



INFORMATION NOTICE

REGARDING THE APPROVAL OF A DECISION TO ACQUIRE THE FLOATING STORAGE REGASIFICATION UNIT (FSRU) INDEPENDENCE

One of the AB "Klaipėdos nafta" (KN or the Company) long-term objectives (Article 2.1., of the Articles of Association of KN) is to ensure rational and safe operation of the liquefied natural gas (LNG) terminal ensuring alternative liquefied natural supply source for Lithuania and other countries as well as creating possibility to distribute liquefied natural gas in the Baltic Sea region. Klaipėda LNG terminal, *inter alia*, consists of the FSRU which is currently leased according to the time charter party (Time Charter) between the KN and the Hoegh LNG Limited, dated March 2, 2012.

Following the above-mentioned objective of the Company and ensuring the continuance of rational and safe operation of the Klaipėda LNG terminal, on November 4, 2019¹ the Board of KN has decided to acquire the Floating Storage Regasification Unit (FSRU) "Independence" currently leased by the Company or another FSRU no later than by December 31, 2024 ensuring that the most economically advantageous solution for the Company should be selected. The decision was driven by the goal to save Company's position in the LNG market and necessity to manage risks of gas market vulnerability.

Worth to mention, that Lithuanian Parliament adopted National Energy Independence strategy (June 2018) which named the aim of natural gas supply diversification, cost reduction and the long-term solution as the key priorities in the area of natural gas. Poyry² study (April 2018) demonstrated that acquisition of the FSRU is the most economically beneficial option to secure long term LNG supply to Lithuania. Therefore, Law on LNG Terminal which has been amended 2018-12-18, tasked to ensure long term LNG operations by acquiring FSRU on the most economically viable condition until the end of 2024 and assure LNG terminal operation until end of 2044. The project of long-term LNG import infrastructure solution has been included into Plan of implementation of the measures of the Government of the Republic of Lithuania program since 2017 and acknowledged as project of state strategic importance.

FSRU SELECTION PROCESS

The Time Charter grants the KN the option to purchase the FSRU on predetermined terms and conditions. However, the management of the Company, acting prudently and carefully, decided to verify its competitiveness of existing purchase option under Time Charter and performed market sounding, market consultations on procurement documentation, and public procurement.

At the beginning of the process, discussions and consultations regarding the FSRU size and other technical parameters were performed by technical and commercial advisors, who approached and have got insights on the gas market and infrastructure development from ship brokers, gas grid operator,

¹ <https://view.news.eu.nasdaq.com/view?id=b4465dec50479c87edf8adcaf7f88afa2&lang=en>

² [INDEPENDENT ECONOMIC ANALYSIS OF THE LONG-TERM LIQUEFIED NATURAL GAS IMPORT SOLUTION TO THE REPUBLIC OF LITHUANIA \(kn.lt\)](#)

existing and potential Klaipėda LNG terminal users, FSRU market players – thus the most appropriate technical parameters meeting potential terminal users' expectation and gas market trends were set for the FSRU to be acquired.

In the beginning of 2021, after discussions with the market participants, FSRU market research has been started with intensive communication with potential FSRU suppliers. KN and commercial advisor have approached 16 major players in FSRU and LNG carrier market to understand their availability and interest. Market research showed that it is unlikely that market participants could provide a better solution than the existing FSRU option under Time Charter. However, the Company seeking maximum transparency and clarity decided to step into the public market consultation in April 2021³ and invited market participants to comment or express their opinion on FSRU procurement documentation. The tender was organized following the terms specified in the laws of public procurement applicable to the utilities sector. By the deadline of application in mid of August 2021, no application has been received. It is worth mentioning that no claims or objections regarding the FSRU documentation or the tender process were brought.

The market research, the market consultations, and the public tender results have clearly shown that the existing purchase option to acquire FSRU "Independence" is the most economically advantageous solution for KN.

FINANCING

Financing for the FSRU acquisition has been secured by the end of 2020, after several substantial decisions:

- In October 2019 the Board of the Company has adopted decisions: to ensure FSRU financing amount equal to the price of the acquired FSRU; to receive a FSRU financing loan State guarantee approval from the Parliament (Seimas) of the Republic of Lithuania.
- In December 2019 the Seimas has approved granting the State guarantee (up to 138,4 MEUR) to the loan agreement intended for acquisition of FSRU⁴.
- In March 2020 an agreement with Nordic Investment Bank (NIB) has been signed for a loan of up to 160 MEUR dedicated for financing of FSRU acquisition⁵.
- In November 2020 European Commission has approved state guarantee for FSRU acquisition⁶.

As of today's perspective, FSRU acquisition will be financed by the financial leverage. There is no intention to use Company's financial capital for the acquisition, as indicated per above, unless exchange rate of USD/EUR will change unfavourably by the end of 2024 and the Company will have to introduce alternative financing for delta exceeding amount of given state guarantee

RETURN ON INVESTMENT

On January 6, 2022, the national regulatory authority - National Energy Regulatory Council (NERC) has approved the investment to the FSRU for up to 138,4 MEUR. Following the methodology, the investment of the FSRU has to be included in the Regulated Asset Base (RAB) of KN starting from acquisition date. That means the increase in value of assets from which the allowed return will be calculated. In case the amount of actual payable price for FSRU is higher than approved investment amount due to

³ [Publication \(eiviesiejipirkimai.lt\)](https://eiviesiejipirkimai.lt)

⁴ <https://e-seimasx.lrs.lt/portal/legalAct/lt/TAD/daf4b750226a11eab86ff95170e24944?jfwid=-ub28x68im>

⁵ <https://www.kn.lt/en/news/news/nib-continues-partnership-with-kn/3350>

⁶ https://ec.europa.eu/competition/state_aid/cases1/20215/288187_2240537_155_2.pdf



unfavourable change in USD/EUR exchange rate, following the methodology the Company will apply to NERC for reapproval of investment amount.

In accordance with the provisions of the methodology, the depreciation costs of approved asset over its useful life will be compensated. The approved RAB also ensures a financial return to the shareholders.

The allowed return from the investment from RAB is determined by the NERC on annual basis. For instance, the return approved for the 2022 is 4.14% from RAB. Please note that past decisions of NERC may not be indicative of future decisions. NERC makes decisions based on valid regulatory requirements as at that date.