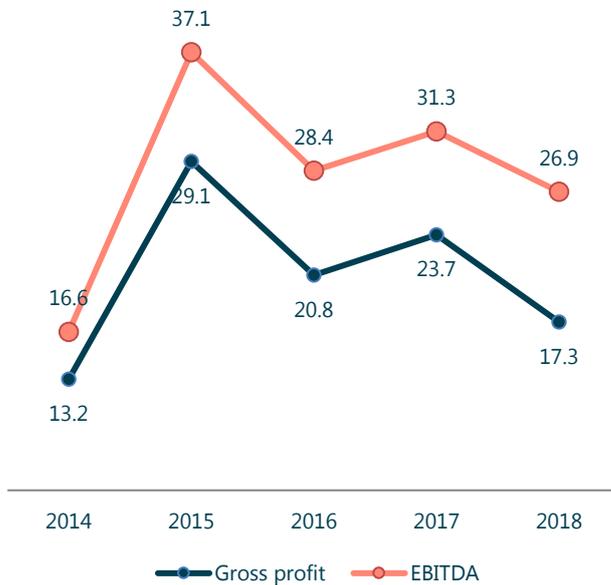
Sales revenue, M EUR



Assets, M EUR



Gross profit and EBITDA, M EUR



EBIT and Net profit, M EUR



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

EBIT = earnings before interest and taxation;

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

	2018	2017	2016	2015	2014
Transshipment of oil products (thousand t)	6,694	7,177	7,338	6,461	5,587
LNG regasification, thousand MWh	9,196	12,646	14,611	4,559	494
Investments (acquisitions of non-current assets):	13,156	32,858	16,874	6,809	40,130
<i>Klaipėda oil terminal</i>	12,118	13,089	7,284	809	1,183
<i>LNG terminal</i>	201	335	-19*	5,429	38,572
<i>LNG reloading station</i>	773	19,230	9,308	429	-
<i>Subačius oil terminal</i>	65	204	301	142	375
Financial figures					
Sales revenue	99,998	106,484	103,839	109,702	39,775
Gross profit	17,316	23,745	20,797	29,123	13,150
EBITDA ¹⁾	26,949	31,339	28,446	37,136	16,628
EBIT ²⁾	12,065	17,711	15,270	24,362	9,091
Financial and investment activities result	-8	-94	211	-482	-285
Profit before taxation (EBT)	11,857	17,513	15,095	24,104	9,069
Net profit	11,577	17,031	13,794	22,036	9,257
Current assets	90,102	96,268	55,536	58,713	32,687
Non-current assets	203,025	204,977	186,895	180,074	189,231
Total assets	293,127	301,245	242,431	238,787	221,918
Shareholders' equity	195,490	200,344	192,969	196,804	174,715
Profitability					
Return on assets (ROA) ⁴⁾	3.9%	6.3%	5.7%	9.6%	4.4%
Return on equity (ROE) ³⁾	5.8%	8.7%	7.1%	11.9%	5.4%
Gross profit margin	17.3%	22.3%	20.0%	26.5%	33.1%
EBITDA margin	26.9%	29.4%	27.4%	33.9%	41.8%
EBIT margin	12.1%	16.6%	14.7%	22.2%	22.9%
EBT margin	11.9%	16.4%	14.5%	22.0%	22.8%
Net profit margin	11.6%	16.0%	13.3%	20.1%	23.3%
Turnover					
Accounts receivable, days	45	41	37	92	17
Accounts payable, days	38	44	36	30	75
Financial structure					
Debt ratio ⁵⁾	0.50	0.50	0.26	0.21	0.27
Capital to assets ratio	0.67	0.67	0.80	0.82	0.79
Gross liquidity ratio (current ratio) ⁶⁾	4.75	4.78	3.61	5.56	2.05
Quick ratio ⁷⁾	4.65	4.73	3.52	5.40	1.95
Market value ratios					
Price-Earnings Ratio (P/E) ⁸⁾	13.4	11.2	14.8	6.4	12.8
Earnings per share (EPS)	0.030	0.045	0.036	0.058	0.024

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

¹⁾ EBITDA = earnings before interest, taxation, depreciation and amortization;

²⁾ EBIT = earnings before interest and taxation;

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

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

⁵⁾ Debt ratio = total current and non-current liabilities at the end of the period / total equity at the end of the period;

⁶⁾ Gross liquidity ratio = total current assets at the end of the period / total current liabilities at the end of the period.

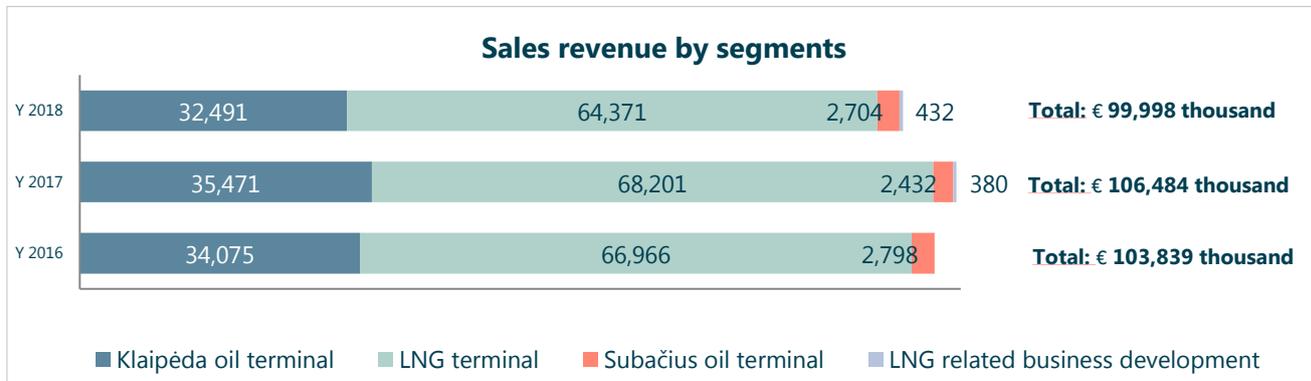
⁷⁾ Quick ratio = (total current assets at the end of the period - Inventories at the end of the period) / total current liabilities at the end of the period.

⁸⁾ P/E = The indicator describing the company's share price and earnings per share ratio.

Revenues

The **sales revenues** of the Company of 2018 comprise EUR 99,998 thousand and comparing with 2017 (EUR 106,484 thousand) has decreased by EUR 6,486 thousand

(i.e. 6.1 per cent). The decrease is related with the negative changes in revenues of the LNG and oil terminals.



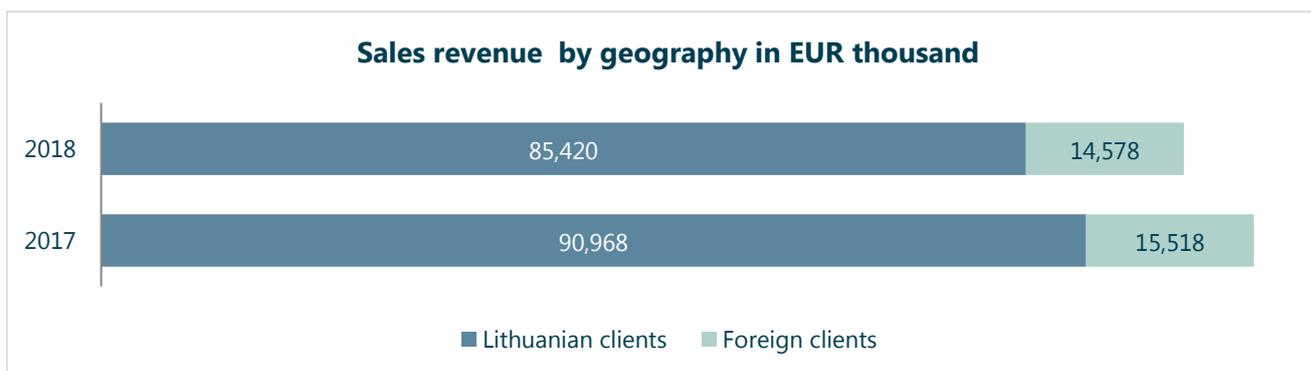
The total **revenues of the LNG terminal** activity in 2018 amounted to EUR 64,371 thousand, and compared to 2017, decreased by EUR 3,830 thousand or by 5.6 per cent. The activity of LNG terminal is regulated and with a price cap, therefore revenue and profit of LNG activity does not depend on re-gasification volume. For more information, concerning regulated revenues refer to the article below.

Sales revenues from Klaipėda Oil terminal operations of 2018 amounted EUR 32,491 thousand and comparing to 2017 decreased by EUR 2,980 thousand or by 8.4 per cent. Revenues have decreased mainly due to decrease in

transshipment of oil products. Decrease in quantities of oil products was mainly influenced by risky geopolitical situation in neighbouring countries.

Subačius oil terminal sales revenues of 2018 increased by 11.2 per cent (or by EUR 272 thousand) due to increase in the commercial long-term storage volumes.

Sales revenue by geography is provided herein. Sales revenue from foreign clients – are revenues from the clients registered not in Lithuania.



Expenses

Total **cost of sales** of the Company of 2018 comprises EUR 82,682 thousand, comparing to 2017 (EUR 82,739 thousand) it has decreased by 0.1 per cent or by EUR 57 thousand. This decrease is mainly explained by the reduced decrease in overall Company's activities.

The Company's **operating expenses** decreased by 7.9 per cent or by EUR 489 thousand and comprised EUR 5,727 for 2018. The increase is related with expansion of new activities and development of projects.

The listing of the major expenses is presented below:

In EUR thousand	2018 m.					2017 m.					Change, %
	KNT	SGD	SNT	GDP	Total	KNT	SGD	SNT	GDP	Total	
FSRU rent and other expenses	-	48,079	-	-	48,079	-	49,547	-	-	49,547	-3.0
Depreciation and amortization	7,630	5,642	892	845	15,009	7,112	5,748	902	29	13,791	8.8
Wages, salaries and social security	6,573	2,488	795	1,519	11,375	6,461	2,745	801	1,264	11,271	0.9
Variable costs (natural gas, electricity, railway services)	6,993	11	45	8	7,057	7,067	14	39	-	7,120	-0.9
Rent of land and quays of the port	581	1,694	-	45	2,320	623	1,677	-	-	2,300	0.9
Other cost of sales and operating expenses	1,855	1,891	252	571	4,569	2,501	1,551	203	672	4,927	-7.3
Total costs	23,632	59,805	1,984	2,988	88,409	23,764	61,282	1,945	1,965	88,956	-0.6

In 2018 the **total amount of LNG terminal's costs** was EUR 59,805 thousand, the major part of which were the costs of rent of the vessel Independence and the expenses, related with the FSRU vessel's operation totally EUR 48,079 thousand. Other LNG terminal's costs (staff remuneration, depreciation, jetty lease costs) in comprised EUR 11,726 thousand and has decreased by 0.1 per cent or by EUR 9 thousand comparing to 2017.

In 2018 the total amount of **Klaipėda oil terminal's costs** amounted to EUR 23.632 thousand (2017 – EUR 23,764 thousand) and increased by EUR 132 thousand. The oil terminal's variable costs (gas, electricity and railroad costs) decreased by 1.0 per cent or EUR 74 thousand. The costs decrease is related with lower transshipment.

Oil terminal depreciation and amortization costs are grown by EUR 518 thousand. Increase in depreciation is

affected of the investments made for oil terminal flexibility. Staff costs increased by EUR 112 thousand or by 1.7 per cent comparing with 2017.

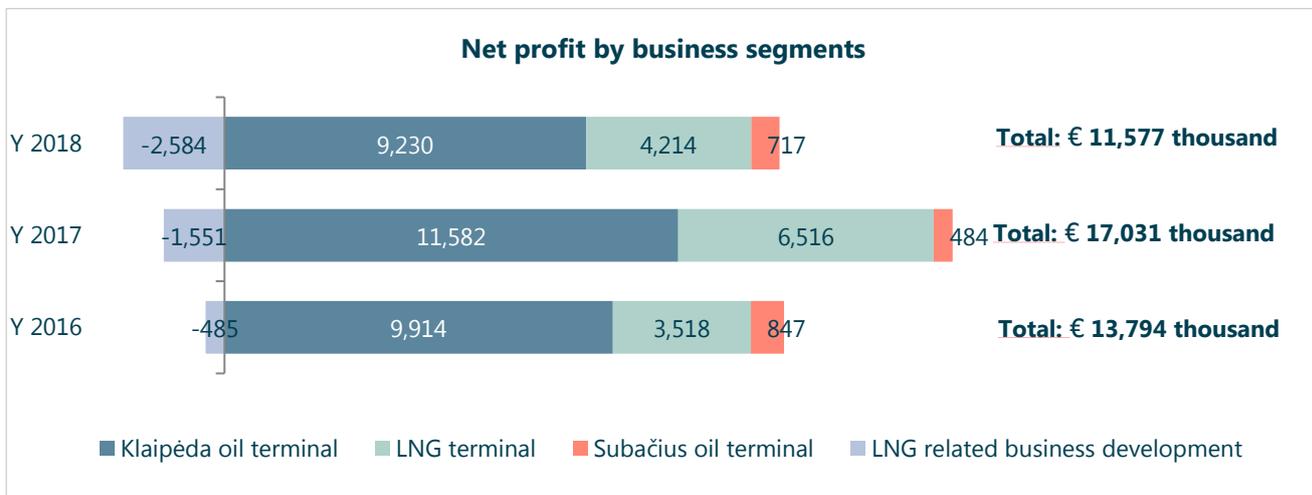
In 2018 the total amount of costs for **Subačius oil terminal** grew by 2.0 per cent or by EUR 39 thousand. The increase is related to the increase of other staff costs and decreased impairment impact.

Employees related costs increased by 0.9 per cent that was affected by both: increase in average salaries and increase in number of employees. Average salary per employee increased by 0.7 per cent and reflected changes in the labour market. The increase in employees is mainly explained by the expansion of Company's activities, primarily related with LNG reloading station and LNG projects.

Financial results

In 2018 the Company's **net profit** was EUR 11,577 thousand. Compared to results of 2017 ((EUR 17,031 thousand), the net profit decreased by 32.0 per cent or by EUR 5,454 thousand. The net profit margin for 2018 amounted to 11.6 per cent, the gross profit margin

reached 17.3 per cent (in 2017 respectively 16.0 per cent and 22.3 per cent). The profit per one share amounted to EUR 0.030/share (EUR 0.045/share in 2017).



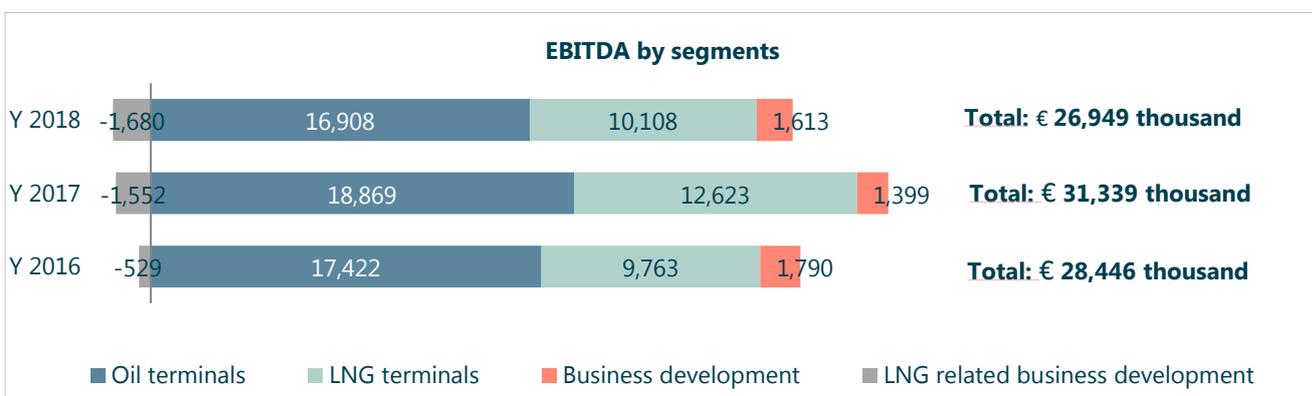
Changes in Company's net profit are mainly effected by the revenue changes described above:

- Oil terminal net profit has decreased by EUR 2,352 thousand up to EUR 9,230 thousand; decrease related with revenues decrease in oil product realisation and storage services (see above);
- LNG terminal net profit decreased to EUR 4,214 thousand in total both due to lower revenues;
- LNG related activity results are negative – loss of EUR 2,584 thousand.
- Subačius oil terminal net profit has increased by EUR 233 thousand and in 2018 reached the amount of EUR 717 thousand. Positive change in

the results was mainly influenced by higher income from commercial oil storage services.

In 2018 the financial activity loss is EUR 52 thousand (in 2017 - EUR 146 thousand loss) Income from financial activities in 2018 mainly comprise from: EUR 174 thousand fines and delays income, EUR 56 thousand interest on bank accounts. Costs mainly comprise from EUR 208 thousand interest costs, EUR 58 thousand negative impact from exchange rate,, EUR 17 thousand fines (costs).

In 2018 **EBITDA** comprised EUR 26,949 thousand compared to 2017 (EUR 31,339 thousand) it decreased by 14,0 per cent or by EUR 4,390 thousand. EBITDA margin was 26.9 per cent, for 2017 – 29.4 per cent.



In 2018 the Company's annual return on equity (ROE) amounted to 5.8 per cent (8.7 per cent in 2017), the return on assets (ROA) – 3.9 per cent (6.3 per cent in 2017).

Regulated profit of LNG terminal

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

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

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

- Fixed part of LNG regasification service price that is approved every year by the resolution of the National Control Commission for Prices and Energy. This part of the price is included into the additional Security Supplement added to the gas transmission price;
- Variable part of LNG regasification service price that is received for the regasified volume directly from the clients and which tariff is approved by the NCC on an annual basis;
- LNG reloading service revenue for reloaded LNG quantity.

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

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

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

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

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

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

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

In EUR thousand	2014	2015	2016	2017	2018 (unaudited by NCC)
Financial LNG terminal profit	600	6,981	3,518	6,516	4,214
Regulated profit (in terms of Methodic)	267	3,525	3,329	3,297	3,466
Difference	333	3,456	189	3,218	749
Difference (cumulative)	333	3,789	3,978	7,197	7,945

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

The decrease in regulated profit is related with the reducing amount of regulated asset base.

Balance sheet items

In 2018 the Company's non-current assets decreased by 1.0 per cent to EUR 203,024 thousand in total. The decreased of non-current assets is related with depreciation of non-current assets that at the end of the year comprise EUR 199,211 thousand (31-12-2017 – EUR 201,449 thousand). The total amount of investments and acquisition of non-current assets in 2018 comprise EUR 13,156 thousand, including EUR 12,118 thousand for Klaipėda oil terminal, LNG reloading station - EUR 773 thousand, smaller investments were made into LNG and Subačius oil terminals respectively EUR 201 thousand and EUR 65 thousand.

In 2018 the current assets decreased by EUR 6,166 thousand and at the end of the year amounted to EUR 90,102 thousand (31-12-2017 – EUR 96,268 thousand). The major part of the current assets comprises from cash and cash equivalents – EUR 73,238 thousand. The trade receivables increased by 3.8 per cent to EUR 12,452 thousand (by EUR 11,998 thousand).

After the decrease of the total current assets the liquidity ratio in 2018 decreased to 4.75 (in 2017 – 4.78), i.e. the current assets exceed the current liabilities by almost 5 times. As of 31th December 2018 the current assets comprised 30.7 per cent (31-12-2017 – 32.0 per cent) and the cash and its equivalent – 25.0 per cent of total assets.

Changes in equity in 2018 were related with the net result of the financial year, payment of dividends for the previous year (EUR 17,031 thousand). At the end of 2018 the Company's equity amounted to 66.7 per cent of the overall assets (66.5 per cent at the end of 2017). 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 2018 amounted to EUR 78,655 thousand (EUR 80,482 thousand at the end of 2017). Change is related with the decline loans in 2018: loans from Nordic Investment Bank at the end 2018 amounted EUR 21,811 thousand (31-12-2017 – EUR 21,803 thousand) and from European Investment Bank EUR - 54,312 thousand (31-12-2017 – EUR 54,548 thousand). Received grants for LNG reloading station comprise EUR 4,642 thousand total at the end of the 2018 year. The amount of loans repaid was EUR 2,649 thousand (EUR 246 thousand in 2017) in 2018 is accounted under short term liabilities.

