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2020

AB KLAIPĖDOS NAFTA

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

FOR THE FINANCIAL YEAR ENDED ON 31 DECEMBER 2020

CONTENT

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Independent Auditor's Report

To the Shareholders of AB Klaipėdos nafta

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

Opinion

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

- the separate and consolidated statements of financial position as at 31 December 2020,
- the separate and consolidated statements of comprehensive income for the year then ended,
- the separate and consolidated statements of changes in equity for the year then ended,
- the separate and consolidated cash flows statements for the year then ended, and
- explanatory notes to the separate and consolidated financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the unconsolidated financial position of the Company and the consolidated financial position of the Group as at 31 December 2020, and of their respective unconsolidated and consolidated financial performance and their unconsolidated and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for Opinion

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

Company code: 111616158
VAT code: LT114949716

Key Audit Matters

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

Impairment of the property, plant and equipment

The carrying amount of property, plant and equipment of the LNG reloading station CGU as at 31 December 2020: EUR 26,336 thousand; related impairment losses recognized in 2020: nil.

The carrying amount of property, plant and equipment of the oil terminal CGU as at 31 December 2020: EUR 125,918 thousand; related impairment losses recognized in 2020: nil.

We refer to the financial statements:

Significant accounting policies – Note 2.7 "Property, plant and equipment", Note 2.25 "Use of estimates and judgments", Note 3 „Property, plant and equipment and right-of-use asset".

The key audit matter	How the matter was addressed in our audit
As described in Note 3 of the consolidated and the separate financial statements, in the current year, the Company and the Group identified impairment indications in respect of its property, plant and equipment attributed to the LNG reloading station, whose operations were loss making in 2020 and 2019, and property, plant and equipment attributed to the oil terminal (hereafter – OT), due to loss of major client in the year end of 2020. As at 31 December 2020, the Company and the Group tested property, plant and equipment for impairment, as part of the impairment test performed for the LNG reloading station and OT cash- generating units („CGUs"). The Company and the Group determined the CGUs' recoverable amounts based on their value in use estimated under the discounted cash flow method. Determining the CGU's recoverable amount is a process which requires a number of significant judgments and estimates, especially in respect of the amounts of future cash flows, and associated discount rates and growth rates, based on management's projections of future performance. The projected operating cash flows from the Company's activities are influenced primarily by assumptions concerning quantity of LNG loaded, prices of loading services as well as level of main related costs. The main assumptions used in	Our procedures in the area included, among other things, the following: • Evaluating, against the requirements of the relevant financial reporting standards, the Company's and the Group's accounting policy for identification of impairment indicators, and measurement and recognition of any impairment losses in respect of property, plant and equipment and intangible assets. • Assessing the appropriateness of the impairment methodology applied by the Company and the Group against methodologies commonly used for similar assets and the requirements of the relevant financial reporting standards. As part of the above, we identified the relevant methods, assumptions and sources of data, and assessed, whether such methods, assumptions, data and their application are appropriate in the context of the said requirements; • Evaluating the quality of the Company's and the Group's forecasting by comparing historical projections with actual outcomes.

projecting operating cashflows from OT segment are quantity of oil products loaded and stored, prices for transhipment, storage and other related services as well as level of main related costs. These projections are exposed to significant variability due to changing market conditions. Accordingly, this matter was considered by us to be associated with a significant judgements and estimates and required our increased attention in the audit. As such, we determined it to be a key audit matter.	• Assessing the appropriateness of asset grouping into CGUs, based on our understanding of the Company's and the Group's operations and business units. • Challenging the reasonableness of the Company's and Group's key assumptions and judgments used in estimating the recoverable amount, including: - Assisted by our own valuation specialists, challenging reasonableness of the key macroeconomic assumptions used, such as those in respect of discount rates, by reference to publicly available external sources; - Tracing the key assumptions used in the discounted cash flows calculation, such as those in respect of the future demand, revenue growth, operating costs, by reference to the budgets approved by the Management Board, our understanding of the Company's and the Group's operations and trends, and publicly available industry data; • Testing the internal consistency, underlying formulas and mathematical accuracy of the discounted cash flow model; • Assessing susceptibility of the impairment models and the resulting impairment conclusions to management bias, by challenging the Company's and the Group's analysis of the model's sensitivity to changes in key underlying assumptions; • Considering the adequacy of impairment-related disclosures in the Company's and the Group's financial statements.