The change in the current liabilities is resulted by the decrease of payables to suppliers and at the end of the year total comprise EUR 18,982 thousand (EUR 20,419 thousand at the end of 2017).

INVESTMENTS

The most important investment, projects in 2018:

No.	Project	Investments in 2018 (incl. prepayments)	Project description
1.	The 2nd stage of expansion of LFO Park in Klaipėda oil terminal	EUR 9.7 million	The implementation of second stage investment in the expansion of the LFO storage tank park of the Klaipėda oil terminal was approved in 2016. The end of the works anticipated in May of 2019. Building works, foundations also projecting of pipeline and technological part during the year 2018 were implemented. The total amount of overall investment project (prepayments included) is EUR 12.5 million.
1.1	LFO storage tank expansion (construction of new 6x20,000 tanks)	EUR 5.0 million	The agreement for 6x20,000 m ³ light oil products' tanks construction work was signed as at 12 June 2017. Amount of contract: EUR 11.5 million. Total amount of works done (prepayments included) is EUR 6.2 million as at 31 December 2018.
1.2	LFO storage tank expansion (construction of new 2x10,000 and 4x5,000 tanks)	EUR 4.7 million	The agreement for the 2x10,000 m ³ and 4x5,000 m ³ light oil products' tanks construction work was signed as at 22 May 2017. Total amount of works done (prepayments included) is EUR 6.3 million as at 31 December 2018.
2.	LNG reloading station construction	EUR 0.7 million	During the first six months of 2018 AB Klaipėdos nafta continued finalizing works of LNG reloading station, which is located in a territory of oil terminal. The following works have been done: <ul style="list-style-type: none"> - Testing related to usage of automatic equipment and truck overload testing; - Quality control of ongoing works.
3.	Expansion of LFO Park in Klaipėda oil terminal	EUR 0.7 million	Project comprise of construction of 7 new LFO tanks with a purpose to increase transshipment volumes and flexibility of services. Project was finished in the first half of 2018. Total amount of project EUR 7.3 million.

ACTIVITY PLANS AND FORECASTS

As to the financial year 2019 Financial plan, approved by the Board of the Company, AB Klaipėdos nafta will implement ambitious business plans: in 2019 oil transshipment will increase until 7.2 million tons (7.6 per cent larger compared to the same period of 2018), not less than 5,0 million MWh is planned to be re-gasified at LNG terminal. Projected income for the year 2019 should comprise EUR 105.9 million (5.9 per cent larger compared to the same period of 2018), net profit should comprise EUR 11.4 million. Earnings before interest, tax and depreciation (EBITDA) should comprise EUR 26.5 million, return on equity (ROE) – 5.8 per cent. The importance of international LNG terminal project development and participation in mentioned projects is being highlighted in the long-term strategy of the Company, which is planned to be presented in public in the first quarter of the year 2019. The Company seeks to use its experience in the development, jointly with reliable partners, of international projects on LNG terminals and distribution stations, in order to become the owner or operator of LNG terminals based on floating storage and regasification technology.

Undoubtedly, one of the essential long term strategic objectives and aims for the Company is environmental safety. In 2019 AB Klaipėdos nafta is seeking to assure sustainable growth of the business, therefore, environmental and social aspects are one of the Company's top priorities. The goal of the management of the Company is to conciliate the aims of KN shareholders with society or other stakeholders.

In an energy sector as well as in a whole market, there is decrease in demand of services and increase in costs. Therefore, in 2019, KN will focus on reduction and on saving of all possible costs in all business areas. Until the end of the year 2018, the Company started cost saving

related actions by revising all processes and making them more effective. Furthermore, budget for the year 2019 is with the lower costs level.

In 2019 KN will continue proceeding changes in Company's organizational culture. The Company will focused on leadership development, strengthening of leader role.

Expected demerger of regulated LNGT activities to a newly established subsidiary

In late 2018 management initiated the process of preparation to transfer LNG terminal and all related operations into a separate newly established wholly owned subsidiary of the Company (hereinafter "SPV"). This would be a downstream demerger transaction whereby KN would retain control of LNG terminal through its investment in SPV. As part of this process, the Company would transfer borrowings, backed by state guarantee and related to LNG terminal operations, to SPV. For this purpose, UAB "SGD terminalas" with minimum share capital was incorporated.

It is planned as a group reorganisation and not a divestiture as the demerger will be effected downstream into KN's wholly owned subsidiary. There is a substantial uncertainty as to when the transaction could be completed, as besides decisions needed from the Board and General meeting of Shareholders, it will also require approval by the European Commission due to the transfer of existing state guarantee to a different legal entity (SPV).

INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY

Shareholders and Shares of the Company

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

The Company's shares are traded on the regulated market; they are listed in the Baltic Main List of the Stock Exchange of AB NASDAQ Vilnius.

Shareholders of the Company

As at 31 December 2018 all the shares of the Company were owned by 2,191 shareholders (on 31 December 2017 – 2,178). All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General meeting of Shareholders.

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

1. To receive a part of the Company's profit (dividends);
2. To receive funds of the Company in the event the Authorized Capital of the Company is being reduced in order to pay funds of the Company to the shareholders;
3. To receive a part of the assets of the Company in case of liquidation;
4. To receive shares free of charge if the Authorized Capital is increased out of the funds of the Company (except in the cases specified by the imperative norms of the valid laws);
5. To have the preferential right in acquiring shares or convertible bonds issued by the Company except in cases when the General Shareholders' Meeting by a qualified majority of votes that shall not be less than 3/4 of the participating and voting shares for solution of this matter, resolves to withdraw the preferential right in acquiring the Company's newly issued shares or convertible bonds for all the shareholders;
6. To lend to the Company in the manner provided by law, however, when borrowing from its shareholders the Company has no right to pledge its assets to the shareholders. When the Company borrows from its shareholder, the interest rate may not be higher than the average

interest rate offered by commercial banks of the location where the Lender has his place of residence or business, which was in effect on the day of conclusion of the Loan Agreement. In such a case the Company and its shareholders shall be prohibited from negotiating a higher interest rate;

7. Other economic rights established by the laws.

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

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

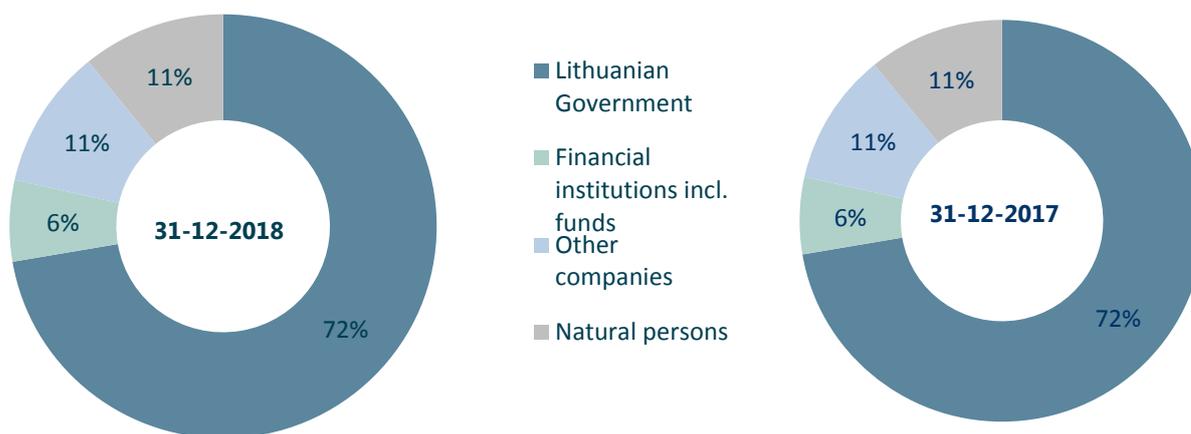
The Company has not been informed about mutual agreements of its shareholders which could limit the transfer of securities and (or) right of vote.

Major shareholders of the Company having more than 5% of shares (each) of the Company as at 31 December 2018 and 2017:

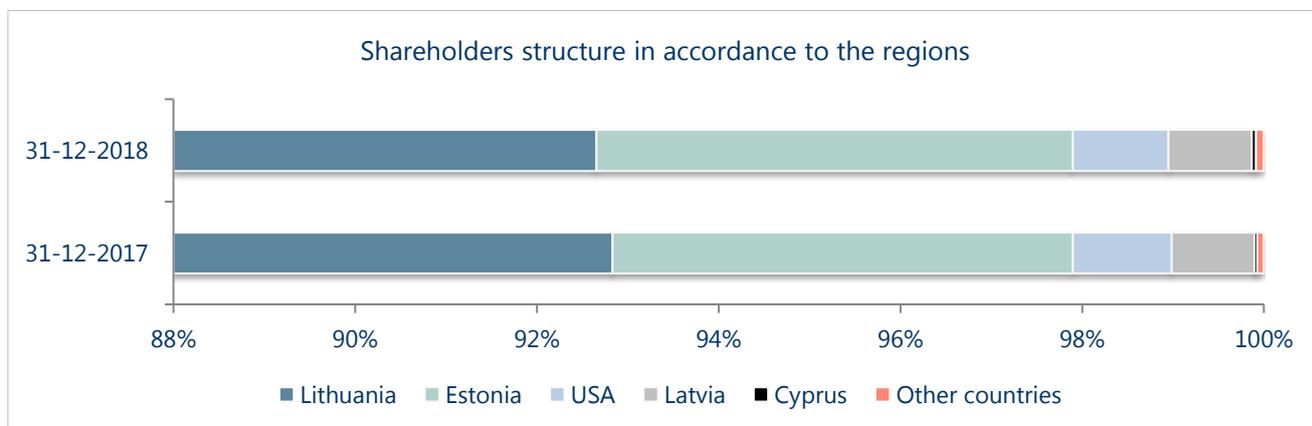
Shareholder's name (company's name, address, company code of registration)	31 December 2018		31 December 2017	
	Number of owned shares (unit)	Part of authorized capital (%)	Number of owned shares (unit)	Part of authorized capital (%)
The Republic of Lithuania, represented by the Ministry of Energy of the Republic of Lithuania (Gediminas Ave. 38/2, Vilnius, 302308327)	275,241,290	72.32	275,241,290	72.32
Concern AB Achemos grupe (Vykinto st. 14, Vilnius, 156673480)	39,605,234	10.40	39,113,150	10.28
Other (each owning less than 5%)	65,759,660	17.28	66,251,744	17.40
Total	380,606,184	100.00	380,606,184	100.00

Shareholders structure in categories and to the regions:

Shareholders structure in categories:

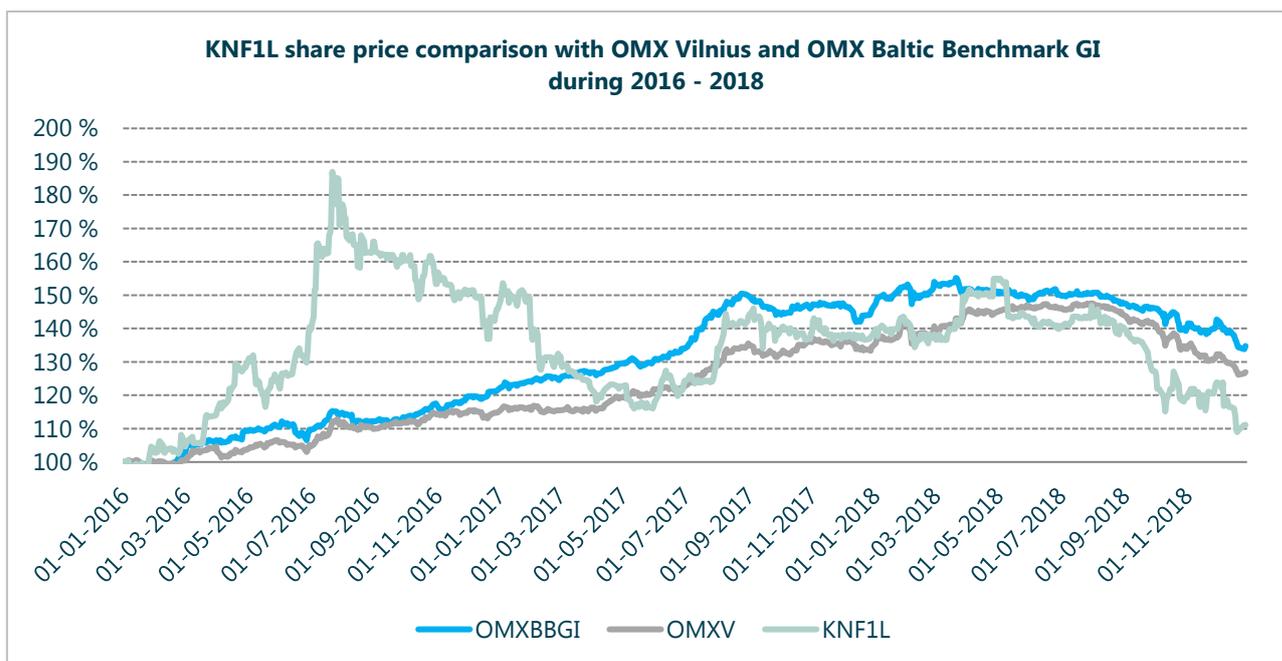
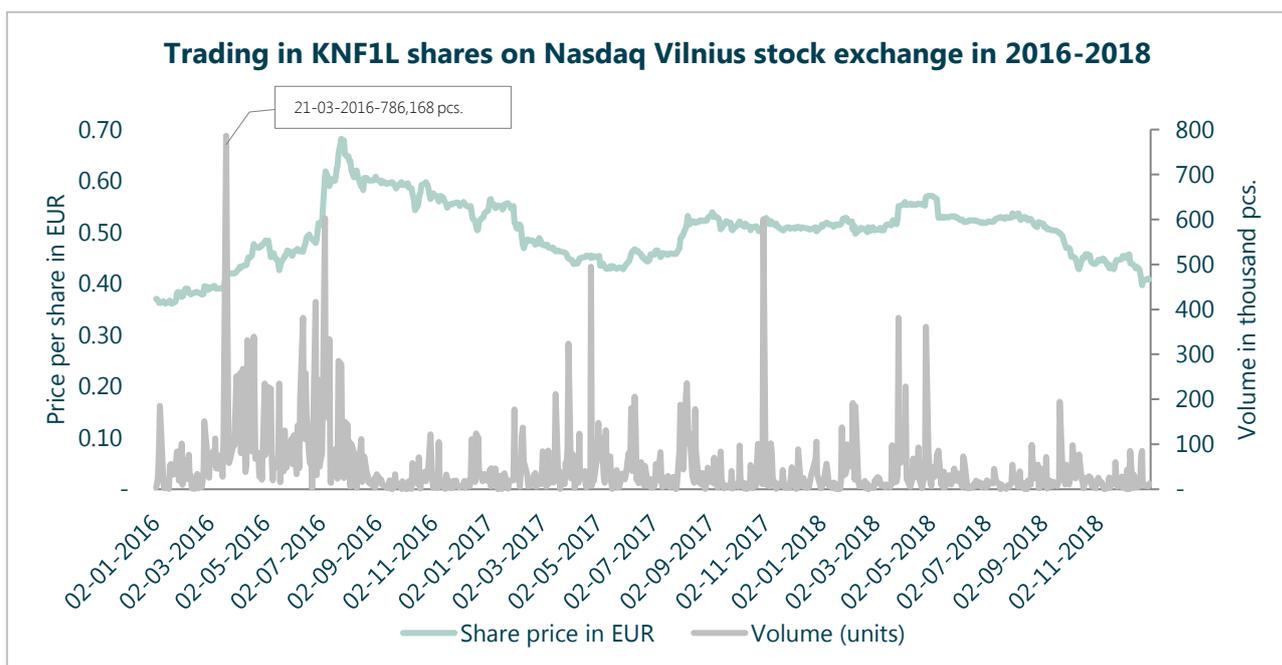


Shareholders structure in accordance to the regions:



Dynamics of KNF1L share price at NASDAQ Vilnius during 2014 – 2018

	2018	2017	2016	2015	2014
Highest share price in EUR	0.574	0.572	0.705	0.419	0.325
Lowest share price in EUR	0.386	0.428	0.360	0.315	0.28
Price per share at the end of the period in EUR	0.410	0.508	0.538	0.369	0.311
Average share price in EUR	0.502	0.490	0.505	0.373	0.295
Traded volume, pcs.	6,936,769	10,501,664	17,879,294	5,257,607	14,454,031
Turnover in EUR thousand	3,552	5,083	8,730	1,955	4,320
Capitalisation in EUR thousand	156,049	193,348	204,766	140,444	118,369



Authorized share capital of the Company

The Company's authorized share capital amounted to EUR 110,375,793 as of 31 December 2018 (EUR 110,375,793 as of 31 December 2017). 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 EUR 0.29. The Company did not acquire own shares in 2018 and do not have any own shares as at period end.

Dividends

On 27th April 2018, the ordinary General Meeting of Shareholders was held which approved the audited financial reports and profit distribution of 2017. The Company allocated to the Shareholders dividends to the

amount EUR 17,031 thousand or EUR 0.0447 for one share from the 2017 profit (in 2017 the Company paid EUR 9,656 thousand dividends or EUR 0.0254 for one share). Dividends were paid to the shareholders in funds.

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

	2018	2017	2016	2015	2014
Dividends in EUR thousand	17,031	9,656	17,629	92.6	103.2
Dividends per one share in EUR	0.0447	0.0254	0.0463	0.0002	0.0003
Net profit per 1 share in EUR	0.04	0.04	0.06	0.02	0.03
Dividends for net profit (of previous FY), %	100%	70%	80%	1%	1%

On 25th January 2016 the Board of AB Klaipėdos nafta has approved the Dividend Policy. The Dividend Policy provides that the Board of the Company shall, on the basis of net profit of previous financial year of the Company and General Manager's proposal regarding profit distribution, present the draft decision to approve the dividend allocation equal to 50 per cent of the Company's annual net profit to the Company's shareholders.

short term profit distribution and long term Company development, value growth.

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

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:

The amount of dividends proposed may be adjusted if:

- 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

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

Agreements with intermediaries of public securities trading

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

AB SEB bank Financial Markets Department:

Company code	112021238
Address	J.Balčikonis Street 7, LT-08247 Vilnius, Lithuania
Telephone	1528
E-mail	info@seb.lt
Website	www.seb.lt

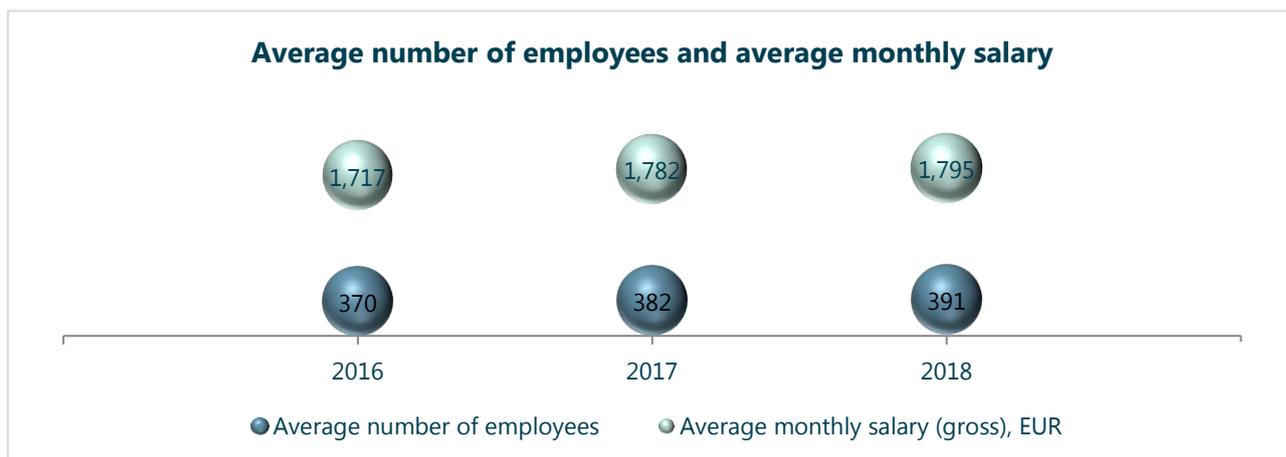
INFORMATION ABOUT THE EMPLOYEES OF THE COMPANY

Personnel

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

As of 31 December 2018 there were 389 employees working at the Company (31 December 2017 - 389 employees).

The average number of employees in 2018 (total number 391) increased by 9 employees or 2.4 per cent compared with 2017 (382).



In 2018 (see the table below) from the total number of employees, workers comprised 40 per cent (in 2017 – 43 per cent), specialists – 50 per cent (in 2017 – 47 per

cent), managing personnel - 10 per cent (in 2017 - 10 per cent.).

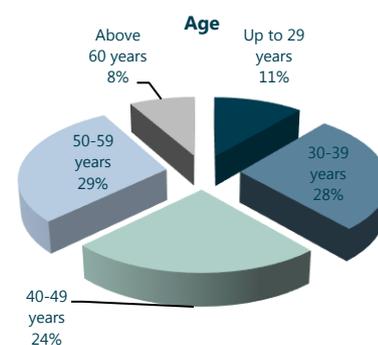
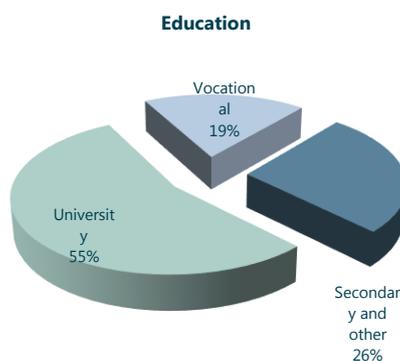
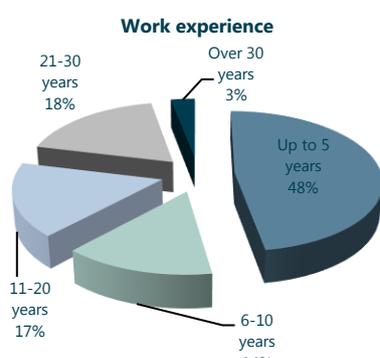
Employees of the Company according to categories

Employee category	Average number of employees		Change in per cent
	2018	2017	
Managers ¹⁾	40	37	8.1
Specialists	196	181	8.3
Workers	155	164	-5.5
Total	391	382	2.4

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

As at 31 December 2018 in the Company were employed 76 per cent of males and 24 per cent of females (correspondingly 75 and 25 per cent as of 31 December 2017). 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 and Remuneration Policy

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

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

Average monthly salary according to employee groups

Employee category	Average monthly salary (gross), EUR		Change, %.
	2018	2017	
Managers ¹⁾	3,921	4,051	-3.2
Specialists	1,794	1,812	-1.0
Workers	1,302	1,248	4.3
Average of the Company ²⁾	1,795	1,782	0.7

¹⁾ The Company's managers include: Chief Executive Officer (CEO), Directors, Functional Managers and Heads of Divisions. The following sums were calculated for the remuneration to the Company's managers in 2018: EUR 2,658 thousand, in that amount taxes paid by the employer included EUR 629 thousand (when in 2017 – EUR 2,595 thousand from which EUR 616 thousand of taxes paid by the employer); on the average EUR 66 thousand to each manager of the Company per year (in 2017 EUR 70 thousand for manager).

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

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

The purposes of the Remuneration Policy are to:

- Establish clearly understandable, fair and transparent procedures for the setting and payment of remuneration and the incentive of employees, aiming at ensuring the Company's competitiveness in the labour market;
- Encourage the employees to achieve the objectives set in the Company's strategy, to create value added and increase the returns to shareholders while fostering the values of the Company.

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

The Company's remuneration system is based on the Hay Group Methodology which measures jobs by relative size, nature and importance (in order to ensure that each job

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

Each employee's pay is reviewed in relation to current trends on Lithuanian labour market once a year taking into consideration: the Company's performance results; the results of evaluation of the employees' performance; and the market supply and demand for the relevant jobs at the Company.

Details of the Company's management system of remuneration are provided in chapter "System of remuneration to the Company's management" in the AB Klaipėdos nafta 2018 year Governance Report.

The procedures for employee performance evaluation and annual bonus allocation

The Company has implemented the procedures for annual employee performance evaluation and annual bonus allocation. These bonuses depend on the achievement of the goals set directly for the person or for the Company. Annual employee performance review together with periodic one to one meetings throughout the year is one of the most effective management and leadership techniques that increase employee engagement and help to achieve the organizational goals. Such practice creates collaborative and positive relationships between managers and their subordinates that allow to make it clear with employees while planning their careers, increasing their motivation and promoting continuous improvement in their professional field. Annual performance review at the Company is a tool for employee performance management and development that ensures that employees' personal goals are set in accordance with the Company's goals and values. The annual performance review helps to assess the employee's achievement of goals as well as set the new goals and form the feedback culture,

strengthen collaboration and unity between a supervisor and a subordinate. During the review opportunities for competence development, learning, and career are being discussed.

For the last five years the Company conducts personnel surveys in order to determine the level of employee satisfaction with the work environment and the Company and the level of engagement as well as to improve relevant areas and working conditions of employees. The personnel surveys in 2018 revealed that 61 per cent of employees are satisfied with their work environment, the Company and its culture. Engaged and partially engaged Company's personnel in 2018 amounted 95 per cent.

The Company is measuring the level of engagement because it believes that colleagues who are engaged and like their job are more likely to do their job easier, feel happier and accordingly generate greater returns to shareholders by effectively implementing Company's strategy and achieving the goals.

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 2018. In 2018

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).

Participation in Associations

The Company has been acting as a member of the following associations as at the end of the year 2017:

- Klaipėda Chamber of Commerce, Industry and Crafts, <http://www.kcci.lt/> ;
- 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 ;
- Lithuanian LNG cluster, www.lngcluster.eu

Information about the audit

During the General Meeting of Shareholders of the Company, in 21 April 2017, shareholders have appointed UAB Ernst & Young Baltic, UAB for the performance of the audit of the Financial Statements and Regulated Activities Statements of the Company and assessment of its Annual Report for the years 2017 and 2018. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of 2 years auditing services (financial audit and regulatory activities audit) for total amount of EUR 48 thousand (excl. VAT). UAB Ernst & Young Baltic performed financial statements audit for the

financial year 2014-2016. UAB KPMG Baltics, UAB performed the audit for the years 2008-2013.

The proposal regarding approval of the audit company is provided by the management of the Company based on public procurement procedures. To participate in procurement tender 4 international audit companies are invited (UAB Ernst & Young Baltic, UAB PricewaterhouseCoopers, UAB KPMG Baltics and UAB Deloitte Lietuva), the winner is selected based on the lowest price criteria.



2018

AB KLAIPĖDOS NAFTA SOCIAL RESPONSIBILITY REPORT

FOR THE FINANCIAL YEAR ENDING
ON 31 DECEMBER 2018

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STRATEGIC PRINCIPLES OF THE COMPANY'S SOCIAL RESPONSIBILITY AND THE SCOPE OF THE REPORT

AB Klaipėdos nafta (hereinafter - Company) social responsibility (hereinafter - CSR) is based by its voluntariness in reaching economic, social and environment protection goals, taking into consideration all stakeholders' interests. The Company, operating in observance of the CSR principles and reaching for sustainability and efficiency of their activities, not only observe the applicable laws, international norms and ethics standards, but also nurture respect for human being, society and nature.

With this report it is seeking to provide transparent and comprehensive information on the Company's

achievements by applying best social responsibility practices.

This Corporate social responsibility report (hereinafter - Report) provides the information on the economic responsibility, social responsibility activities, performed by AB Klaipėdos nafta in 2018, as well as environment of protection activities and relations with the employees and the society.

The Report of the Company's socially responsible activities was prepared in accordance with the Global Reporting Initiative (GRI) guidelines.

Company is considered responsible for these Stakeholders:

- State
- Employees
- Clients
- Users
- Shareholders
- Society
- Competitors
- Media
- Suppliers and partners
- Regulation

The Company acts under the guidance of the highest business ethics standards and social responsibility principles. The Company aims at keeping the status of a reliable social partner beyond Lithuania's seaport by contributing to resolving the relevant social issues, faced by the society.

The social responsibility and support projects are important in order keep good partnership relations with

local communities and the society on the nationwide level. It is very important for state-controlled companies to emphasize their social importance. The initiative is referred to as the "common welfare". In addition, the tasks, set for the state-controlled companies is to become examples a successful fosteration of states principal values.

The Company's responsibility is directed to the following main areas:

Economic responsibility



- Transparency and accountability for stakeholders;
- The fight against corruption and bribery;
- Ensuring conditions of competitiveness;
- Fair tax payment.

Environmental responsibility



- Engagement of society in environmental protection;
- Directions of environmental protection by the Company.

Social responsibility



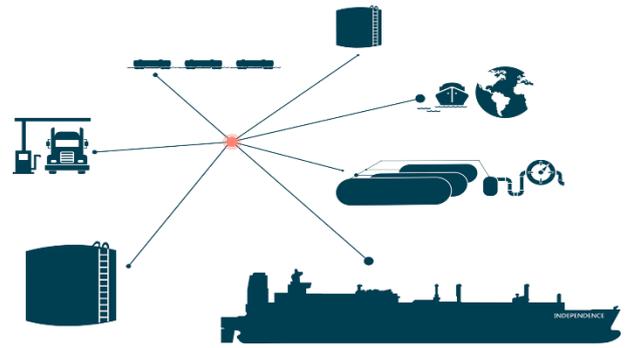
- Responsibility in respect of Company's employees;
- Responsibility of their health and safety;
- Equal rights;
- Development of different social initiatives and projects;
- Cooperation with science institutions and technology parks.

CSR is published on websites www.kn.lt and www.nasdaqbaltic.com/market/

PRINCIPAL ACTIVITY

AB Klaipėdos nafta is one of the largest Companies of energy sources logistics in the Baltic States, specialized in oil and LNG industry.

AB Klaipėdos nafta activity is divided into three operating directions (oil and LNG terminals) and four separate activities: oil product transshipment (Klaipėda oil terminal), long term oil product storage (SNT), LNG terminals operation and International LNG projects development and consulting.

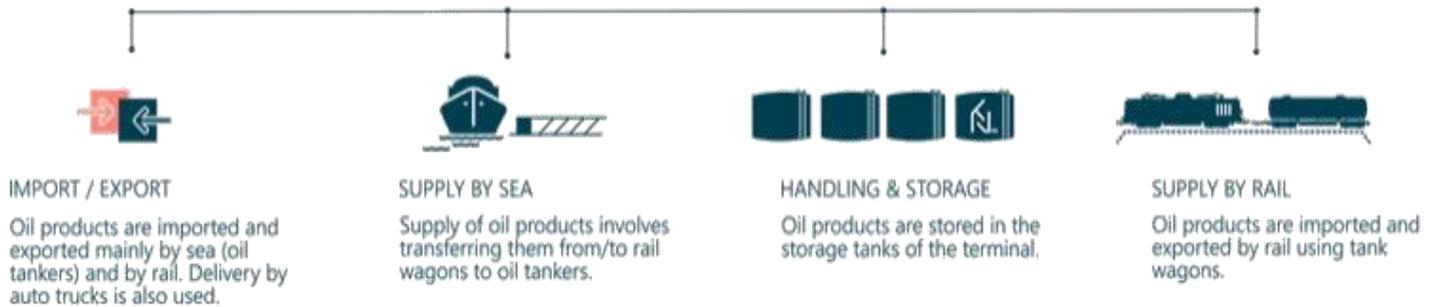


DESCRIPTION OF THE SUPPLY CHAIN

The purpose of AB Klaipėdos nafta **Oil Terminal** is to provide the services of handling (various schemes) of oil products supplied from/to oil refineries and storage of such products in the storage tank park of the terminal. Oil

products are also imported through the Company's Oil Terminal, which involves the services of transferring oil products from oil tankers to the clients' facilities (tank trucks and/or tank wagons).

Supply chain of oil products



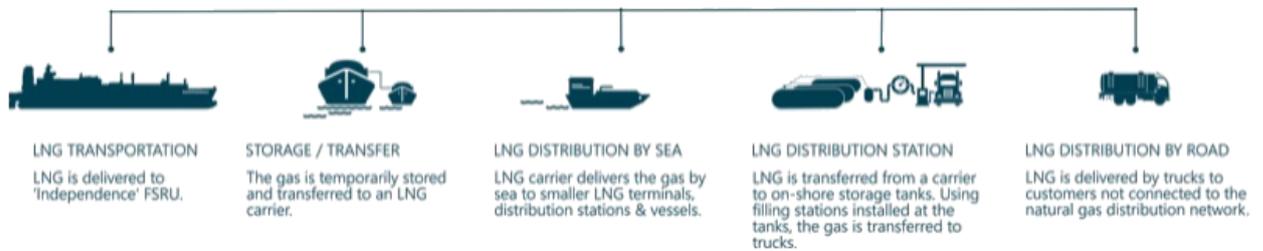
LNG terminal has enabled the formation of a natural gas market in Lithuania and opened opportunities for the country to import natural gas from all over the world. Now customers can receive gas from various suppliers at competitive prices.

FSRU (floating storage and regasification unit) Independence is an LNG carrier designed as a FSRU, moored at a berth in Klaipėda Seaport, that receives/transfers the LNG from/to the carriers coming to

the port. The LNG is regasified in the heat exchangers of the FSRU.

In 2018 the Company started to provide services of **LNG Reloading station**. This station is designed for accepting LNG from small-scale carriers, for temporary storage and loading to LNG trucks or vessels. LNG may also be loaded into containers of standard size compliant with ISO, which may be transported by rail and by road.

Supply chain of LNG



For more information about the infrastructure and activities of the Company see Information about the Company and its activities article in the annual report.

ECONOMIC RESPONSIBILITY

COMPANY'S STRATEGY

In order to make clear vision of Company's directions, goals and objectives for Company's management bodies AB Klaipėdos nafta prepared the strategy of the Company, which is approved by the Board of the Company.

In latest approved Company's strategy for 2016-2020 is projected:

- To become one of the most efficient companies in Europe,
- To make organizational changes, diversity activities, implement new services and projects, which are main factors for sustainable value growth of the Company.
- Main attention of Company's Managers will be allocated to social responsibility, competences

of employees, environment protection and cooperation with science institutions of Lithuania.

It is expected that achievements of the Company will be acknowledged and valued at the state level in Lithuania.

For more information see The Company's strategy article in the annual report.

In the Social responsibility report we highlight only the main directions, general strategic goals and objectives of Company's strategy which related with social responsibility.

The Company's goals

General strategic goals				
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

Company's strategy for 2016-2020 is based on growth and diversification of activities, increasing value of the company, ensuring a safe working environment and development of employees competence. Strategy provides growth in Company's operational efficiency. Till the 2020 Company is planning to reach 10-15 per cent net

profitability, dividends – 50 per cent from net profit, return on capital – not less than 5.8 per cent. For the implementation of the strategic goals the Company is investing into expansion of terminals and improvement of service quality every year.

Company's mission, vision, values

Our mission

- Ensure reliable and effective supply of LNG and transshipment of oil products

Our vision

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

Our values

- Respect, cooperation, professionalism, progress

For more information on the Company's strategy see The Company's strategy article in the annual report.

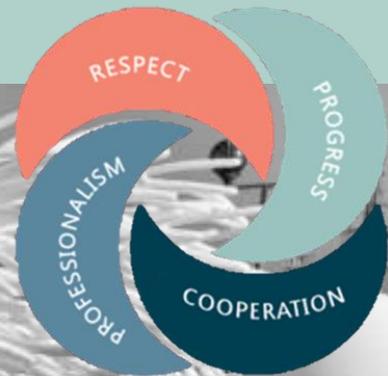
Even in daily activities or implementation of strategic goals Company is guided by these Values of the Company which were renewed in 2018.

Respect. The Company respects and values everyone's diversity, opinion, work and time, and follows the principle of fair and clear remuneration. The Company is socially responsible, cares about environment and social welfare

Cooperation. The Company's staff is a uniform team sharing knowledge, experiences and information, promoting sustained and mutual partnership. The Company publishes information following the top standards of transparency.

Professionalism. Work in the Company is carried out effectively and assuming responsibility for work and decisions. The Company deliberately seeks high results, operates its infrastructure available safely and reliably.

Progress. The Company is continuously improving its working processes, orients to environmentally-friendly technologies and is open to innovations.



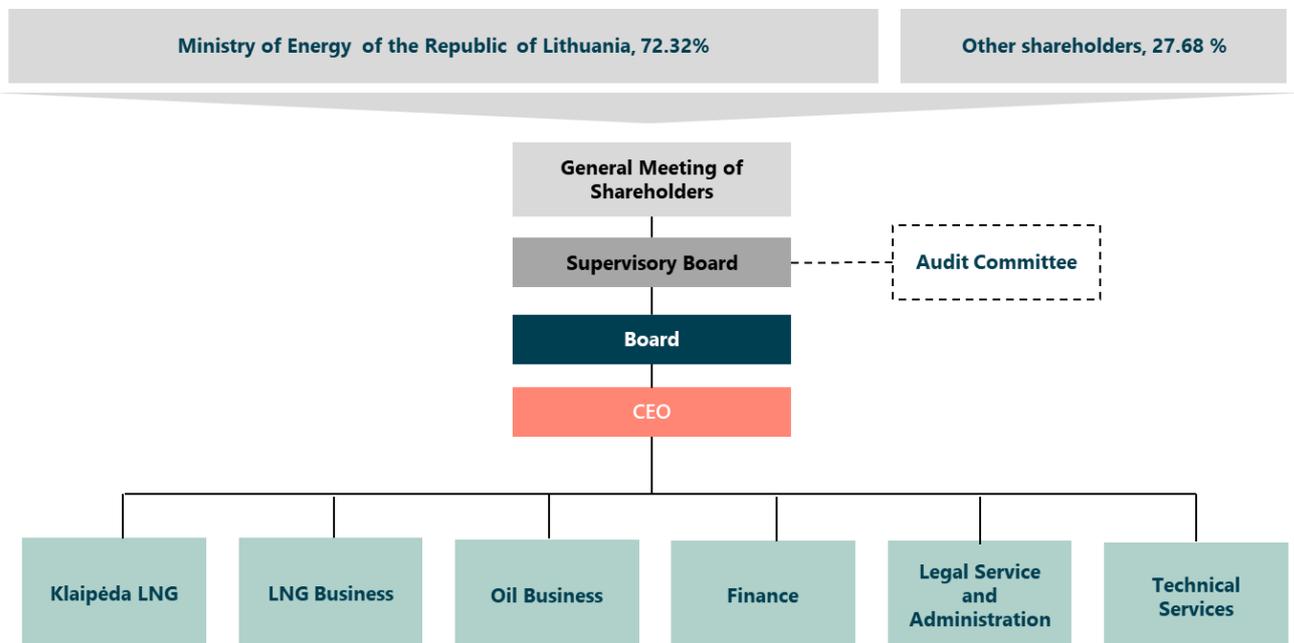
THE COMPANY’S MANAGEMENT STRUCTURE

AB Klaipėdos nafta is striving for transparent, efficient and profitable operation with its management structure and internal processes. Company’s internal control systems and management practice are in line with the best management practices.

In its activities the Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company, Corporate Governance Code for the Companies listed on NASDAQ Vilnius and other legal acts of the Republic of Lithuania. For more information of the Company’s management see Management of the Company article in the Governance report.

From 1st of December 2018 management structure of AB Klaipėdos nafta was renewed and approved by the Board of the Company. As to the new structure, services are the biggest organizational units of the Company, which could comprise from different units and professionals. The Company believes that these changes in management structure will help to combine management of related as well as not related activities, to ensure transparency, effectiveness in order to assure implementation of Company’s strategical goals.