Revenue recognition

Revenue recognized in the consolidated statement of comprehensive income in 2020 amounts to EUR 80,114 thousand. Revenue recognized in the separate statement of comprehensive income in 2020 amounts to EUR 77,474 thousand.

We refer to the financial statements:

Significant accounting policies – "2.22. Revenue recognition" ; note "19 Revenue from contracts with customers"

The key audit matter	How the matter was addressed in our audit
The Group and the Company have following main revenues streams: revenue from Liquefied natural gas (LNG) terminal services, which is regulated by National energy regulatory council (NERC), revenue from oil product transhipment services, revenue from LNG reloading station and revenue from operations of LNG terminal in Açu port in Brazil. Application of revenue recognition principles of the relevant financial reporting standards is complex and requires making significant assumptions and judgments. Particular complexity is associated with the following factors: - the Group applies significant judgment, among other things, in determining which services are distinct and therefore constitute separate performance obligations; - each performance obligation requires evaluation of whether it is satisfied over time or at a point in time. The determination requires a thorough consideration of contractual provisions to understand when control of the services is transferred to customers. Note 2.22 of the financial statements provides details of the timing and pattern of recognition of revenue for key revenue streams; - significant judgement is required in allocating the transaction price to the performance obligations. The transaction price, which is the consideration the Group expects to receive for the transfer services to the customer, is allocated to the performance obligations based on its relative standalone selling price. Furthermore, revenue from LNG terminal services is subject to regulations of NERC and consists of LNG variable and fixed parts of consideration for regasification services and reloading service. The fixed part of consideration is collected from gas consumers through additional security	Our audit procedures included, among others: • Updating our understanding of and evaluating the Group's revenue recognition process; • Assessing whether the revenue recognition accounting policy applied to all revenue streams complies with the requirements of the relevant financial reporting framework; • For LNG terminal revenue: - assessing whether management identified appropriately separate performance obligations and determined correctly transaction prices by reference to the laws and regulations related to LNG terminal activities and our knowledge of the business; - determining the total consideration from the LNG terminal services by obtaining external confirmation from the transmission service operator, responsible for the collection of payments from terminal users; • For revenue other than from LNG terminal: - evaluating the design and implementation of key controls over the revenues recognition processes; - assessing whether management identified appropriately separate performance obligations and determined correctly transaction prices by reference to a sample of contracts with customers and our knowledge of the business; - for the sample of customers determining the total annual contract consideration by obtaining external confirmations from the customers;

supplement charged on top of the price of LNG transhipment. Given that the LNG security supplement was reduced starting from 2020, as described in Note 19, and revenue from LNG terminal activities decreased by 47 per cents in 2020 if compared to 2019, completeness of revenue from LNG terminal activities was subject to our increased scrutiny. Due to the materiality of the recognized revenue, judgements of the management involved in revenue recognition and impact of the change in the LNG security supplement described above, the area required our increased attention in the audit and as such was determined to be a key audit matter.	• For all revenue streams, assessing whether revenue recognition reflects the timing of satisfaction of identified performance obligations by reference to sales invoices and other documents as appropriate and using our knowledge of the business; • Assessing the adequacy of revenue recognition – related disclosures in the consolidated and separate financial statements in relation to requirements of the applicable financial reporting framework.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and/or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and/or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

Under decision of the general shareholders' meeting, we were appointed on 30 August 2019 for the first time to audit the Company's and the Group's respective separate and consolidated financial statements. Our appointment to audit the Company's and the Group's separate and consolidated financial statements is renewed each year under decision of the general shareholders' meeting, and the total uninterrupted period of engagement is 2 years.

We confirm that our audit opinion expressed in the Opinion section of our report is consistent with the additional report presented to the Company and the Group and its Audit Committee on 1 April 2021.

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

In the course of audit, we have not provided any other services except for audit of separate and consolidated financial statements and procedures on the regulated natural gas activity report for the yar ended 31 December 2019 and ended 31 December 2020.