Organizational and management structure of the Company:



FINANCIAL RESULTS OF ACTIVITY

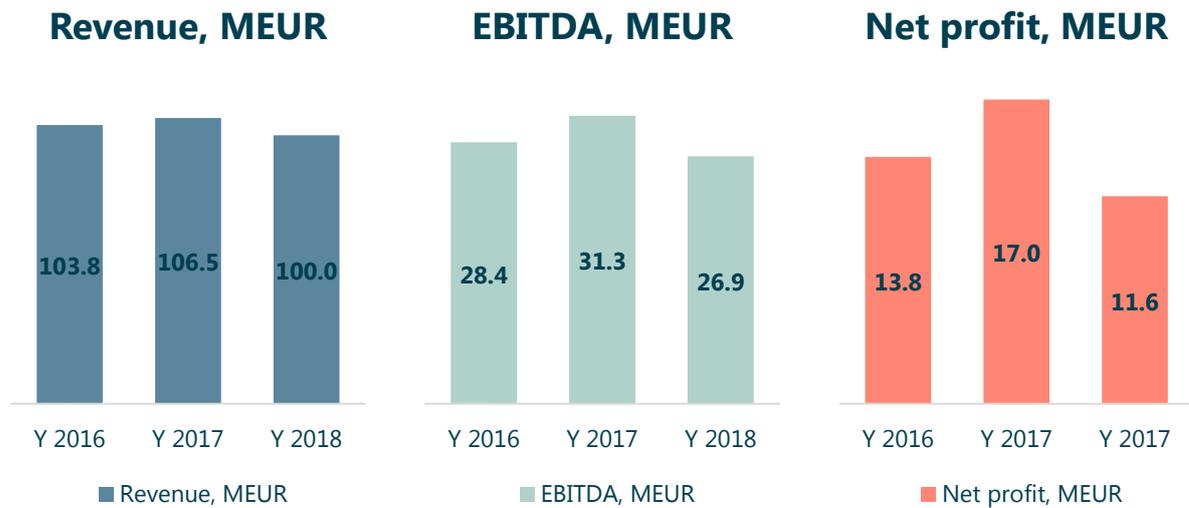
The Company's **sales revenue** of the year 2018 comprise 100 MEUR. Comparing with the year 2017 the revenue has decreased by 6.5 MEUR or 6.1 per cent (106.5 MEUR). The decrease is related to decline in revenue of oil terminals (-2.7 MEUR), LNG terminals and international LNG project development and consulting (-3.8 MEUR).

In 2018 **EBITDA** comprised of 26.9 MEUR and compared to 2017 (31.3 MEUR) it declined by 14.1 per cent or by 4.4 MEUR.

In 2018 the Company's **net profit** was 11.6 MEUR, compared to 2017 (17 MEUR), the net profit dropped by

31.8 per cent or by 5.4 MEUR. Changes in Company's net profit are mainly determined by:

- Klaipėda and Subačius oil terminals net profit has decreased by 2.1 MEUR up to 9.9 MEUR; decrease related with revenues decrease in oil product realisation and storage services;
- LNG terminal, LNG reloading station and international LNG projects development and consulting net profit decreased to 3.3 MEUR in total due to lower revenues;



OP transshipment
6.7
 Million tons

LNG regasification and reloading
9.2
 Million MWh

REPORTING OF INFORMATION - ACCOUNTABILITY

Reaching Company's accountability for stakeholders Company is:

Reporting

- Annual and interim financial information prepared in accordance with international financial reporting standards as adopted by the European Union;
- Annual and interim reports;
- Preliminary transshipment and revenue results of every month.

Presentation

- Financial information every quarter in Investor Conference Webinar, which is hosted by Company's Management or General Manager of the Company.

Information

- About material events in the Company: General meetings of Shareholders, changes in management structure, changes in management body;
- Regarding concluded commercial and purchase contracts;
- About approved investment projects, its budgets;
- Other important information.

THE FIGHT AGAINST CORRUPTION AND BRIBERY

Corruption prevention

The Company does not tolerate any form of corruption or manifestations thereof, and aspires to ensure open competition, ethical business conditions and appropriate transparency and publicity of its activities.

The Company follows a Zero Tolerance Policy against Corruption approved by the General Manager (hereinafter – the Policy). The Policy is a clear and public declaration of the Company's stance against bribery, fraud, extortion, fake accounting, unofficial and inadequately documented transactions, fictitious expense schemes, the use of false documents, and other manifestations of corruption referred to in the United Nations Convention against Corruption. The provisions of the Policy are applicable to all of the Company's employees, members of the Company's management and supervisory bodies, and third parties which act on behalf of the Company. The Policy is continually being improved, updated and supplemented in response to regulatory changes. All of the Company's employees are acquainted with the Policy and have pledged to comply with its provisions.

The Company is politically neutral and does not pay any financial contributions. It does not provide any financial support to political parties, groups or politicians.

The Company has clearly defined rules for the giving and accepting of gifts. There are set circumstances under which it is permissible to give or accept gifts or participate in events organized by third parties.

There is also an approved procedure for providing support that is published on the Company's website. This procedure governs the allocation and provision of Company support funds for the public benefit and establishes the key principles and directions of providing support as well as the priorities and criteria for the allocation of support.

The Company has an approved procedure for completing the Employee Declaration of Private Interests form which is designed to establish the requirements of employee conduct when they are performing their jobs, the procedure for the declaration of private and Company interests, and the actions of employees in the event of a conflict of interest. Under the current provisions of the procedure, all employees in managerial positions are required to complete a declaration of private interests.

The Company has certain control mechanisms in place that are designed to identify, assess and monitor potential corruption risks. The internal control system is regularly reviewed and improved.

An employee has the right, and the Company shall provide him with a possibility to anonymously report any alleged actions of bribing and corruption or attempts of commission of such actions, or ether alleged or actual breaches of this Policy as well as breaches of requirements set in the Company's internal regulations and Internal Code of Conduct.

Employees are encouraged to report possible corruption cases or practices by e-mail: manrupi@kn.lt or by filling out an anonymous questionnaire on the website www.kn.lt. This contact may be used by both the Company's employees and everybody whom it may concern.

Seeking to reduce the probability of corrupt practices, AB Klaipėdos Nafta also applies Diligent Verification procedures both with respect to its employees and partners.

Before assigning employees to official positions, KN, with due consideration of the functions of the future official and a relative corruption risk, shall take all possible measures to assure that only reliable personalities with an impeccable reputation would be employed KN. KN has an authorized staffing table in accordance with which the Special Investigation Service carries out its investigations.

Seeking to be sure as for the transparency and lawfulness of the partner's activity, before starting cooperation or during cooperation, KN may apply different Diligent Verification investigation procedures.

Public procurement

Regulation

During planning and implementation of procurements and the fulfilment of procurement contracts, the Company shall act in accordance with the provisions of the Law of the Republic of Lithuania on Procurement by Entities Operating in the Water, Energy, Transport and

Postal Services Sectors (hereinafter – the Law), other legal acts regulating procurement and applicable to the Company, or in compliance with a good commercial practice unless the Law is not applicable to specific procurements.

Internal procedures

Procurement planning, execution, and completion in the Company shall be regulated by the following documents that have been specially developed for procurement regulation: the Procurement Procedure, the Regulations of the Procurement Committee, and the Low Value Procurement Procedure.

procurements shall be published in accordance with the rules prescribed by the Law. Generally, the procurements of the Company are executed by the Organizers of procurements (in the events of low value procurements) or by the Procurement Committee (for procurements other than low value ones). All the actions taken during procurement shall be documented, while the procedure for adoption of decisions shall be subject to the application of multi-level control measures.

All the procurements executed by the Company shall be subject to planning, while the summary list of

Transparency

All persons participating in the procurements organized by the Company or exercising direct or indirect influence thereon have assumed a commitment of impartiality and the obligation of confidentiality.

The Company also shall prepare and submit to the Public Procurement Office of the Republic of Lithuania the following documentation:

The Company shall publish sales contracts it has entered into in accordance with the procedure prescribed by the Law.

- A statement on procurement procedure per procurement effected;
- A statement on procurement contracts covering the procurement contracts concluded per calendar year.

FAIR TAXES

AB Klaipėdos nafta implementing fair business principles by responsible and right declare of paying all operating taxes. By the usual profit, income, VAT, social taxes the Company as owner of the excise warehouse is also ensure right declare of excise and customs taxes and payment for

storage of clients' oil products and natural gas. During the last 5 years no accusations for incorrect declaration or payments of taxes have been registered. KN does not adjust special optimization of taxes or artificial tax relief schemes.

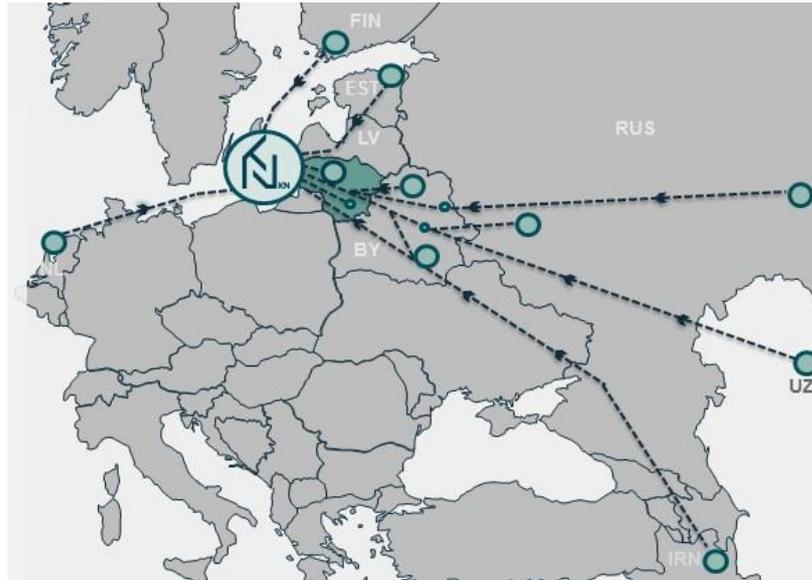
ANTI-MONOPOLY

Competitive environment of oil terminal

AB Klaipėda Nafta oil terminal operates in the competitive environment. All of the oil product handling terminals operating at the ports of the eastern shore of the Baltic Sea and at Odessa (Ukraine) seaport shall be treated as the major competitors of the Company.

It should be noted that the competitive environment in the oil product transshipment market increases yearly. The foregoing specifically includes the flow of Russian and especially Belarusian transit oil products.

Oil terminals business environment of the Company



Regulated activity of LNG terminal

The liquefied natural gas (LNG) terminal shall be considered as a nationwide strategic energy object, while the implementation of terminal thereof depends on the adopted Plan of Development, the implementation of which was assigned to AB Klaipėdos Nafta. The Company carries out its business activity in accordance with the Law of the Republic of Lithuania on the Liquefied Natural Gas Terminal, which sets forth that the LNG terminal and the LNG interconnection shall be deemed to be treated as installations that have strategic importance for national security. In addition to this, the LNG terminal operator shall be deemed to be an entity that has strategic importance for national security as this is set forth in the Law of the Republic of Lithuania on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises of Importance to Ensuring National

Security. The operation of the LNG terminal is subject to regulation. Therefore, the regulation environment of its operation defines the yields and profitability of this activity, milestones and the scope of the activity and pricing. Ensuring the opportunity to use LNG terminal for all market participants, 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 NCEC. 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.

ENVIRONMENTAL RESPONSIBILITY

Environmental protection is one of the priority areas of KN's social responsibility and is given overarching attention. Both in operating the existing oil and LNG terminals and in planning new activities, KN observes the fundamental principles of environmental protection established in the National Environmental Protection Strategy, follows the conditions laid down in environmental permits, and adheres to the norms set out in environmental rules and standards.

The directions of the Company's environment protection projects:

- The Company continuously implements environment protection measures: environment pollution prevention and control, fire safety and other systems.
- The Company saves natural resources.
- The Company contributes to development of the market of LNG as environment friendly and safe fuel in Lithuania and the Baltic Region.

PUBLIC INVOLVEMENT IN ENVIRONMENTAL PROTECTION

In planning new economic activities and the development or modernization of the existing terminals, the Company acts in accordance with the provisions of the Law on Environmental Impact Assessment of Proposed Economic Activity. In implementing environmental impact assessment procedures, conditions are created as early as possible for the public to become acquainted with the proposed economic activities and to provide remarks and suggestions as provided by the Aarhus Convention.

The company actively takes care of the environment and public welfare, and is open to providing information to interested institutions, public organisations and residents. Therefore, it allocated particular attention in 2018 to strengthening relations with neighbouring communities. In February 2018, KN invited representatives from the education and training institutions near the Klaipėda oil terminal as well as from the Vitės Bendruomenė association to its production area, where the guests were given the opportunity to get a close-up look at the company's technological processes and learn about the activities that are being carried out and environmental projects and plans.

It is in the company's interest not only to ensure safe terminal operation and competitiveness, but also to put in

as much effort as possible to minimize the discomfort experienced by the people living nearby due to the nature of the operations carried out by the company. To this end, KN completed the Environmental Action Plan and presented it to environmental protection authorities in late September; this plan includes measures and a commitment to continue to carry out sustainable activities and ensure the highest environmental standards. It is expected that by the end of 2021, the company's investments in the field of environmental protection will reach EUR 8 million. In order to present the Environmental Action Plan prepared by KN, meetings were arranged with Klaipėda city leaders and the communities, established near the company.

In 2018, the company not only organised meetings with community representatives during which it presented existing and planned environmental measures, but it also established a hotline (8 800 55220) to provide residents with relevant information about ongoing loading processes. Residents can call this number to report unpleasant odours potentially coming from the oil terminal territory, which makes it possible to respond promptly to their complaints.

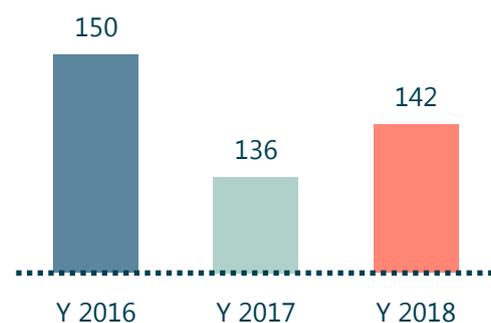
DIRECTIONS OF ENVIRONMENTAL PROTECTION

Air protection

The stationary air pollution sources (oil storage tanks, boiler room) at the Company's oil terminal are operating in accordance with an environmental permit issued by the responsible authority.

KN also regularly publishes ambient air monitoring data. The monitoring performed shows that permissible pollution levels are not exceeded in carrying out the company's activities, and in May 2018, the National Public Health Laboratory modelled odor dispersion according to samples taken and found that the permissible odor concentration limit value was not exceeded in the ambient air of the nearby residential and public areas.

Emission to air 2016-2018 m., tons



To reduce the environmental impact of economic activities on air, the following environmental measures are applied during the loading and storage of oil products:

- Light distillates (petrol, diesel) are only loaded and stored in tanks fitted with pontoons (internal floating screens), and more than 50 per cent of the tanks that are used for heavy oil products (heavy fuel oil) are also fitted with floats – this reduces the emission of volatile organic compounds (VOC) into air;
- When unloading petrol from the tank wagon into tanks at the railroad trestle, a VOC vapour recovery unit is used to reduce VOC emissions, and when loading ships with petrol, VOC vapours are directed to a fume incinerator. The effectiveness of these environmental measures is as much as 95 per cent.
- According to the Environmental action plan the Company will install 3 air pollution treatment plants for reducing VOC and smells emission. Air pollution treatment plants will be installed within 2 years.

These environmental measures help to reduce the emission of pollutants into the air and intensity of the smell in the environment.

The passenger cars which are leased to carry out economic/commercial activities are equipped with functioning exhaust gas neutralisation systems that comply with Euro VI standards, and this way mobile source air pollution.

The Company performs monitoring of stationary air pollution sources from the oil terminal with the aim of assessing whether one-off emission standards are not exceeded in carrying out economic activities. Air quality monitoring is also carried out to ensure that air limit values for VOCs in the environment (beyond the Company's territorial limits) are not exceeded when carrying out economic activities. The VOC air limit value for half an hour is 5 mg/Nm³. The air quality monitoring conducted in 2018 shows that over the course of the year, the VOC air limit value for half an hour was never exceeded. Concentration of VOC in environment air was from -1.12 till -1.40 mg/m³.

The results of the simulation of release of odour of the economic activity to the environment showed that odour concentration in the residential environment per one hour mean interval reaches 1 OEU/m³ (an odour unit) and does not reach 8 OEU/m³ limit for the residential environment. It should be mentioned that an individual begins to smell odour of oil products (hydrocarbons) when their concentration is at least 0.3 mg/Nm³.



Surface water protection

The Company's oil terminal uses biological waste water treatment equipment that is designed to collect and clean the waste water and surface water that forms during economic activities. The waste water treatment is highly effective: approximately 72 per cent of total nitrogen is removed, 85 per cent of total phosphorus, 98 per cent of biodegradable organic matter and as much as 100 per cent of oil products. To preserve this high level of efficiency, the Company allocated EUR 18,500 in 2018 for the repairs/upgrade of mechanical and biological waste water treatment equipment. Waste water discharge

monitoring and surface water quality monitoring are conducted during which the condition of the Curonian Lagoon (Klaipėda Channel) above and below the discharge equipment is monitored.

The surface waste water that forms at Subačius oil terminal is collected from the potentially contaminated area (about 33 ha), cleaned in surface waste water treatment equipment to reach standard and then discharged into the surface water reservoir.

Groundwater and soil protection

Groundwater monitoring has been carried out at the oil terminal since 1996 with the purpose of monitoring changes in groundwater quality. Cumulative ground water observations show that the groundwater pollution that has formed over the years at the site is diminishing. Long-

term ground water monitoring data suggests that the "historical" pollution of soil and groundwater with oil products within the territory of Klaipėda oil terminal is decreasing.

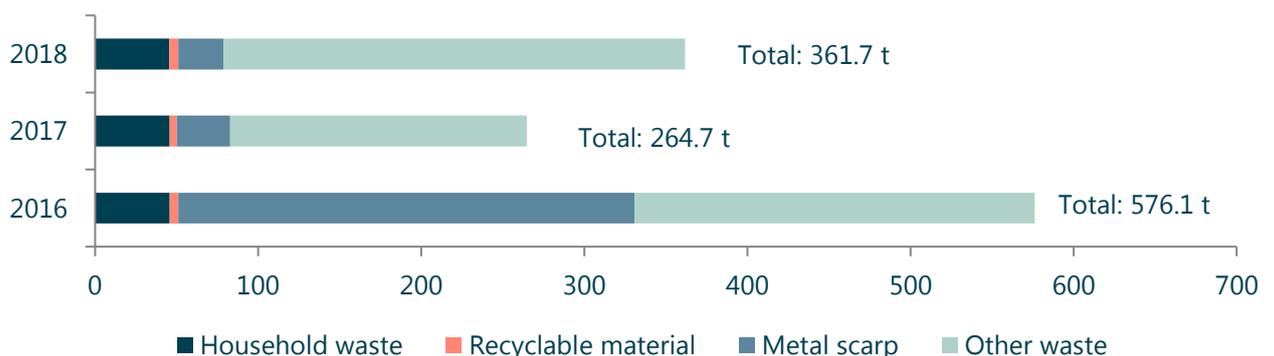
Waste management

The Company's sewage disposal plants at Klaipėda state sea port operate as a port receiving units that receive the waste formed in vessels (waters polluted with oil products) and remnant freight. The Company is authorized to execute the treatment of specific dangerous waste, which is received from other entities and vessels waters polluted with oil products and liquid fuel mixtures and is engaged in the treatment of sludge formed during the Company's business activity in biological sewage disposal plants. In 2018, the Company received and treated 5.50 thousand tons of dangerous waste (4.86 thousand tons in 2017). Some dangerous waste was regenerated, which means that the waste polluted with oil

products was converted into a product, namely, into liquid fuel mixture. 0.89 t (3.1 t in 2017) of the sludge formed in the biological sewage disposal plants was used for improvement of land condition in the territory of the terminal.

361.7 t of waste (264.7 in 2017) was formed at Klaipėdos Nafta terminal in 2018. The composition of this waste was the following: household waste – 45.6 t (the same volume in 2017), the recyclable material, which is paper and cardboard – 5.4 t (4.4 t in 2017), and metal scrap – 27.6 t (32.8 t in 2017).

Changes of waste in Klaipėda oil terminal



66.4 t of waste (85.0 t in 2017) was formed at Subačius oil terminal. All waste formed during the operation of the Company is delivered to waste managers who are authorized to be engaged in waste treatment. The Company's goal is to separate as much recycling material

fit for treatment from waste as possible. Waste prevention principles are implemented via waste treatment (regeneration), using waste for improvement of condition of the environment, and separation the recycling material from waste.

The use of natural resources and raw materials

Seeking to reduce the usage of paper and to upgrade document management procedures and reduce costs, the Company has implemented and is operating the document management e-system, which electronically manages and archives all documents. This system allows the Company to significantly reduce paper consumption.

Seeking to save fossil fuels and reduce environment pollution by vehicle exhaust gases, the Company organizes meetings between the Company's divisions, customers, service providers, contractors, and other entities via as telephone conferences or via telephone conference communication.

Seeking to save natural resources and to separate as much recycling material (paper, plastics, and glass) from the flow of household waste as possible, the Company has

implemented a waste separation system – waste separation boxes in the Company's premises.