On behalf of KPMG Baltics, UAB

Rokas Kasperavičius
Partner
Certified Auditor

ROKAS KASPERAVIČIUS

Digitally signed by ROKAS KASPERAVIČIUS
Date: 2021.04.01 20:58:19 +03'00'

Klaipėda, the Republic of Lithuania
1 April 2021

The electronic auditor's signature applies only to the Independent Auditor's Report on pages 3 to 9 of this document.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION

	Notes	Group		Company	
		31-12-2020	31-12-2019	31-12-2020	31-12-2019
ASSETS					
Non-current assets					
Intangible assets		496	534	288	534
Property, plant and equipment	3	201,845	207,824	201,719	207,824
Right-of-use assets	3	357,053	370,872	357,053	370,872
Non-current contract assets	8	349	974	349	974
Investment in subsidiaries	5	-	-	4,553	4,553
Investment in associates		256	197	256	197
Deferred tax asset	23	-	950	-	950
Total non-current assets		**559,999**	**581,351**	**564,218**	**585,904**
Current assets					
Inventories	6	2,415	2,400	2,397	2,400
Trade receivables and other receivables	7	10,646	13,171	9,941	13,161
Contract assets	8	1,311	1,156	1,311	1,156
Prepaid income tax		349	1,080	349	1,080
Short term deposits	9	24,000	21,000	24,000	21,000
Other financial assets	10	1,898	1,274	1,898	1,274
Cash and cash equivalents	11	51,076	41,865	47,433	37,846
Total current assets		**91,695**	**81,946**	**87,329**	**77,917**
Total assets		**651,694**	**663,297**	**651,547**	**663,821**

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF FINANCIAL POSITION (CONT'D)

		Group		Company	
	Notes	31-12-2020	31-12-2019	31-12-2020	31-12-2019
EQUITY AND LIABILITIES					
Equity					
Share capital	1,12	110,505	110,476	110,505	110,476
Share premium		4,002	3,993	4,002	3,993
Own shares (-)	1	(267)	(267)	(267)	(267)
Reserves	12	68,947	69,024	68,947	69,024
Foreign currency translation reserve		(72)	-	-	-
Retained earnings		33,211	7,423	33,272	7,947
Total equity		**216,326**	**190,649**	**216,459**	**191,173**
Non-current amounts payable and liabilities					
Deferred tax liability	23	8,605	-	8,605	-
Non-current employee benefits	13	632	240	632	240
Loans	14	92,704	69,537	92,704	69,537
Deferred government grants	2.20	5,817	5,988	5,817	5,988
Lease liabilities	14	265,339	332,589	265,339	332,589
Total non-current amounts payable and liabilities		**373,097**	**408,354**	**373,097**	**408,354**
Current amounts payable and liabilities					
Current employee benefits	13	43	41	43	41
Loans	14	3,806	3,836	3,806	3,836
Lease liabilities	14	40,280	44,288	40,280	44,288
Trade payables and other liabilities	15	7,946	9,910	7,720	9,910
Derivatives	17	1,946	-	1,946	-
Payroll related liabilities	18	2,731	2,726	2,677	2,726
Provisions	16	1,709	72	1,709	72
Contract liabilities	27	3,810	3,421	3,810	3,421
Total current amounts payable and liabilities		**62,271**	**64,294**	**61,991**	**64,294**
Total equity and liabilities		**651,694**	**663,297**	**651,547**	**663,821**

Explanatory notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF COMPREHENSIVE INCOME