The Company has installed an electric car charging station in this way encouraging employees to use environmental friendly cars.



Sewage treatment

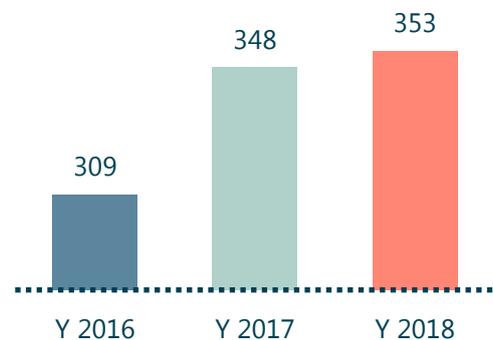
To implement all environment protection requirements, AB Klaipėdos Nafta has the wastewater treatment plants, which propose is to treat Company's wastewater to established standards. The quality of water after treatment must meet the requirements of the following legal acts:

- Sewage Treatment Regulation (No 59-2013, 2006);
- Order of the Minister of Environment Protection on Adoption of Provisions of Environment Monitoring of Entities (No 113-4831, 2009).

The Company also assumed an obligation to deliver on the quarterly basis to the Environment Protection Agency a statement on the pollution of the Curonian lagoon at the point of discharge of the Company's waste before and

after discharge of waste as well as a statement of monitoring of discharge of waste.

Sewage cleaning 2016 – 2018, thousand. m³



The amount of HFO from cleared sewages 2016 – 2018, t



SOCIAL RESPONSIBILITY FOR EMPLOYEES

PERSONNEL'S POLICY PRINCIPLES

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 and unity, improvement, the

optimal use of work resources, training of competent staff, and development of the Company's culture that creates added value.

The Company and its personnel, being responsible to each other and to the society act in observance of the following:

- Collective Agreement;
- The internal working procedures;
- Personnel's policy;
- Code of ethics;
- Remuneration policy;
- Remuneration system formation policy;
- Employees' activities assessment and rewarding procedure;
- Integration program for new employees;
- Qualification improvement guidelines;
- Internal training organization procedure;
- Succession planning.

SIEKIAME TVARIOS
IR ABIPUSĖS PARTNERYSTĖS



TRADE UNIONS

The Company has an established trade union, of which 34 per cent of the Company's personnel are members. The trade union periodically arranges meetings with the

Company's management, during which relevant issues, related to the Collective Agreement, are discussed. Such meetings are usually held two times per year.

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, which is valid from 2018, 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 (1.5 MM) 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;
- Other allowances are paid based on decisions of Administration in the following cases: employee's difficult material situation, employee suffered losses due to natural disasters, fire, flood, etc.;
- Employees who reach their age of retirement and retire gets bigger retirement compensation as requires the national Labour code.

Within the 2018 year 43 employees (in 2017 – 56 employees) has taken advantages of 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 employees. Heads of Units of the Company instruct their employees on-site at least once per year.
- External personnel carrying out works at the territory of the Company and customers' employees shall be acquainted (instructed) with the requirements on Occupational Safety and Health, Fire Safety and Civil Protection Instructions applicable at the terminals. In 2018 the Company instructed a total of 1,841 external employees (in 2017 – 1,503 employees).
- 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 CEO, concerning testing and assessing Employees' training and knowledge on occupational safety and health. In 2018 a total

number of 241 employees were trained and/or certified. The employees operating energy machinery are periodically certified under the procedure provided in the Order of the Minister of Energy of the Republic of Lithuania.

- In 2015 the procedure of internal trainings for the employees of production units was approved, and all the necessary programs, employee trainings and certification are designed under this procedure. 11 additional internal training programs in oil and LNG units were approved in 2018 according to which employees were trained and/or certified. Internal trainings as well as periodic certifications are organized for the purposes of acquiring and renewing professional knowledge, learning and testing skills of the Company's specific production technological processes and equipment, and maintaining employees' high professional standards.
- The general trainings for the development of competencies of employees are performed by sending staff to the seminars, courses and conferences organized by external parties or by organizing internal trainings. Trainings are chosen based on the following: Company's strategy and strategic projects, improving of staff competencies, that are necessary for successful implementation of activity plans of subdivisions,

the objectives of human resources development, needs reflecting in the interviews about annual evaluation of employees as well as in the documents on evaluation given at the end of integration period of new-hires. On 2018 weighty part of investments was dedicated to the development of top and middle management leadership. Leadership skills development program was extended, and it will be ongoing during 2019. New kind of trainings on 2018 took part at KN – e-learning that gives an opportunity to „zoom in“ trainings to the needs of everyone (convenient time, way, what is actual now). In future, this kind of training will be combined with „live“ sessions (blended learning).

- The improvement of internal communication and team unity events are organized. 91 specialists and managers participated in these teamwork trainings in 2018. The main purpose was to emphasize and show the importance of the effectivity and ownership at KN processes for successful business; to make clear understanding of personal influence to commune results and consequences; to direct employees to development of ownership attitude, aiming of LEAN system principles, development of

cooperation and better understanding of each other. Every unit in the Company has internal communication fund for unit social activities. It improves solidarity of units for the higher effectiveness of work.

- With the goal of further consolidating and strengthening teams for more efficient work, each unit has an internal communication fund to cover the costs of social activities spent together.
- The employees are encouraged to share their knowledge and experience gained through internal training. In 2018, 84 internal training sessions were held on 31 topics, led by 22 staff members and involving 646 staff members. In addition, individual trainings were also conducted separately for newcomers, when needed.
- 2018 started the internal e-training system that will be developed as an integral part of internal training and it will make internal training more effective.
- In the year 2018, on average employees had a training/improved their professional skills spending 12,043 working hours (or an average of 3.9 days a year per person for trainings):

Employee category	Working hours a year of training		Average days a year per person for trainings	
	2018	2017	2018	2017
Managers	3,681	2,346	11.6	7.9
Specialists	7,122	5,330	4.6	7.9
Workers	1,240	1,420	1.0	1.1
Total	12,043	9,096	3.9	3.0

In 2017 Qualifications Improvement Guidelines, in 2018 Procedure of Studies financing were prepared for reaching transparency, internal fairness and clarity in area of qualification improvement. The Company is investing into competence strengthening and professional growth for those employees who helps to implement Company's

strategic goals in the effective way; who are evaluated as succeed manager for the future. Every year the Company prepares plans to form human resources reserve educational for management, as this is essential to ensure the continuation of the Company's activities, and employee motivation, preparation for the carrier plans.

INTEGRATION OF NEW EMPLOYEES

To ensure an appropriate process of integration of new employees, they undergo the integration programme, during which they are introduced to the Company's activities, oil and LNG terminals, employees and their functions. The program is aimed at helping the new employees to learn and adapt to the Company's culture, integrate into the collective, understand the principles and activities and, as soon as possible, start creating value for the Company.

Heads of units assign supervisors to new employees. The supervisors are experienced employees, able to provide their knowledge not only in their own area of specialization, but also information about the Company, its traditions and culture. The supervisors are responsible for the training, provided during the integration period and provision of information on the achievements to heads of their respective divisions.

OTHER GOOD INITIATIVES

The Company encourages healthy way of life, sports activities and taking care of one's physical health. As the Company took care of the health of employees, in 2018, it provided its employees with private health insurance. Employees were provided with an opportunity to choose one of three health insurance options. This way every employee could take care of his health to the full extent. Company also created favourable conditions for its personnel to go in for sports – the employees could choose between basketball and football in a rented sports hall. The Company sponsored the team, formed of its employees, which played in Klaipėda's basketball league.

The employees of the KN are participating in Klaipėda port companies "Spartakiada" 2018-2019 to strengthen social relations, organize active, rich leisure time, improve employees' physical abilities and to strengthen health.

HEALTH OF EMPLOYEES

This is one of the few companies in Lithuania which has licensed medical office where urgent medical aid, preventive care of employees, infection control and risk factors to health control is being provided. Medical office organizes the training of first-aid and basic hygiene. They are responsible for health checks during employment and professional health care of employees.

Company also has physical medicine and rehabilitation office which has effective medical equipment approved by modern science which is used for preventive health recovery of employees.

In 2018 both employers and employees are advised on health matters:

WORK SAFETY

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

In 2018 one deadly accident occurred in the Company. The incident happened at Klaipėda KN oil terminal on

The Company arranges different traditional festivities for its employees, their children and retired employees. In 2018 Christmas and Sea Festival were celebrated within the Company.

KN joined the project "Young Colleague's Week" organized by Junior Achievement Lithuania, during which various companies open doors for students. The students had the opportunity to communicate with the KN specialist and hear about the potential workplaces, to find out what skills and knowledge a student needs to sit in a specialist's chair in the future.

The Company's employees participated in World Cleanup Day organized by "Let's do it" movement. Employees cleaned up the territory of the Seaside Regional Park and sought not only to clean up waste, to strengthen interrelations but also to rise environmental awareness among the society.

- Preventive employees' health care done for 193 employees.
- 145 employees attended first aid and hygiene skills training.
- Outpatient served in health centre – 278 employees.
- Rehabilitation procedures were done for 63 employees.
- Employees were advised on health matters 133 times.
- Company's employees are provided with free vaccines against tick-borne encephalitis, typhoid, influenza and other illnesses. In 2018, 228 employees were vaccinated.

June 3rd. The State Labour Inspectorate investigation has been already carried out. A pre-trial investigation is still in progress at the Chief Police Commissioner of Klaipėda County. The company covered all the funeral expenses, as well as, paid non-pecuniary damage to the relatives. In order to avoid similar accidents in the future, the Company has established accident investigation commission, which reviewed internal risk reduction measures and considered the question of additional preventive measures. The Company also focuses on additional health and safety instructions for employees, contractors and other partners. Additionally, the Company allocated separate investment budget for the health and safety.

Prevention for accidents

AB Klaipėdos Nafta admits that due to the nature of its business activity the Company has a risk of causing big accidents and undertakes to manage these risks so that big accidents would be avoided and the Company's employees, contractors, customers, attendants, neighbours, and environment would be provided with high level safety and protection.

AB Klaipėdos Nafta assures compliance with the stringent safety standards and the safety policy by means of consistent development of the common safety management system (SMS). To avoid big malfunctions and accidents and to reduce the consequences thereof, the Company also assumes the obligation:

- To create and maintain high safety and environment protection system and involve the employees of all levels in the SMS creation and monitoring procedures.
- To provide employees and contractors with information required for conduction of training, including training in response to possible accidents, instructions, and maintenance.
- To investigate accidents, hazardous situations, or incidents and to identify causes of such accidents, set adjustment actions with due consideration of the opinions made, seeking to avoid such accidents, hazardous situations, or incidents in the future or to mitigate these consequences.
- To carry out uninterrupted safety and environment protection monitoring.

In 2017, the Company adopted the new Procedure for Reporting Accidents, Professional Illnesses, and Incidents, which lays all employees under an obligation to report to the Employee Safety and Health with all hazardous events and possible safety and health incidents. During 2018 26 near misses or safety and health incidents were recorded and investigated.

In accordance with the Regulations for Prevention, Elimination, and Investigation of Industrial Accidents adopted by Order No 966 of 17 August 2004 of the Government of the Republic of Lithuania, the Company consistently analyses the internal accident prevention

plan for terminals and the efficiency thereof, including safety measures, warning, information sharing, and engagement in procedures that are aimed at reduction of the impact of big accidents and limitation of consequences thereof. To assure the safe performance of technological procedures and safe operation of equipment and plants civil protection training and internal accident prevention plans were performed of oil terminal and updated of the LNG terminal.



HUMAN RIGHT'S PROTECTION

The Company carries out its activities in observance of the human rights protection principles and ensures that the Company itself is not a part of any human rights violations. The Company stands for fair and transparent work remuneration policy, observes the legal acts, regulating working time and overtime working, respects the employees' right to rest and does not tolerate harassment or abuse of any kind.

The Company stands against any discrimination or forced working. The Company's employees, independently of

their gender, nationality, social or marital status, belonging to any social or political organization or their personal features, are provided equal possibilities to occupy managing positions, take part in decision-making and develop their professional qualifications

In 2018 no human right violations or any relating complaints have been registered. We will reach to further ensuring that human rights in the Company are properly protected.

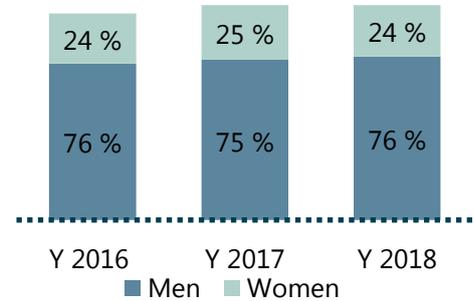
GENDER EQUALITY

The Company supports gender equality. The majority of the Company's employees consist of men. This may be due to the specifics of pursued activities: fewer women choose work of the technical engineering profiles and jobs performed under outdoor conditions, and specialties directly associated with them.

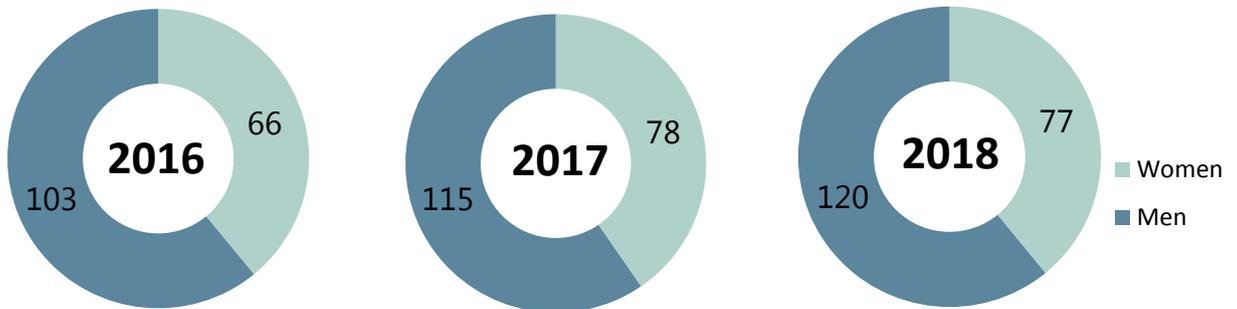
In 2018 the same number of woman held managing positions as in 2017 (7 managers).

In the end of 2018 there were 77 women and 120 men in specialist position of the Company and compared with 2017, number of specialist changed respectively -1.3 per cent and +4.3 per cent.

Employees of the Company according to the gender 2016 – 2018



Specialists of the Company according to the gender 2016 – 2018



SOCIAL RESPONSIBILITY FOR SOCIETY

SPONSORSHIP

KN sponsorship is provided in accordance with the principles of transparency, openness, social responsibility, sustainability and mutual trust, public benefit, efficiency and rationality. By providing support, KN seeks to contribute to projects that create value and benefits for the region of Klaipėda. In allocating support, consideration is taken of whether the sponsorship project creates a clear and real value for the public or target group in whose environment the project is carried out, as well as whether the sponsorship project activities are in line with the strategic objectives and values of KN. In 2018, the selection of support projects was carried out in accordance with the updated Rules for the Provision of

Support which the KN Board approved at the end of 2017. The Rules for the Provision of Support that came into effect in 2018 are available [here](#). In evaluating support projects, consideration was given to the relevance of the support project, the substantiation of the problem, the substantiation and reality of the objectives and tasks of the project, and the means to achieve the chosen objectives. In summarising the support projects, the primary focus in 2018 was on promoting community and keeping good relationships with neighbouring communities.

As stipulated in the rules, support was allocated in 2018 for five key areas:



Two Main Directions for Support Projects: Environmental Protection and Culture

In 2018, KN actively contributed to fostering the city's cultural life and its most important cultural events, which are important not only for the people of Klaipėda, but on a national level as well.

KN is one of the long-term partners of Klaipėda Sea Festival and has been contributing to this event since year 2000. The financial support that the company provides to the Sea Festival opens opportunities for the development and realisation of ambitious ideas, and in recent years, the Sea Festival programme has received particularly good ratings. In turn, KN participated in the event and invited Sea Festival visitors to attend engaging conversations and musical performances related to the Centennial of the Restored State of Lithuania; in addition, KN encouraged

employee involvement by inviting staff to introduce the company not only in the colourful parade, but also by interacting with visitors in a dedicated space.



KN also sponsored the revival of an important cultural event in celebrating the European Heritage Days in Klaipėda –Neužšąlantis Miestas (“The City That Doesn’t Freeze”) project presented by PADI DAPI Fish (now Šeiko Teatras). Dedicated to the Lithuanian Centennial, this performance of dance and history invited viewers to learn more about the history of the state through the prism of the historical/cultural heritage of Klaipėda. School communities were actively invited to participate in the free events, so the educational role of the performance was also important, giving teachers a chance to present the country's history in a more creative and diverse way and to develop the children's aesthetic and artistic perception.



KN also contributed to other important cultural events in Klaipėda which promote the cultural life of the city and help increase its attractiveness not only in the region, but in the broader context as well – KN support was allocated to the Klaipėda State Music Theatre's Muzikinis Rugsjūtis Pajūryje (“Musical August at the Seaside”) project. The ATRIUM, an international theatre festival organised for the second year by the Klaipėda Drama Theatre, was also sponsored – events like this help raise awareness of Klaipėda abroad, open up opportunities for cooperation and cultural exchanges with foreign countries, and contribute to fostering the cultural spirit in the region.

In 2018, KN also paid significant attention to environmental issues and cooperation with communities. In light of KN's environmental priorities and environmental investment, as well as of the ongoing dialogue and in accordance with the principle of being a good neighbour, support was also allocated to projects for improving indoor air quality for the organisations and communities located near the company. Support was given to the Klaipėda Vitė Progymnasium for upgrading the air ventilation and air conditioning system. Support was also allocated to the Švarus namų oras (“Clean Home Air”) project being implemented by the Vitė Quarter community for improving air quality at home.

Priority in the Field of Education – Sustainable Cooperation

The LNG market and technology are relatively new and innovative in Lithuania, so one of the goals set by KN is effective cooperation in the field of education and science. KN, in cooperation with Klaipėda University, established the Liquefied Natural Gas Terminal Engineering study programme back in the autumn of 2015. This globally prospective engineering specialisation, which is now in demand both due to the expanding LNG market in Lithuania with the new LNG terminal as well as worldwide, also led to cooperation in an effort to motivate

the students studying in this programme with the best academic results.

KN continued its cooperation with the Klaipėda Children's Recreation Centre (KCRR), which is located in Melnragė, in KN's neighbourhood. The KCRR combines six recreational youth clubs that provide after-school activities and informal learning for children. Some 1,300 children from all over Klaipėda participate in the activities of these clubs every year. Given that one of KN's operational guidelines is to strengthen relations with the local community, KN

has been contributing to Šeimoms pramogų uostas ("Port of Family Entertainment") – a traditional educational project organised by the KCRR – for a number of years.

The company has also contributed to the Versmė Progymnasium's traditional event for socially disadvantaged children growing up in large or incomplete families – experience based summer day camp called

Other Projects

KN also sponsored the City of Hope event series which came about a decade ago as a solidarity event for the Run for Hope. The company's sponsorship has helped this event grow into a genuine social cultural cluster, with activities that include culture, education, sports and environmental protection; all of the projects implemented complement each other coherently. The aim of these events is to reduce the exclusion of socially vulnerable

Mano ryškiausia vasara ("My Most Vivid Summer"). The camp uses informal education methods, learning surrounded by nature and experiential pedagogy, encouraging children to try out various sporting, tourism and creative activities aimed at strengthening children's self-confidence and cooperation skills.

groups and to promote solidarity, volunteering, and access to cultural, sporting, educational or health initiatives. The main event – the Run for Hope – takes place in the city of Klaipėda, but it is open to Lithuanian residents from other towns and regions as well as guests from abroad. This year, a team of KN employees got together and participated in the Run for Hope, thus contributing to the City of Hope goals by example.

COOPERATION WITH SCIENCE INSTITUTIONS AND TECHNOLOGY PARKS

Focus on education and sustainable development of energy sector

KN highly focuses on activities contributing to science promotion in society and encouraging smart youth to take interest in exact sciences and scientific career.

For several years now, KN has been accepting students of the National Student Academy's summer camp and acquainting them with the company's activities. Last summer, the group of students had an opportunity to visit Klaipėda Oil Terminal. The Company also cooperated with Lietuvos Junior Achievement (JA Lithuania) – students were invited to KN office in Vilnius where they became acquainted with KN international activity directions, and KN office in Klaipėda organised a job interview simulation aimed at helping students get prepared for their future professional careers.

In 2018, in order to present KN activities and contribute to the promotion of LNG related sciences in Lithuania, a competition on energy independence was organised for pupils from all over Lithuania. The winners of the competition – a group of pupils from Siesikai High School (Ukmergė District) – became acquainted with the LNG Terminal operation by KN and were invited to see the FSRU and meet KN CEO Mindaugas Jusius to learn about the company's activities and professions that are in greatest demand in the company. Afterwards, the pupils shared impressions of their visit to FSRU "Independence" and noted that it was almost one of the best trips they had had during twelve years.

In order to increase the involvement of KN employees, they also expressed their opinion when selecting the best

pupils' video. The work of eleventh-formers from Akademija High School (Kėdainiai District) received the biggest number of likes from KN employees and was awarded a special prize – a souvenir model of FSRU "Independence". Moreover, a meeting was held in the high school with broader discussions of KN activity directions and the required competences of employees.

KN became part of the biggest science promotion event – the Lithuanian Science Festival "Spaceship Earth". In 2018, a study tour around the FSRU "Independence" was organised for the visitors of the festival. They willingly used this opportunity.

KN has been continuing cooperation with Hoegh LNG Klaipėda and the Lithuanian Maritime Academy with the view of providing maritime students with technical practice opportunities. In 2018, two selected students signed cooperation agreements regarding technical practice at the FSRU "Independence".

KN also promoted discussions on the topical issues of the energy sector such as LNG prospects, clean energy policy, etc. among different groups of society – we have initiated or contributed to discussions in the events such as the festival of discussions "Būtent!" ("Makes Sense!"), Vilnius Energy Forum or the Final Conference of HEKLA Project in Klaipėda.

All social activities of KN are focused on the sense of community, partnership, opinion leadership, and are aimed at contributing to the sustainable energy sector and the country's economic development.

LNG cluster

Seeking to exploit the LNG economic potential to the fullest possible extent, the LNG cluster, which by now is uniting 16 partners, was formed in 2016. It should be noted that in 2018 the cooperation platform welcomed two new members – UAB Viva Grid and UAB Baltkonta of Limarko Group, which became the first logistics company in Lithuania that entered the LNG distribution market.

From day to day the cluster increasingly develops its activity and turns into „a driver“ for the provision of knowledge of technological and financial resources for innovative projects that enable to reduce CO₂, sulphur, nitrogen oxides, and solid particles emissions in this way protecting the environment and contributing to efficient consumption of natural resources in a way meeting public interests. The activity of the LNG cluster will also be beneficial for Lithuanian engineering industry and science, creation, development, and commercialization of new products and technologies, establishment of working places that create a high added value, and preparation of new courses of studies and specialists.

Technological projects

In 2018, an advanced technology developed in Lithuania and enabling efficient use of the LNG cold energy was presented. This innovative solution that helps reduce electricity consumption and contributes to tackling ecological issues could be applied not only to refrigerator terminals, but also to many other objects.

The technology has been developed by UAB Valcon which has accumulated considerable experience in the field of operation systems of thermal power stations. Cooperation

Possibilities of practice

The Company cooperates with educational institutions and creates conditions for university and college students to apply their theory knowledge and acquire practical skills. The Company organizes educational training both for students from educational institutions according to scheduled practical training and for those students who want to do practical training on their own. In 2017, 24 students did their practical training at the Company, while in 2018 the number of students was 23. These students studied at the University of Klaipėda, Kaunas technological University, Vilnius University, Vilnius Gediminas Technical University, Klaipėda state college, Lithuanian higher nautical school, Vilnius college and Copenhagen Business School. Some students who have the best academic results and are mostly motivated for

In 2018, the Lithuanian LNG cluster signed a cooperation agreement with Hamburg Messe und Congress GmbH, the organiser of the International Maritime Trade Fair SMM. This step proved to be useful for achieving the aim of broader international introduction of its activities and implemented projects. On 26–28 September, the Lithuanian LNG cluster also presented itself at the International Black Sea Transport Forum “Trans Expo Odessa 2018”.

The LNG cluster took the initiative to organise the first hackathon “Industry 4.0” in Klaipėda on 23–25 November 2018. The event aimed at encouraging youth and experienced professionals to share knowledge and opening up the potential of innovative ideas, which is of great interest to modern business. The projects created during 48 hours covered the solutions and visions applied in the port and related to loading processes and environmental protection; an idea of an underwater drone designed for the diagnostics of the condition of quays and the concept of an energy trading platform with a start-up potential were presented.

with organisations belonging to the Lithuanian LNG cluster gave a significant impetus for the company to address a new challenge. The cluster took the initiative to establish a consortium for the implementation of the project, composed of AB Vakarų laivų gamykla, AB Klaipėdos nafta, the international company Emerson Automation Solutions and partners: UAB Ketonas, the provider of services of frozen product storage, and UAB Emeko.

practical training, who attend the Company not only to learn the business activity of the Company but also to master practical skills, have a good chance to be employed by the Company.

Students are also provided with the opportunity to fulfill the tasks of practical training according to those formal and informal occupational safety programs of other educational companies according to which the Company’s employees are trained.

Company since 2017 accepts trainees at the LNG terminal Independence and other LNG business department where students from different fields can apply their existing academic knowledge.



2018

AB KLAIPĖDOS NAFTA
GOVERNANCE REPORT

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AB KLAIPĖDOS NAFTA GOVERNANCE REPORT INFORMATION

The public limited liability company Klaipėdos nafta aims to make its corporate management and internal processes in a way to ensure transparent, effective and profitable activities and its activities retain the trust of our stakeholders. The internal control processes and management practices implemented within the Company are in line with the best management practice principles. In this report provided main information and principles regarding management and related processes.

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

The Company's management structure and managing and supervisory bodies are described in detail in the article Management of the Company of the annual report. This paragraph also contains information regarding corporate management and organizational scheme, connection with the other bodies and short description of the functions of the each managing body. Also mentioned paragraph provides the information regarding remuneration for service in the collegial bodies and amount accounted for the each member of the bodies.

In order for the management and supervision bodies of the Company to exactly and clearly understand the targets, directions and objectives the corporate strategy is being prepared with purpose to foreseen long term strategic goals and tasks. The Board of the Company is responsible for the approval of the strategy. AB Klaipėdos nafta strategic goals are described in the paragraph The Company's Strategy.

The Company, acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific provisions or recommendations in the paragraph AB Klaipėdos nafta Compliance with the Corporate Governance Code.

Company's annual report of the year 2018 along with Company's governance report and explanatory notes of the year 2018 financial statements are published in AB Klaipėdos nafta official website (www.kn.lt) and in AB NASDAQ Vilnius (www.nasdaqomxbaltic.com) Stock Exchange.

RISK FACTORS AND RISK MANAGEMENT

The Company's Board approved Risk Management Policy that regulates risk management, defines risk management principles and responsibilities, functions and responsibilities of the Chief Risk Officer as well as sets risk appetite and tolerance limits. The risk management system is developed in accordance with the ISO 31000 guidelines. The list of principal risks and the risk management plan are provided to and approved by the Company's Board each quarter. The Board actively participates in the principal risk management process by continuously monitoring the risk level changes and the risk management measures' action plans. The Company's high-level management is responsible for shaping the personnel's attitude towards risk management, setting the risk management goals in the managed area, implementation of the control measures, implementation and monitoring the efficiency of the risk management measures. The medium level managers are responsible for implementation of the risk management process and provision of the results, as well as for reliability, correctness and impartiality of information.

The Company has established Audit Committee which is responsible for efficiency improvement when controlling Company's finances, helping achieve optimal and impartial decision making. Audit Committee will look after financial reporting process as well as audit execution process. Also, will oversee internal control environment, risk management and internal audit framework as well as internal process efficiency.

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

- Business risk. It is a risk category that is generally related with environment where the Company operates and has an impact on its financial results: Company's competitiveness comparing with other players on the oil products transshipment market, economic viability of the Company's key customers, political and economic environment in Belarus, changes in legal regulation of the LNG related activities and etc.;
- Operational risk is probably the widest risk category covering potential loss resulting from inadequate or failed procedures, systems or policies, employee errors, systems failures, fraud or other criminal activity. As well as any event that disrupts business processes.
- Reputational risk. It is a risk mostly related with the Company's decisions and behaviour of its employees.
- Project risk. The Company is engaged in several large investment projects, therefore, effective risk management throughout the whole lifecycle is critical when achieving goals.

Some wider comments on the risk categories of the Company are provided below:

- Business risk

The Company works with several big clients in transshipment of oil products area. The main client of the Company is AB ORLEN Lietuva. Its transshipment volume during the year 2018 comprised 2/3 of the Company's terminal total transshipment. The Company has signed a long-term transshipment agreement with ORLEN Lietuva which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva. Nevertheless, the Company continuously looks for other potential clients, flows of shipments and alternative activities because of constantly escalated topic on possible closing or suspension of ORLEN Lietuva refinery. Also, the Company reviews existing expenses and constantly searches for costs optimization possibilities.

Annual transshipment volume of oil products from Belarusian and Russian oil refineries amounts approximately 1/3 in 2018 of the total transshipment volumes of the Company. Since Belarus has no direct access to the sea, Belarus must use transit services of neighbouring countries and their ports in order to export oil products to the Western countries. Therefore, the cooperation with Belarusian companies and institutions is highly important in order to divert their transit of oil products through Klaipėda port. Due to the significant share of Belarusian transit of oil products in Company's activities there is a risk (including but not limited by political, economic, etc.) that the Belarusian oil refineries may decide to export oil products using ports of other countries (Latvia, Estonia or Ukraine). On the other hand, Belarusian companies are highly dependent on oil import from Russia and any disruption in supply chain may lead to decreased quantities of refined oil products, thus decreasing transshipment volume of the Company.

The main competitors of the Company are the following terminals of Klaipėda and other Baltic Sea and Black Sea ports which are transshipping heavy and light oil products exported from Russia, Belarus and Lithuania: Kroviniu terminalas (Lithuania), Ventspils Nafta Terminals (Latvia), Ventbunkers (Latvia), BLB (Latvia), Naftimpex (Latvia), Alexela (Estonia), Vopak EOS (Estonia), Vesta (Estonia), Odessa, Sevastopol, Feodosia terminals (Ukraine), Peterburg Oil Terminal (Russia) and Ust-Luga terminal (Russia). The most significant factors influencing the competitiveness of the Company on the market are as follows: technical characteristics of the port and the terminal (number and depth of the jetties, maximum allowed draughts of sea vessels, capacities of terminal storages, efficiency of the loading equipment, etc.) and infrastructure servicing the terminal (roads, railway networks, etc.), cost of logistics.

It is reasonable to expect that the Company will maintain oil product freights because of the good reputation of the Company, technological advantages (in particular relation to HFO transshipment in winter conditions), investments into expansion of park of oil products' storage tanks, current market share, long-term agreements with cargo owners, and benefits of ice-free port.

The Company striving to manage its business risks by diversifying its income sources and widens the range of services it provides: operates liquefied natural gas (LNG) terminal, consults and participates in international investment projects related with the development of LNG terminals, providing completely new small-scale LNG services to clients.

The Law of the Liquefied Natural Gas terminal approved on 12 June 2012 by the Parliament of the Republic of Lithuania establishes development of the LNGT at the territory of the Republic of Lithuania, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT operation. The inadequate change of the mentioned law and other already adopted laws regulating activity and exploitation of the LNGT could result in significant losses concerning the financial and/or legal liabilities that already have been taken. Therefore, Company's lawyers actively participate in different meetings with state institutions striving to emphasize the consequences the potential decisions.

- Operational risk

Operational risk is considered as risk, directly related to the increase of losses, caused by the external factors (for example, natural disasters, illegal acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient utilization of funds, internal control deficiencies, ineffective procedures, human error, malfunctions of information systems, cyber security control gaps, unduly allocation of functions or responsibilities, etc.).

In order to manage operational risk, the Company implemented required organizational measures and procedures as well as information systems to be used for support of business processes that collectively ensure proper functioning of internal control system and duly cooperation with the third parties concerned. The

Company applies the following means of internal control: separation of decision making and controlling functions, control of transactions and accountancy, limitation of decision-making powers and control of their execution, collegial decision making in crucial issues, etc.

The Company strives to minimize legal compliance risk and assure that its operations are compliant with the applicable legal requirements and standards. Therefore, Company lawyers actively take part in decision making processes of the Company; participate while drafting internal legal acts and agreements. Infrastructure, as well as management and safety processes, cooperation with the third parties and control system has been positively evaluated by the representatives of potential clients of the terminals.

- Reputational risk

The Company cherishes its reputation and good name and employs risk mitigation means. The Company values' revision project was successfully implemented and continued in 2018. The goal of the project is to purify Company values and achieve highest possible engagement level of Company's employees. Implementation of project should help to assure that behaviour of employees is in line with values and Company's code of ethics. The Company pays substantial attention for minimizing corruption risk and implements relevant internal processes.

- Project risk

Investment project management is an important part of the Company's business. The Company invests into the expansion of tanks for light oil product storage, development of the system of relevant connecting pipes and pumps, development of tanks for mixtures of oil and water, reconstruction of jetties, development of liquidated natural gas reloading station, etc. Also the Company looks for opportunities in international LNG investment projects. In order to attain the economic value that investment projects are supposed to generate it is important to assure that the projects are implemented within the defined budget and timeframe. Company's Board have set 10 per cent tolerance limit for deviations, therefore Company's management constantly monitors implementation statuses of the important projects, related risks and their mitigation measures.

MANAGEMENT OF THE COMPANY

Management structure

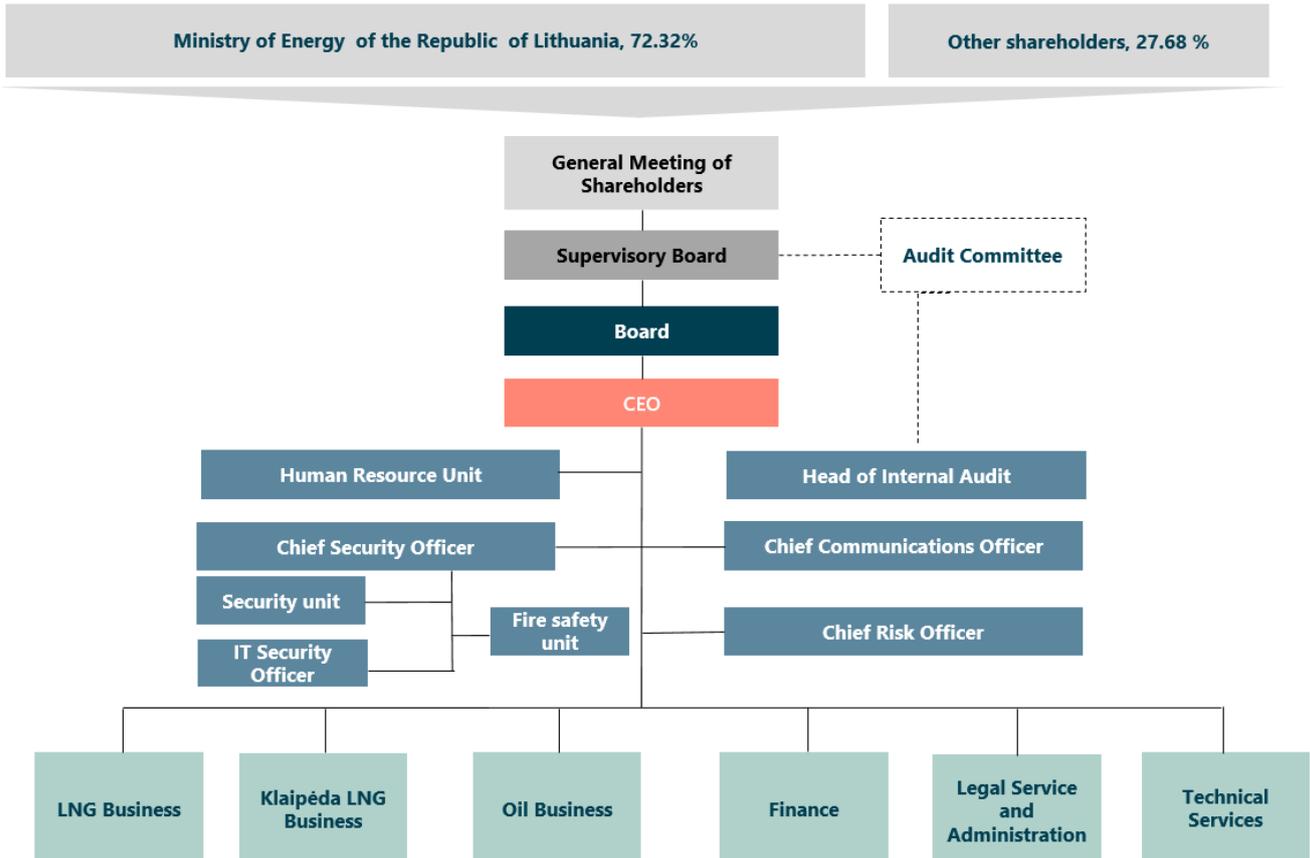
The Company follows the Law on Stock Companies, the Law on Securities, Articles of Association of the Company and other legal acts of the Republic of Lithuania during its operation.

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

following management bodies:

- The General Meeting of Shareholders,
- The Supervisory Board,
- The Board,
- Chief Executive Officer (CEO, General Manager).

Organizational and management structure of the Company:



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

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

In the last ordinary general meeting of Shareholders the following representatives of the Company took part: General Manager of the Company, acting Chief financial officer, head of the legal division.

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

Upon convention of the Company's General Meeting of Shareholders on 27 April 2018, the members of the

Company's Supervisory Board were elected for the period of four years: Tomas Lukoševičius, Eimantas Kiudulas and Andrius Varanavičius.

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

By the decision of the Supervisory Board of the Company the members of Audit committee were elected until the end of office of the current Supervisory Council: Andrius Varanavičius and Laura Garbenčiūtė – Bakienė were approved from 21 August 2018 and Žana Kraučenkienė was approved from 3 December 2018 .

The Board is a collegial management body of the Company consisting of 5 (five) members, who are elected

by the Supervisory Board for the period of 4 (four) years. (Note: From 11 April, 2017, after the resignation of Mindaugas Jusius, 4 out of 5 Board members of the Company were acting.

The Board members elect the Chairman of the Board. On 28 May 2018 Board member Giedrius Dusevičius was elected as a chairman of the Board. The number of the terms of office a member may serve on the Board is not limited. A person who is a member of the Supervisory Board of the Company or who under the legal acts may has no rights to be elected cannot serve as a member of the Board. The mandate of the Board members and scope of activity of the CEO have been determined by the Law of Stock Companies and the Articles of Association of the Company.

The Company is managed by **the Chief Executive Officer (CEO)** which is a single-person managing body of the Company. The CEO is the main person managing and representing the Company. The duties and competence of the CEO have been determined by the Law on Stock Companies and the Articles of Association of the Company.

Members of the Supervisory Board as at 31 December 2018

Eimantas Kiudulas



Chairman of the company's Supervisory Council. Elected to the Supervisory Council on the 27 April 2018 by the ordinary General Meeting of Shareholders for a four-year term. Also served as a member of the KN Supervisory Council in 2013–2017. Education: ISM University of Management and Economics, Management Accounting: Value Analysis module (2010); Vilnius University Faculty of Economics (1994). Participation in activities of other companies and organisations: Eimantas Kiudulas' company, owner UAB "iValue", CEO, shareholder; Klaipėda Chamber of Commerce, Industry and Craft, Council Member; Lithuanian Association of Free Economic Zones, Board Member, Chairman of the Board UAB "Biorro", Board Member; UAB "Klaipėda Free Economic Zone Management Company", CEO, Board Member; UAB "LEZ projektų valdymas", Board Member; UAB "PO7", Board Member; UAB "ProBioSanus", Board Member; UAB "Flex Start One", CEO; Public Institution "Klaipėda ID", Board Member, Chairman of the Board. Information about the shares of AB "Klaipėdos nafta" or shares of other companies, which Eimantas Kiudulas holds, and the total amount of which exceeds 5% of all shares of the company: UAB "ProBioSanus" – 23 %; UAB "Biorro" – 38 %.