	Notes	Group		Company	
		2020	2019	2020	2019
Revenue from contracts with customers	19	80,114	104,363	77,474	104,138
Cost of sales	20	(50,960)	(83,529)	(50,191)	(82,897)
Gross profit		**29,154**	**20,834**	**27,283**	**21,241**
Operating expenses	21	(9,811)	(7,064)	(8,787)	(7,054)
Other income and (expenses)		36	546	36	546
Profit from operating activities		**19,379**	**14,316**	**18,532**	**14,733**
Income from financial activities	22	28,897	141	28,896	110
Expenses from financial activities	22	(4,550)	(8,484)	(4,438)	(8,484)
Share of the associate's profit or (loss)		113	29	113	29
Profit before tax		**43,839**	**6,002**	**43,103**	**6,388**
Income tax (expenses)	23	(9,881)	1,559	(9,608)	1,559
Profit for the year		**33,958**	**7,561**	**33,495**	**7,947**
Other comprehensive income					
Items that will not be subsequently reclassified to profit or loss		-	-	-	-
Items that are or may be reclassified subsequently to profit or loss		-	-	-	-
Actuarial gain (losses)		(353)	-	(353)	-
Exchange differences on translation of foreign operations		(72)	-	-	-
Related taxes		53	-	53	-
Total comprehensive income, net of tax		**33,586**	**7,561**	**33,195**	**7,947**
Profit attributable to:					
The shareholders of the Company		33,958	7,561	-	-
Non-controlling interests		-	-	-	-
Total comprehensive income attributable to:					
The shareholders of the Company		33,586	7,561	-	-
Non-controlling interests		-	-	-	-
Basic and diluted earnings (losses) per share, in EUR	24	0.09	0.02	-	-

Explanatory notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY

GROUP

	Notes	Share capital	Share premium	Own shares (-)	Legal reserve	Reserve for own shares	Other reserves	Foreign currency translation reserve	Retained earnings	Total
Balance as at 31 December 2018		**110,376**	**3,913**	**-**	**10,750**	**15,929**	**42,945**	**-**	**11,577**	**195,490**
Net profit for the year		-	-	-	-	-	-	-	7,561	7,561
Other comprehensive income		-	-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-	-	7,561	7,561
Dividends declared	25	-	-	-	-	-	-	-	(11,577)	(11,577)
Increase in share capital		100	80	-	-	-	-	-	-	180
Acquisition of own shares (-)		-	-	(600)	-	-	-	-	-	(600)
Share-based payments	2.21	-	-	333	-	-	(333)	-	-	-
Transfer between reserves		-	-	-	288	-	(288)	-	-	-
The result of the subsidiaries from previous year		-	-	-	-	-	-	-	(138)	(138)
Used Reserves		-	-	-	-	-	(267)	-	-	(267)
Balance as at 31 December 2019		**110,46**	**3,993**	**(267)**	**11,038**	**15,929**	**42,057**	**-**	**7,423**	**190,649**
Net profit for the year		-	-	-	-	-	-	-	33,958	33,958
Other comprehensive income		-	-	-	-	-	-	(72)	(300)	(372)
Total comprehensive income		-	-	-	-	-	-	(72)	33,658	33,586
Dividends declared	25	-	-	-	-	-	-	-	(7,947)	(7,947)
Increase in share capital	1, 12	29	9	-	-	-	-	-	-	38
Transfer between reserves		-	-	-	10	-	(87)	-	77	-
Balance as at 31 December 2020		**110,505**	**4,002**	**(267)**	**11,048**	**15,929**	**41,970**	**(72)**	**33,211**	**216,326**

(all amounts are in EUR thousand unless otherwise stated)

STATEMENT OF CHANGES IN EQUITY (CONT'D)

COMPANY

	Notes	Share capital	Share premium	Own shares (-)	Legal reserve	Reserve for own shares	Other reserves	Retained earnings	Total
Balance as at 31 December 2018		**110,376**	**3,913**	**-**	**10,750**	**15,929**	**42,945**	**11,577**	**195,490**
Net profit for the year		-	-	-	-	-	-	7,947	7,947
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income		-	-	-	-	-	-	7,947	7,947
Dividends declared	25	-	-	-	-	-	-	(11,577)	(11,577)
Increase in share capital		100	80	-	-	-	-	-	180
Acquisition of own shares (-)		-	-	(600)	-	-	-	-	(600)
Share-based payments	2.21	-	-	333	-	-	(333)	-	-
Transfer between reserves		-	-	-	288	-	(288)	-	-
Used Reserves		-	-	-	-	-	(267)	-	(267)
Balance as at 31 December 2019		**110,476**	**3,993**	**(267)**	**11,038**	**15,929**	**42,057**	**7,947**	**191,173**
Net profit for the year		-	-	-	-	-	-	33,495	33,495
Other comprehensive income		-	-	-	-	-	-	(300)	(300)
Total comprehensive income		-	-	-	-	-	-	33,195	33,195
Dividends declared	25	-	-	-	-	-	-	(7,947)	(7,947)
Increase in share capital	1, 12	29	9	-	-	-	-	-	38
Transfer between reserves		-	-	-	10	-	(87)	77	-
Balance as at 31 December 2020		**110,505**	**4,002**	**(267)**	**11,048**	**15,929**	**41,970**	**33,272**	**216,459**