Andrius Varanavičius



Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 27 April 2018 during an ordinary general shareholders' meeting for the office duration of four years. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company until the end of office of the current Supervisory Council. Education: Concordia International University Estonia, BA in International Business— Finance Major (2001). Participation in activities of other companies and organisations: Takeda Pharmaceuticals International, director of finance for Europe and Canada, Takeda Pharma AG, Board Member, Takeda UK Limited, Board Member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Tomas Lukoševičius



Member of the Supervisory Council of the Company. He was elected Member of the Supervisory Council on 27 April 2018 by the ordinary meeting of shareholders for the term of office of four years. Education: Vilnius University Institute of International Relations and Political Science, MA in International Relations and Diplomacy (2006); Vilnius University Institute of International Relations and Political Science, BA in Political Science (2004). Place of work and position: Director of the International Cooperation and Planning Division of the Ministry of Energy of the Republic of Lithuania (career civil servant, head or deputy head of a structural unit of the Ministry of Energy of the Republic of Lithuania (position code 351). Tomas Lukoševičius does not hold shares of AB "Klaipėdos nafta" and other companies, when the total number of such shares exceeds 5%.

There were 10 meetings of Supervisory Board in 2018, which were attended by all Supervisory Board members.

Name	Position in the Company	The independence criteria	Cadence commencement date
Eimantas Kiudulas	Chairman of the Supervisory Board	Independent	From the 27 April 2018
Andrius Varanavičius	Member of the Supervisory Board	Independent	From the 27 April 2018
Tomas Lukoševičius	Member of the Supervisory Board	-	From the 27 April 2018

On the 27 April 2018 of the ordinary General Meeting of Shareholders took the decision to elect Tomas Lukoševičius, Eimantas Kiudulas and Andrius Varanavičius as the members of Company's Supervisory Board for the period of four years. In 2018

for the independent members of the Supervisory Board total remuneration amount comprise of EUR 15.1 thousand. Members of the Supervisory Board were not granted by any loans, guarantees or assets for the year 2018.

Audit Committee

By the decision of the Supervisory Board of the Company the members of Audit Committee were elected until the end of office of the current Supervisory Council: Andrius Varanavičius and Laura

Garbenčiūtė – Bakienė were approved from 21 August 2018 and Žana Kraučenkienė was approved from 3 December 2018.

Members of the Audit Committee as at 31 December 2018

Andrius Varanavičius



Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 27 April 2018 during an ordinary general shareholders' meeting for the office duration of four years. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company until the end of office of the current Supervisory Council. Education: Concordia International University Estonia, BA in International Business— Finance Major (2001). Participation in activities of other companies and organisations: Takeda Pharmaceuticals International, director of finance for Europe and Canada, Takeda Pharma AG, Board Member, Takeda UK Limited, Board Member. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Žana Kraučenkienė



Member of the Audit Committee. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company as of 3 December 2018 until the end of office of the current Supervisory Council. Education: Vilnius University, Master's degree in Mathematics (study programme of Finance and Insurance Mathematics), 2000, Vilnius University, Bachelor's degree in Applied Mathematics (study programme of Finance and Insurance Mathematics), 1998. Place of work and position: Since March 2016 – Director of "Effectum LT", owner of the company. Since January 2016 – Head of the Internal Audit Department of the Lithuanian Children and Youth Centre. In the period from 2000 to 2018 occupied various positions in the insurance company "Lamantinas" and was a member of the company board. Participation in activities of other companies and organisations: Since March 2016 – Director of "Effectum LT", owner of the company. Since 2015 – Board member of the Association of Risk Management Professionals. Since 2017 – Board member of the Institute of Internal Auditors. Member of the Institute of Internal Auditors. Member of the Risk Management Committee of the Actuarial Association of Europe. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Laura Garbenčiūtė-Bakienė



By the decision of the Supervisory Council, elected as a member of the Audit Committee of the company until the end of office of the current Supervisory Council. Education: Vilnius Gediminas Technical University, Master degree in Finance (1999); Kaunas University of Technology, Bachelor degree in business administration (1996). Employer and position: Since 2016 – financial advisor with portfolios of small and middle-sized Lithuanian and foreign companies; 2015-2016 – Director of IAC of UAB "Lietuvos energija"; 2013-2015 – Director of the Department of Electronic international transfers of UAB Western Union Processing; 1997-2012 – various positions at UAB PricewaterhouseCoopers. Participation in the management of other companies: Since 2018, Laura Garbenčiūtė-Bakienė is a member of the Supervisory Council of the company "Investicijų ir verslo garantijos"; Since 2016 – the Chair of the Audit and Risk Committee of the State Enterprise "Ignalinos atominė elektrinė". Since November 2018 – Independent Board Member of SĮ VASA (Vilniaus atliekų sistemos administratorius). Has no direct interest in the share capital of the Company no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During the year 2018, 1 Audit Committee conference has been arranged where all Audit Committee members have participated.

Name	Position in the Company	The independence criteria	Cadence commencement date
Andrius Varanavičius	Member of Audit Committee	Independent	From the 21 August 2018
Laura Garbenčiūtė-Bakienė	Member of Audit Committee	Independent	From the 21 August 2018
Žana Kraučenkienė	Member of Audit Committee	Independent	From the 3 December 2018

In 2018 for the independent members of Audit Committee total remuneration amount comprise of EUR 4.8 thousand (in 2017 – EUR 10.5 thousand). Members of the Audit Committee did not receive any loans, guarantees or assets, unpaid bonuses, tantjems and other

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

Members of the Board as at 31 December 2018

Dainius Bražiūnas



(born 1983) – Member of the Board of the Company since 25 August, 2014, until the term of office of the acting Board of Company. Education: Vilnius Gediminas Technical University, Bachelor in energy (2005). Employment – head of the Oil and Gas Division of the Ministry of Energy of the Republic of Lithuania (legal status - budget office, code 302308327, Gedimino pr. 38, Vilnius). Participation in the activity of other companies: head of Koturna association “ (legal status - association, code 301684878, Mykolo Marcinkevičiaus street 23-13, Vilnius), member of the Board and member of the Board of No. 599 homeowner community bendrijos (legal status – community, code 124754821, Paribio street 53A, Vilnius). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Mantas Bartuška



(born 1984) – Board member of the Company since 25 September 2014, elected by the Supervisory Board until the term of office of the acting Board of Company. Until 2 January 2017 was CEO of AB Klaipėdos nafta. Education: Vilnius University, faculty of economics, diploma of management and business administration (2007). Since 16 December 2016 works as general manager at AB Lietuvos geležinkeliai (legal status – Stock Company, code 110053842, Mindaugo street 12, Vilnius). Participation in the activity of other companies: since 14 December, 2016 member of the Board of the AB Lietuvos geležinkeliai (legal status – Stock Company, code 110053842, Mindaugo street 12, Vilnius, member of Presidium of Lietuvos pramoninkų konfederacija (legal status – association, code 110058241, A. Vienuolio street 8, Vilnius). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Giedrius Dusevičius



(born 1971) – Independent member of the Board since 30 December, 2016, elected till the end of the Board of Company cadence. Education: Vilnius University, Faculty of Economics, (1989); Vilnius University, Institute of International Relations and Political Science (1994); INSEAD, Management Programme (AMP, 2006). Participation in the management of other companies – member of the Board of UAB ACC Distribution (legal status – Limited Liability Company, code 135150085, Jonavos street 196, Kaunas. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Bjarke Pålsson



(born 1968) – Independent member of Board since 24 January 2017, elected till the end of the Board of Company cadence. Education: University of St. Gallen (HSG) in Switzerland, CEMS Master's Study Programme of Quantitative Economics and Finance. Copenhagen Business School in Denmark, Master's in Finance (excl. thesis) (1992). Copenhagen Business School in Denmark, Bachelor's in Economics. Employed: 50% owner and Co-CEO of Mark & Wedell (Oldenvej 5, 3490 Kvistgaard, Denmark). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

All members of the Board of the Company attended all 15 Board meetings held during the year 2018.

Name	Position in the Company	The independence criteria	Board member from the date
Dainius Bražiūnas	Member of the Board	-	From the 25 July 2014
Mantas Bartuška	Member of the Board till the 16 December 2016, Head manager of the Company	-	From the 25 September 2014
Giedrius Dusevičius	Member of the Board	Independent	From the 30 December 2016
Bjarke Pålsson	Member of the Board	Independent	From the 24 January 2017

Independent members of the Board are paid based on the agreement concluded with the Company that is approved by the Supervisory Board. In 2018 for the independent members of the Board total remuneration amount comprise of EUR 57.7 thousand. (2017 - EUR 46.6 thousand.)

Members of the Board in 2018 did not receive any loans, guarantees or assets, were not paid bonuses, premiums tantiemes or any other benefits for work as members of the Board.

The Directors of the Company as at 31 December 2018

Mindaugas Jusius



(born 1979) – Chief Executive Officer of AB Klaipėdos nafta since 11 April, 2017, member of the Board from 24 October, 2011 till 10 April, 2017 (independent member of the Board till 29 March, 2017). 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). Participation in the activity of other companies: UAB "SGD logistika" (legal status – Limited Liability Company , code 30413924, Burių street 19, Klaipėda) header; UAB "InsurTech solutions" (legal status – Limited Liability Company , code 304726880, Debesų street 11, Vilnius district municipality). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta. Mindaugas Jusius holds 12% of shares of the company "InsurTech solutions".



Jonas Lenkšas

(born 1979) – Chief Financial Officer, works with the Company since 4 June 2018. Education: Vilnius University, MA in Economics (2003); Vilnius University, BA in Economics (2001). No participation in other companies management. Jonas Lenkšas does not hold shares of AB "Klaipėdos nafta" or related companies.



Tadas Matulionis

(born 1977) - LNG Business Director. Works at the Company since 2 April 2013. Education: Kaunas University of Technology, BA in Telecommunications (2000); Vytautas Magnus University, MA in Management (2004); Baltic Management Institute, EMBA (2004), Project Management Institute, Project Management Professional (PMP) (2007), Prince2 Practitioner (2012), Baltic Institute of Corporate Governance, programme for Professional Board Members (2014). Tadas Matulionis has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

The Directors of the Company as at 31 December 2018



Genadijus Andrejevas

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



Darius Šilenskis

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



Rytis Valūnas

(born 1985) - Chief Administrative Officer and General Counsel since 15 September 2012. Education: Baltic Institute of Corporate Governance, Professional Board Member Certificate (2015); The Fletcher School of Law and Diplomacy/Harvard Law School, LL.M. (2011); Mykolas Romeris University/Ghent University, MA in International Law (2009); Mykolas Romeris University, BA in Law (2007). Rytis Valūnas has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta



Arūnas Molis

(born 1978) - Klaipėda LNG Director, has been working for the Company since 2 January 2019. Education: Vytautas Magnus University, MA in International Business Law (2016); Vilnius University, PhD in Political Science (2008); Hochschule Bremen, University of Applied Sciences (Germany), MA in European Studies (2002); Vilnius University, BA in Political Science (2001). Arūnas Molis does not hold the shares of AB "Klaipėdos nafta" or associated companies.

No members of the Company's management have been convicted of crimes against property, business or finances. Information about leading managers' salary for the year

2018 is stated in chapter „Information about the employees of the Company“ in the Annual Report.

System of remuneration to the Company's management

The Board of the Company sets the salary of the Chief Executive Officer (hereinafter referred to as the 'CEO'), the pay ceiling for employees directly subordinate to the CEO, and the procedure for incentive of management personnel for both, short-term and annual results.

For the purposes of incentive of the management personnel, the Board of the Company has approved the Procedure for Rewarding AB Klaipėdos Nafta Management Personnel, which is aimed at encouraging managers to exceed the corporate annual targets instead of just meeting them. The fund of annual bonuses to the

Company's management is set depending on (i) the percentage by which the net profit is exceeded; and (ii) the degree of meeting of the annual corporate targets. In any case, however, the total amount of bonus fund for all management personnel may not exceed the sum of their salaries for four months.

No compensations are paid to the CEO and the Directors of Departments in the case of resignation or recalling from the post. Also, there are no additional payments/compensations in the form of shares, or any

other form, for their work at the Company at the time of leaving it.

The monthly salary for the General Manager of the set out by the Board of the Company comprise 6,500 EUR. Following the Remuneration policy approved by the Board of the Company and the Company's Procedure for Rewarding Management Personnel there can be paid

variable part of the salary for the CEO - annual bonus depending on the results of the Company and achievement volume of annual goals. The maximum bonus in case all targets are achieved comprise of 3 monthly salaries. Also there is an opportunity to get additional premium of 1 monthly salary once the year for the extraordinary achievements based on the decision of the Board of the Company.

OTHER GOVERNANCE INFORMATION

Information on major share packages controlled either directly or indirectly

Details of the shares are provided in chapter "Information about investment into other companies" in the Annual Report.

Information on transactions with related parties

No transactions with related parties as provided for in art. 37(2) of the Law on Companies of the Republic of Lithuania were concluded in 2018.

Information on shareholders having special control rights

All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. Details of the shares are provided in chapter "Shareholders and Shares of the Company" in the Annual Report.

Information of amendments to the Company's Articles of Association

In 2018, no amendments were made to the Company's Articles of Association.

Information on all agreements between shareholders

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

Information on the varied policy applicable to the election of the Company's chief manager, the members of governing and supervisory boards

The Company does not have the variety policy applicable to the election of the chief manager and the members of governing and supervisory bodies. During the procedure of selection of candidates to the Company's board of directors, governing and supervisory boards, the candidates shall be subject to requirements that do not discriminate a candidate on grounds of age, sex, education, or professional experience. During the selection of a candidate, the Company does not set any restrictions for nomination of a candidature on grounds of sex or age.

Considering the specificity of the Company's business activity and the status of a state-owned company, unbiased requirements which are only related to the functions and competences of the members of a governing or supervisory boards and the professional experience and education proportionate to these functions and competences are set.

General and independence requirements to candidates to the Company's supervisory board are set by the Description of Selection of Candidates to the Boards of State or Municipal Companies and Candidates to the Collegial Supervisory or Governing Board of a Company That Is under Control of a State or Municipal Company Elected by the General Meeting as adopted by Decision No 631 of 17 June 2015 of the Government of the Republic of Lithuania.

AB KLAIPĖDOS NAFTA COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The public limited liability company AB Klaipėdos nafta (hereinafter referred to as the "Company"), acting in compliance with Article 22(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, hereby discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific

provisions or recommendations. In case of non-compliance with this Code or some of its provisions or recommendations, the specific provisions or recommendations that are not complied with must be indicated and the reasons for such non-compliance must be specified. In addition, other explanatory information indicated in this form must be provided.

Form of the Governance report of the Company:

PRINCIPLES / RECOMMENDATIONS	Yes and No 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	<p>The development strategy and objectives of AB Klaipėdos nafta have been set up in its internal documents (Annual Report placed publicly on the website of AB NASDAQ Vilnius) according to the separate directions and objectives of its activities. The Company updates its development plans subject to the situation on the market as well as to the changes in the regulatory environment, declaring how it plans to act in the interests of the shareholders and increase shareholders' equity.</p> <p>The Articles of Association of the Company are publically announced on NASDAQ Vilnius Stock Exchange's and Company's website, according to the procedures defined for the companies listed on the regulated market.</p>
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	<p>The General Meeting of Shareholders and the Board of the Company adopt the main strategic resolutions, making impact on the shareholders' value increase.</p> <p>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.</p> <p>The Company's Supervisory Board and its advisory body, Audit Committee ensures active monitoring and supervision of the Company's activity.</p>
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	<p>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</p> <p>supervisory bodies additionally ensure the proper functioning of the governing bodies in order to maximize the benefit for the company and its shareholders. If</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		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 general commercial agreements; 3. Suppliers – the Company's Board adopts the decisions on the conclusion of the contracts with the suppliers, also on approval and change of the main conditions of these contracts in the cases defined in the Articles of Association; 4. Clients – the Company's Board adopts the decisions on the approval of the conditions of the contracts concluded with the clients and approves the minimum prices and service rates for loading of oil products in the cases defined in the Articles of Association; 5. Other persons (local society) – by the resolution of general shareholders meeting part of the Company's profit is annually dedicated to support (social, art, cultural, sports activities, etc.). The Company's Board adopts the decisions on the annual support budget, including the projects plan which is made based on the principles that the prioritized support for Klaipėda region and focusing on the support to be annually dedicated for both local companies and institutions and organizations located near the Company.
<p>Principle II: The corporate governance framework</p> <p>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	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company. According to the decision of the Supervisory Board, the advisory body of the Supervisory Board, i.e. the Audit Committee, is formed within the Company.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
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.		
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	<p>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 operation¹, the activities of the Board and the Chief Executive Officer; performs other activities attributed to it by the laws and other legal acts).</p> <p>The Board of the Company is responsible for the effective strategic management of the Company (approves the strategy of its operation²; approves the annual budget, annual policy plan and operational objectives, funds investment procedure, adopts the most relevant resolutions provided for by the legal acts regarding corporate governance framework, significant transactions, realization of rights of the Legal Entity's member within the companies under control, different commitments, etc.).</p> <p>The Company's Audit Committee performs separate supervisory functions assigned by the Supervisory Board (monitors and supervises the preparation of Company's financial reports and the processes of the audit, carries the analysis of the systems for the internal control and risk management, ensures the existing system for internal control and risk management).</p>
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Yes	The Company has set up a collegial supervisory body - the Supervisory Board and a collegial management body - the Board of the Company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be	Yes	The Company has set up a collegial supervisory body - the Supervisory Board. The internal regulations for election of

¹ The competence of the supervisory board is specified in the articles of the Company. As to the Law on Stock Companies, approved on 28 November 2017, the strategy of the company is approved and submitted by the supervisory board of a company, the implementation of approved strategy is analysed and information submitted to the ordinary general meeting of shareholders.

² The competence of the supervisory board is specified in the articles of the Company. As to the Law on Stock Companies, approved on 28 November 2017, the board of the companies, which has a formed supervisory board, analyses and assesses the project of company's strategy and information of implementation of the strategy, which is provided to the supervisory board by the head of the company.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
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.		collegial body the Supervisory Board by the Company's shareholders meeting are set in the way ensuring: minor shareholders' interests are properly represented, this body accountability to the shareholders and objective supervision of the Company's activity and its managing bodies. The management system of the Company ensures that collegial supervisory body elected by the shareholders operates properly and effectively, and the rights assigned to it has to ensure effective supervision of the managing bodies and protection of the all shareholders interests.
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.	Yes	The Board of the Company is comprised of five members elected by the Supervisory Board ³ . The Supervisory Board is comprised of three members elected by the General Meeting of Shareholders of the Company ⁴ . The Audit Committee of the Company is comprised of three members elected by the Supervisory Board. None of the Company's management or supervisory bodies are comprised of that number of members that a separate person or group of persons could dominate them adopting the decisions.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	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. The Board members (one or all) have the right to recall the Supervisory Board, and the General Meeting of Shareholders has the right to recall the Supervisory Board members (one or all). The members of the Supervisory Board are elected for the maximum term of four years provided for in the Law on Companies of the Republic of Lithuania. There are no limitations for re-election of the members; however, the restrictions on the candidates to the Supervisory Board are applied according to the applicable legal acts ensuring an appropriate rotation of the members of these bodies, necessary development of their professional experience and rather often additional approval of their status. Audit Committee corresponds to the term of office of the Supervisory Board by which it was elected and which can

³ Note: From the 1 January Member of Board responsibilities were acting 4 out of 5 Members of Board, since 24 January 2017 till 10 April 2017 all 5 members of the Board of the Company were acting, as established at the Articles of Association, and From the 11 April 2017 Member of Board responsibilities were acting 4 out of 5 Members of Board.