Explanatory notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT

	Notes	Group 31-12-2020	Group 31-12-2019	Company 31-12-2020	Company 31-12-2019
Cash flows from operating activities					
Net profit		33,958	7,561	33,495	7,947
Adjustments for non-cash items:					
Depreciation and amortization	3	26,489	57,502	26,459	57,502
Change in provisions	16	1,637	54	1,637	54
Change in non-current liabilities for employees	13	41	(20)	41	(20)
Change in allowance in inventory	21	(6)	(1,058)	(6)	(1,058)
Contract assets	8	469	333	469	333
Income tax expenses	23	9,881	(1,559)	9,608	(1,559)
Share of (profit) or loss of equity-accounted investees		(113)	(29)	(113)	(29)
Change in allowance for doubtful trade and other receivables	7	1,855	221	1,855	221
Interest income	22	(53)	(64)	(53)	(64)
Interest expenses	22	2,456	2,302	2,404	2,302
(Gain) or loss of derivative financial instruments	22	2,092	-	2,092	-
Currency impact from lease liabilities	22	(28,765)	6,082	(28,765)	6,082
Other non-cash adjustments		786	391	753	388
		50,727	**71,736**	**49,876**	**72,119**
Changes in working capital					
(Increase) decrease in inventories	6	(10)	220	8	220
Decrease (increase) in trade and other accounts receivable	7	(252)	(855)	493	(985)
Increase (decrease) in trade and other payables		(627)	(3,846)	(597)	(3,760)
Increase (decrease) in contract liabilities	27	390	46	390	46
Increase (decrease) in payroll related liabilities	18	(777)	1,310	(723)	1,309
		49,451	**68,611**	**49,447**	**68,949**
Income tax (paid)		(27)	(731)	-	(731)
Interest received		53	64	53	64
Net cash flows from (used in) operating activities		**49,477**	**67,944**	**49,500**	**68,282**
Cash flows from investing activities					
(Acquisition) of property, plant, equipment and intangible assets	3	(6,926)	(22,920)	(6,573)	(22,920)
Income from sales of non-current assets		-	10	-	10
Short term deposits (placed)/received	9	(3,000)	(21,000)	(3,000)	(21,000)
(Acquisition) of other investments		-	(3)	-	(4,353)
Dividends received		54	36	54	36
Grants, subsidies received	2.20	289	1,763	289	1,763
Net cash flows from (used in) investing activities		**(9,583)**	**(42,114)**	**(9,230)**	**(46,464)**

(Cont'd on the next page)

Explanatory notes are an integral part of these financial statements.

(all amounts are in EUR thousand unless otherwise stated)

CASH FLOW STATEMENT (CONT'D)

	Notes	Group		Company	
		31-12-2020	31-12-2019	31-12-2020	31-12-2019
Cash flows from financing activities					
Dividends (paid)	25	(7,947)	(11,577)	(7,947)	(11,577)
Purchase of own share		-	(600)	-	(600)
Loans received	14	26,829	(2,649)	26,829	(2,649)
Loans paid	14	(3,387)	-	(3,387)	-
Interest and fee related to loans (paid)	14	(156)	(290)	(156)	(290)
Guarantee fees (paid)	14	(474)	-	(474)	-
Lease liabilities (paid)	14	(43,548)	(40,126)	(43,548)	(40,126)
Interest on leasing liabilities paid	14	(2,000)	(1,968)	(2,000)	(1,968)
Net cash flows from (used in) financing activities		**(30,683)**	**(57,210)**	**(30,683)**	**(57,210)**
Net increase (decrease) in cash flows		**9,211**	**(31,380)**	**9,587**	**(35,392)**
Cash and cash equivalents on 1 January	11	**41,865**	**73,245**	**37,846**	**73,238**
Cash and cash equivalents on 31 December	11	**51,076**	**41,865**	**47,433**	**37,846**
Other non-financial information related to cash flows:					
Liability for property, plant and equipment outstanding as at year end		726	1,191	726	1,191
Accrual on construction-in-progress		-	361	-	361

Explanatory notes are an integral part of these financial statements.

EXPLANATORY NOTES TO FINANCIAL STATEMENTS

1 GENERAL INFORMATION

AB Klaipėdos nafta (hereinafter "the Parent Company" or "the Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows: Burių str. 19, 92276 Klaipėda, Lithuania. These consolidated financial statements comprise the Company and its subsidiaries (together referred to as "the Group").

The subsidiaries are these:

- UAB SGD logistika, a subsidiary (hereinafter "the subsidiary UAB SGD logistika"). The address is as follows: Burių g. 19, 92276 Klaipėda, Lithuania.
- UAB SGD terminalas, a subsidiary (hereinafter "the subsidiary UAB SGD terminalas"). The address is as follows: Burių g. 19, 92276 Klaipėda, Lithuania.
- UAB SGD SPB, a subsidiary of UAB SGD logistika (hereinafter "the subsidiary UAB SGD SPB"). The address is as follows: Burių g. 19, 92276 Klaipėda, Lithuania.
- KN Acu Servicos de Terminal de GNL LTDA (hereinafter "the subsidiary KN Acu Servicos de Terminal de GNL LTDA"). The address is as follows: F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro

The associates are these:

- Sarmatia Sp. z o.o. – as at 31 December 2020 and 2019 the Group and the Company owns 1% of the authorised capital of the international pipeline company. During the year 2019 the Group and the Company purchased 28 shares with per par value of PLN 500 each (EUR 3 thousand). As a result of associate financial performance 100% impairment for investment to Sarmatia Sp. z o.o was accounted for as at 31 December 2020 and 2019. The Group and the Company is entitled to appoint one of five board members to the management of Sarmatia Sp. z o.o., thus it can have significant influence. Therefore, this investment was classified as an associate and measured using the equity method. The equity of the associate as at 31 December 2020 is negative and amounts to EUR (97) thousand (EUR 107 thousand as at 31 December 2019).
- BALTPOOL UAB – as at 31 December 2020 and 2019 the Group and the Company owns 33% of BALTPOOL UAB shares and their voting rights at the General Meeting of the Shareholders of BALTPOOL UAB. The equity of the associate as at 31 December 2020 is EUR 771 thousand (EUR 598 thousand as at 31 December 2019).

The main activities of the Group and the Company include operation of oil terminal, oil products transhipment services and other related services, as well as operation of the liquefied natural gas terminal (hereinafter referred to as "LNGT") primarily dedicated to receive and store liquefied natural gas, regasify it and supply it to Gas Grid.

National Energy Regulatory Council (hereinafter referred to as "NERC") issued Natural Gas Regasification License to the Company on 27 November 2014.

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

During the year of 2020 the Company has not acquired any own shares. In January 2019 the Company acquired 1,463,414 units of own shares. Total price of the transaction amounts to EUR 600 thousand. The purpose of shares' acquisition is the provision of shares to the Company's employees. In May 2019 the Company paid out part of annual bonuses to employees in Company's shares – 807,606 units of shares have been granted to the employees of the Company.

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

As at 31 December 2020 and 31 December 2019 the shareholders of the Company were:

	31 December 2020		31 December 2019	
	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)	275,687	72.35	275,587	72.34
UAB koncernas Achemos grupė (Jonalaukis village, Jonava district, 156673480)	39,663	10.41	39,650	10.41
Other (less than 5% each)	65,702	17.24	65,715	17.25
Total	381,052	100.00	380,952	100.00

As of 31 December 2020, all the shares were owned by 3,444 shareholders (as of 31 December 2019 all the shares were owned by 2,646 shareholders).

The average number of employees of the Group on 31 December 2020 was 400 (373 – on 31 December 2019).