⁴ 21 April 2017, after the ordinary general meeting of the Company shareholder, the term of office of AB Klaipėdos nafta has ended as stated in the part 4 of the Republic of Lithuania Law on Stock Companies article 31. Members of Audit Committee term of office has also expired along with Supervisory Board term of office.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		<p>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 chairperson of the Company's Board and the Chief Executive Officer of the Company has not been the same person, however, the Chief Executive Officer of the Company has been a member of the Board of the Company, until the person was elected as a head of the Company (till 11 April 2017).</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.</p> <p>The selection of candidates to the Company's collegial body is carried out according to the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a Company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p> <p>Additional, candidates for the members of the collegial body elected by the General Meeting of Shareholders, according to the procedures defined, can be delegated</p> <p>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</p>	Yes	<p>Information about the candidates to become members of a collegial body is presented in advance publishing this information on the website of AB Nasdaq Vilnius before the General Meeting of Shareholders or publishing it during the meeting for the shareholders participating in the General Meeting of Shareholders if the shareholders holding the amount of shares giving them not less than 1/20 of the total votes delegate the additional candidate</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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>		<p>for the members of Company's Bodies during the meeting. All members of the collegial bodies must immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest, and for this purpose they submit declarations about the absence of conflict of interest and are obliged to immediately inform the body by which they were elected of any new circumstances that may lead to the conflict of interest.</p> <p>The Company informs the public of the positions by the collegial body in its annual and six month interim report in order that the Company's shareholders and interested persons be informed of the important changes of the members of the Company's bodies.</p>
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	Yes	<p>All applicants for the Company's collegial body members shall in advance submit their CVs and declarations of interests to the Company's body that elects them. The objective is that the skills of a particular candidate were related directly to the work in the correspondent collegial body.</p> <p>The information about the composition of the Company's collegial bodies and the competences of their members are publicly disclosed to the shareholders in AB Nasdaq Vilnius Stock Exchange website (in 2017 there were no changes in the Audit committee, which is concluded by the collegial supervising bodies), AB Klaipėdos nafta web page (www.kn.lt) and also 2017 annual report of the year. Investors' relations tools are to be developed further regarding these questions.</p>
<p>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.</p>	Yes	<p>The collegial body ensures that its members are competent. During the year 2017, the collegial body has executed an evaluation of its activity and approved the plan of improvement of collegial supervising body activity. The Company ensures the diversity of knowledge, opinions and experience in the composition of the collegial supervising bodies by including the independent members with relevant knowledge and experience. The members of the Company's Audit Committee are appointed questioning if Audit Committee, acting collegially, shall has recent knowledge and experience in the fields of finance and accounting, and (or) audit in the companies listed on the regulated market.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	<p>Not applicable</p>	<p>The members of the collegial body are regularly informed at its meetings and individually if required about the Company's operation and its changes, about the essential changes of the legal acts, regulating the Company's operation, and of other circumstances influencing its operation.</p> <p>Up to now there has been neither need nor practice in the Company to offer a special tailored program focused on introducing all new members of the Supervisory 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.</p>
<p>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.</p>	<p>Yes</p>	<p>Since more than 70 per cent of the Company's shares are owned by the State represented by the Ministry of Economy of the Republic of Lithuania, the major part of the members of the Supervisory Board are elected by the General Meeting of Shareholders taking into account interests of the controlling shareholder. The Company's Articles of Association provide that, at least 2 of the Supervisory Board members shall be independent, as well as that at least one member of the Audit Committee shall be independent.</p> <p>During the year under review, the Company's Board had 2 independent members (out of 4 acting member), Audit Committee had 3 independent members (out of 3), and the Supervisory Board had 2 independent member (out of 3).</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <p>1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years;</p> <p>2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees;</p> <p>3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);</p> <p>4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1);</p> <p>5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization</p>	Yes	<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 Requirement for Audit Committees that were approved by the Resolution No. 03-14 of the Board of the Bank of Lithuania on 24 January 2017. The independent members of the collegial supervising bodies are also appointed (elected) in compliance with the provisions of the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p> <p>In order to evaluate the independence of the candidates for the Company's collegial bodies, all candidates shall submit their declarations of interest to the appointing (electing) body and shall immediately inform the body by which they were appointed (elected) of any new circumstances that may lead to the conflict of interest of the collegial body and the Company.</p> <p>The independent members of the Company's Board and Audit Committee comply with all the criteria provided, moreover, according to the criteria provided, it can be stated that independent member of the Company's Supervisory Board member complies with the criteria of independence, such evaluation of independence basing on the relation and circumstance content but not the form.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>receiving significant payments from the company or its group;</p> <p>6) He/she is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company;</p> <p>7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to special personal or company-related circumstances.</p>	Yes	<p>Refer to the comment regarding the item 3.7 above.</p> <p>In addition, the concept of the independence of the member of the Company's collegial body is defined in the documents governing the activities of the Company's collegial bodies and in the Company's Articles of Association.</p> <p>The selection of candidates to the Company's collegial body is carried out according to the selection of candidates to the collegial management or supervision body elected by the general shareholder meeting of a company, managed by a state or municipality procedure No. 631, approved by The Government of the Republic of Lithuania on 17 June, 2015.</p>
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. (When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent.) When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its</p>	Not applicable	<p>Refer to the comment submitted regarding the item 3.6 above.</p> <p>The Company has not yet applied in practice disclosure of the criteria of independence of the members of collegial bodies set out in the Code.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.		
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	<p>There have not so far been such cases in the Company that would result in the need to apply the provided evaluation of the independence of the members of collegial bodies and to publish such information.</p> <p>The Company regularly specify in its published periodical reports the relation of the Company's collegial bodies to the Company, as well as information about possession (absence) of the Company's shares</p> <p>The documents governing the activities of the Company's collegial bodies obliges all members of collegial bodies to inform the body which elected them and the Company immediately of any new circumstances that may lead to the conflict of interest between them and the Company.</p>
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds. The general shareholders' meeting should approve the amount of such remuneration.	Yes	<p>Some of the members of the collegial body are remunerated from the Company's funds for their participation and work in the meetings with a fixed monthly remuneration.</p> <p>The size and procedures of the reward for the independent members of the Board and Audit Committee is regulated by the corresponding decisions of the Supervisory Board.</p> <p>The General Meeting of Shareholders has a right to reward (pay 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>
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring of the company's management bodies and protection of interests of all the company's shareholders.</p>		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the	Yes	The Company's Board approves the business strategy ⁵ of Company's activities, annual budget and business plan, annual report, the order of investments of the Company's funds and order and the amendments to the documents listed. The Company's Board also

⁵ See Note 4

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
company's management bodies and monitor and control the company's management performance.		<p>analyses and evaluates the implementation of the Company's strategy, organization of activities, the company's financial condition, results of business activities, and other significant information.</p> <p>In addition, the Board analyses and evaluates the Company's financial statements and the profit (loss) of the draft report and, after the Board approval, takes decisions on these projects and the submission of the Company's annual report to the Supervisory Board and the General Meeting of Shareholders.</p> <p>The Board regularly analyses and assesses financial status of the Company, as well as periodic financial results, submits recommendations on the appropriate management of the Company to the Company's managing bodies and adopts other decisions, as provided in the Law on Companies of the Republic of Lithuania.</p>
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	<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>
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	Yes	<p>The members of the collegial body duly perform their functions: they actively attend the meetings and devote sufficient time and attention to perform their duties as members of the collegial body. The members of the collegial bodies actively participate in the ongoing meetings both directly and voting in advance in written or by telecommunication means. During the year under review, neither of the Company's collegial bodies missed so</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
the company, shareholders of the company should be notified.		many meetings that hence it would have participated less than in the half of the meetings of the respective collegial body.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	<p>The Company follows the stated recommendations. The members of the collegial body before making decisions, the criteria of which have been determined in the Articles of Association of the Company, discuss their possible effect on the shareholders. The Company's Articles of Association obliges the Company's collegial bodies, and each of their members to operate beneficially for the Company's shareholders. The Board is accountable to the Supervisory Board and the General Meeting of Shareholders. According to the Company's Articles of Association, in certain cases the most important decisions of the Company shall be taken only after the decision of the Board of the Company is approved by the General Meeting of Shareholders.</p> <p>All information regarding insider information related to the Company's activity are publicly available according to the procedure prescribed by law for the Company's shareholders on the website of SC Nasdaq Vilnius Stock Exchange and in official website of the Company. Additional informing of the shareholders except that provided in the legal acts is not carried.</p>
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	According to the general practice of the Company, the majority of the independent members of the collegial bodies vote for the conclusion of corresponding contracts.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies ⁶ . Members of the collegial body should act	Yes	The Company's collegial bodies are independent from the Company's managing bodies and, according to the Company's data, remain independent while adopting the decisions affecting the Company's activity and strategies

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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>The Company's collegial bodies are provided with all the necessary resources including the right to approach and receive consultations by third parties on the issues that fall under the collegial body's or (and) its committees' competence.</p>
<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Yes</p>	<p>The advisory body, i.e. Audit Committee, elected by the Supervisory Body is formed within the Company. The Supervisory Body determined its functions, rights, obligations and remuneration procedure. The Company's Audit Committee has been assigned with advisory functions related to the audit control and assessment and covering supervision of financial reports preparation and audit execution process, examination of its effectiveness and implementation of recommendations, analysis of need of internal audit functions and other functions, as provided by the Resolution No. 03-14 of the Board of the Bank of Lithuania on 24 January 2017, observes the integrity of the financial information provided by the Company, paying special attention to the relevance and transparency of the accounting methods used by the Company and its group.</p> <p>Other specialized committees are not established within the Company, however collegial management body, i.e. the Company's Board, is responsible for the issues related to the appointment of the Company's directors and determination of the remuneration for the Company's directors. The Board appoints and dismisses the Company's Chief Executive Officer, regularly evaluates skills, knowledge and experience of other Company's directors; discusses general application policy of remuneration (including stimulation) systems; determines remuneration of all Company's management personnel as it is defined in the Description of the Company's the highest Management Structure (or in the list of staff positions)</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		<p>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>	Yes	The advisory body, i.e. Audit Committee, consist of three members.
<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>	Yes	<p>Refer to the comment submitted regarding the item 4.7 above.</p> <p>The advisory body, the Audit Committee, formed by the Supervisory Board, comprises of three members.</p> <p>All of the acting members of Audit Committee were independent.</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).</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>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
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.		The main information about the Company's Audit Committee and its composition is published in the Company's annual report (governance report).
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Yes	Refer to the comment submitted regarding the item 4.7 above. The documents of the operation of the Company provide the right for the members of the Audit Committee according to the need to invite at its discretion to its meetings the Company's responsible persons and receive from them necessary explanations. The system of anonymous postings about the violations done in the Company is also provided and introduced in the Company.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders'	Yes	The documents of the operation of the Company provide the right for the purpose of members of Board to create Nomination committee. For the purpose of one-off selection of candidates for Company's independent Members of Board Nomination committee was created on 16 September 2016 by the Supervisory Board. Nomination committee functions were determined by Nominated committee work regulations confirmed of Supervisory Board. Members and experts of Nomination committee select Supervisory Board. By the Supervisory board approved competency requirements for the candidates, Nomination committee prepare and approve candidates for Company's independent Members of Board nomination description, publish and carries public candidates nomination, analyses, assess and consider candidates applications and documents, organize and coordinate conversations with candidates and also nominate candidates to the independent Members of Board, offered for the Supervisory Board.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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>		
<p>4.13. Remuneration Committee.</p> <p>4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies 	<p>Not applicable</p>	<p>Refer to the comment submitted regarding the item 4.7 above.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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> <ol style="list-style-type: none"> 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. <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 	Yes	Refer to the comments submitted regarding the items 4.7 - 4.10 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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;</p> <p>4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations;</p> <p>5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee;</p> <p>6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.</p> <p>4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.</p> <p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances,</p>		

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>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>	Yes	<p>Refer to the comment submitted regarding the item</p> <p>3.4 above</p> <p>The internal documents of the Company do not directly provide for a separate assessment for the collegial body, acting the supervision functions, activities because it was not required by the legal acts of the Republic of Lithuania.</p> <p>In the year 2017 collegial supervising body of the Company have carried out its activity assessment and adopted an improvement plan of collegial supervising body activity.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		<p>Started from 12 June 2015, the Board of the Company performs annual assessment of its activity.</p> <p>The assessment is designed to evaluate organizational, teamwork, skills, competencies and performance efficiency aspects and whether the set goals have been achieved,</p> <p>Information about the collegial bodies' organization itself and activity procedures are disclosed periodically in the annual (governance) report.</p> <p>The Company sets the goal for 2018 to improve more the information announcement procedures of Company's internal organization indicating what essential changes were made based on the self-assessment results.</p>
<p>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>	Yes	<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 2017 there was no chairperson of the Board, therefore, every time one of the Board members is elected as the chairperson of the Board under the principle ad hoc. The Company's Chief Executive Officer was four times elected as the chairperson of the meeting ad hoc.</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>	Yes	<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>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	<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	<p>The Company observes provisions stated in this recommendation. If necessary, in the Company's determined practice, the general Company's management and supervision bodies' meetings are also convened.</p>
<p>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.</p>		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	<p>The Company's capital consists of ordinary registered shares that grant the same rights to all their holders.</p>
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	<p>The Company observes provisions stated in this recommendation.</p>
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	Yes	<p>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</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.		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	<p>All the shareholders of the Company are informed about the venue, date and time of the General Meeting of Shareholders publicly in advance according to the procedure prescribed within the terms established by the legal acts publishing about the convened General Meeting of Shareholders, its agenda in the information disclosure system of SC Nasdaq Vilnius Stock Exchange and on the Company's website (www.kn.lt).</p> <p>Prior to the General Meeting of Shareholders all the shareholders of the Company are furnished with opportunity to receive information on the issues on the agenda of the General Meeting of Shareholders, to ask questions related to the agenda of the General Meeting of Shareholders, to receive answers to them.</p>
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	<p>Within the terms set by the legal acts, the Company in advance publicly disclose the documents on the course of the General Meeting of Shareholders, including draft resolutions of the meeting, through the information disclosure system of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company www.kn.lt).</p> <p>The adopted decisions of the General Meeting of Shareholders are also disclosed through the information disclosure systems of SC Nasdaq Vilnius Stock Exchange and it is planned to place them constantly on the website of the Company (www.kn.lt).</p> <p>Information indicated and the documents are published in the information disclosure system of SC Nasdaq Vilnius Stock Exchange in Lithuanian and English languages.</p>
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	<p>The shareholders of the Company can implement their right to participate at the meeting of the shareholders both in person and through a representative should he be duly authorised according to the procedure established by the legal acts.</p> <p>The Company also furnishes its shareholders with the opportunity to vote in advance in</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
		written by completing and submitting to the Company the general voting ballot.
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	Not applicable	<p>Taking into account the structure of the shareholders (controlling interest is owned by the Government of the Republic of Lithuania) and the valid regulations for organisation of the meeting of shareholders ensuring full advance publication of the material of the General Meeting of Shareholders and publicity of the decisions adopted by the shareholders (publishing all this information on the website of SC Nasdaq Vilnius Stock Exchange) and the opportunity to vote in advance, there is no necessity to additionally 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>
<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>		

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.</p>	<p>Yes</p>	<p>The members of the Company's supervisory and management bodies oblige to act in such a manner so as to avoid conflict of interests with the Company. This is determined in the Articles of Association of the Company and in other documents of operation of the Company.</p> <p>For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations.</p> <p>Member of the Board of the Company, M. Jusius, after the decision to be designated as the head of the Company, withdrew himself from voting on questions, according to which the Board of the Company adopted decisions (on 29 March 2017). During the reporting period, there are no cases identified of conflict of interests between the Company and the member of its supervisory and management. A Member of Board M. Bartuška, since his appointment of AB Lietuvos geležinkeliai member of management body, he withdrew from voting at the Company's Board conferences considering about loading and other questions, related with oil terminal operations.</p>
<p>7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.</p>	<p>Yes</p>	<p>Refer to the comment submitted regarding the item 7.1 above.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
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. For detailed information refer to the comment in item 7.1 above.
<p>Principle VIII: Company's remuneration policy</p> <p>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.</p>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual statement as well as posted on the company's website.	Yes	The Company has an approved employee remuneration policy, which has an aim to determine remuneration, promotion principles and procedure for all employees, including senior executives. The remuneration policy of Company is published to the employees of the Company. The information about the Company's accrued average monthly remuneration (including according to the different categories of the employee) during the year under review is published on the website www.kn.lt .

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
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.	Yes	Refer to the comment in item 8.1 above. (The Company's directors' remuneration policy for the subsequent years has been provided in the annual report.) The annual (governance) report contains information about the amount of money (or other compensations, if there was any) accrued for the members of the Company's bodies and directors'.
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	Yes	The information is presented in the annual (governance) report.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Yes	The information is presented in the annual (governance) report (if there was any such case).
<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 	Yes	The information is presented in the annual (governance) report. However, information about remuneration is not provided for each director individually, though the average amount for all managing personnel is provided.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
<p>8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.</p>	Not applicable	Refer to the comment in item 8.1 above.
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	Yes	The amount of annual bonuses depends on the predetermined and measurable performance criteria, i.e. on the level of the budgeted net profit achievement and realization of the set annual goals.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	Not applicable	<p>During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company.</p>
<p>8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.</p>	Not applicable	<p>Refer to the comment submitted regarding the item 8.8 above.</p>
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>		
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>		
<p>8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.</p>		
<p>8.13. Shares should not vest for at least three years after their award.</p>	Not applicable	<p>Refer to the comment submitted regarding the item 8.8 above.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	Not applicable	Directors' remuneration setting function is performed by the Board of the Company. Shareholders are invited in all meeting of Shareholders where they can raise questions regarding remuneration of the Directors.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	Not applicable	General principles of the remuneration are disclosed in the annual (governance) report.
8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	Refer to the comment submitted regarding the item 8.8 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <p>1) Grant of share-based schemes, including share options, to directors;</p> <p>2) Determination of maximum number of shares and main conditions of share granting;</p> <p>3) The term within which options can be exercised;</p> <p>4) The conditions for any subsequent change in the exercise of the options, if permissible by law;</p> <p>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.</p>	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
<p>8.21. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>	Not applicable	Refer to the comment submitted regarding the item 8.8 above.
<p>8.22. Provisions of Articles 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.</p>	Not applicable	Refer to the comment submitted regarding the item 8.8 above.

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.19, the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.</p>	<p>Not applicable</p>	<p>Refer to the comment submitted regarding the item 8.8 above.</p>
<p>Principle IX: The role of stakeholders in corporate governance</p> <p>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>	<p>Yes</p>	<p>The execution of this recommendation is ensured by the accurate supervision and control of the state institutions and organisations regulating and controlling the Company's activities.</p>
<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>		<p>The management bodies consult with the employees on corporate governance and other important issues, (employee) participation in the Company's share capital is not limited.</p>
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>		<p>Publicity of the essential information about the Company's activity creates the conditions for the holders of interests to participate in the management of the Company according to the procedure established by the law and the Article of Association, as well as for the Company's employees also according to the Collective Agreement of the Company.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
<p>Principle X: Information disclosure and transparency</p> <p>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:</p> <p>The financial and operating results of the company;</p> <p>Company objectives;</p> <p>Persons holding by the right of ownership or in control of a block of shares in the company;</p> <p>Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;</p> <p>Material foreseeable risk factors;</p> <p>Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;</p> <p>Material issues regarding employees and other stakeholders;</p> <p>Governance structures and strategy.</p> <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.</p> <p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p> <p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation</p>	<p>Yes</p>	<p>Performance and corporate governance is regularly disclosed by distributing press posts about publicly undisclosed information, related to the Company on SC Nasdaq Vilnius Stock Exchange website, as well as in the Company's annual reports and financial statements, press releases published in the exchange and in other public presentations of the Company activity.</p> <p>The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company's activity.</p> <p>The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC Nasdaq Vilnius Stock Exchange.</p>

PRINCIPLES / RECOMMENDATIONS	Yes and No Not applicable	COMMENTARY
schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	The Company discloses information in Lithuanian and English simultaneously through the information disclosure system of SC Nasdaq Vilnius Stock Exchange so that the submitted identical information in both languages could simultaneously be announced thus guaranteeing its simultaneous dissemination to all Company's shareholders so that all Company's shareholders and investors have the same opportunities to familiarize with information and adopt certain investment decisions. In its practice the Company focuses on publication of notifications about publicly undisclosed information, related to the Company before or after SC Nasdaq Vilnius Stock Exchange trading session.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Refer to the comment in item 10.5 above. Similarly to published information in the system of SC Nasdaq Vilnius Stock Exchange, information is also published on the Company's website. Access to information in the system of SC Nasdaq Vilnius Stock Exchange and on the Company's website is free for the shareholders.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	The Company's annual reports, other periodical accounts prepared by the company and publicly undisclosed information, related to the Company are placed on the company's website
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	Yes	The Company's Board (a collegial body) proposes a candidate firm of auditors to the General Meeting of Shareholders taking into

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<p>company's board should propose a candidate firm of auditors to the general shareholders' meeting.</p>		<p>account the results of publicly carried out procurement of acquiring audit services.</p> <p>According to the practice established in the Company, the Company's Supervisory Board is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services.</p> <p>The Supervisory Board according to the Articles of Association of the Company can make their comments and suggestions over the Company's annual financial statements, annual report and profit allocation draft.</p>
<p>11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.</p>	<p>Yes</p>	<p>The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Boards as much as they consider it to be important.</p>