The average number of employees of the Company on 31 December 2020 was 372 (369 – on 31 December 2019).

2 ACCOUNTING PRINCIPLES

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

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

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

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

2.1. Basis for preparation of the financial statements

Statement of compliance

Annual financial statements of the Group and the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter the EU). They were authorized for issuance by the management on 1 April 2021 and are subject to the approval of the shareholders. The shareholders of the Company have the power to reject these financial statements and request for the new ones to be prepared.

Standards effective for annual periods beginning on 1 January 2020

- Amendments to *References to Conceptual Framework in IFRS Standards*

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance – in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The amendments did not have a material impact on the Group's and Company's financial statements.

- Amendments to IAS 1 and IAS 8: *Definition of Material*

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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. The amendments did not have a material impact on the Group's and Company's financial statements.

- Amendments to IFRS 3: *Definition of a business*

The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). The amendments did not have a material impact on the Group's and Company's financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7: *Interest rate benchmark reform, Phase 1*

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates ('IBORs'). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be 'highly probable'. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80–125% range required by retrospective test under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinued during the period of IBOR-related uncertainty solely because the retrospective effectiveness falls outside this range.

2 ACCOUNTING PRINCIPLES (CONT'D)

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

However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. The amendments did not have a material impact on the Group's and Company's financial statements.

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. The Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

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

- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) (not yet endorsed by EU);
- Reference to the Conceptual Framework (Amendments to IFRS 3);
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16);
- Onerous Contracts – Cost of Fulfilling a Contract (Amendment to IAS 37);
- Annual Improvements to IFRS Standards 2018-2020;
- COVID-19-Related Rent Concessions (Amendment to IFRS 16);
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (not yet endorsed by EU);
- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16);
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts (not yet endorsed by EU).

2.2. Foreign currency

Functional currency

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

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

Transactions and balances

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

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

Group companies

On consolidation, the assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss and comprehensive income are translated at average exchange rates observed during reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is reclassified to profit or loss and comprehensive income.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.3. Basis for consolidation

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

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

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

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

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

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

2.4. Operating segments

Operating segment is a separated business constituent part, the business risks and profitability of which differ from other business constituent parts. Chief executive officer of the Group is responsible for making strategic decisions for distribution of the Company's resources and evaluation of activity's results of the segments.

The management of the Group has identified the following segments (Note 4):

- LNGT – LNG terminal in Klaipėda which receives and stores liquefied natural gas, regasifies and supplies it to Gas Main pipeline;
- OT – Oil terminal in Klaipėda and Subačius oil terminal in Kupiškis who are providing oil products transhipment, services of long-term storage of oil products and other services related to oil products transhipment;
- comLNG – LNG commercial activities - includes LNG reloading station and execution of other LNG projects.

The Group and the Company updated the segments in accordance to their economic characteristics. From the year of 2020 the oil terminal in Klaipėda and oil terminal in Subačius presented together as oil terminals in the financial statements.

2.5. Investment in subsidiaries and associates

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

The Group and the Company accounts for investments in associates using the equity method. An associate is an entity in which the Group and the Company has significant influence, but no control over the financial and operating policies. Significant influence is presumed to exist when the Group and 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 Group's and 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.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.5. Investment in subsidiaries and associate (cont'd)

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

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

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

2.6. 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 Group and the Company did not have assets with indefinite useful lives (as of 31 December 2020 and 31 December 2019). Intangible assets with finite lives are amortized over the useful economic lives of 3-15 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Calculation of amortization is discontinued as of the first day of the next month after the disposal of asset or when the whole acquisition cost is expensed or reclassified as a part of another asset.

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

2.7. Property, plant and equipment

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

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

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

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

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

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

(all amounts are in EUR thousand unless otherwise stated)

2 ACCOUNTING PRINCIPLES (CONT'D)

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

The estimated useful life (in years) of different groups of property, plant and equipment is as follows:

Group and Company

Description	Estimated useful life
Intangible assets	3-15
Property, plant and equipment	
Buildings and structures	10-60
Machinery, plant and equipment	5-55
Other non-current assets	4-15

2.8. Financial instruments

Financial instruments – initial recognition and subsequent measurement

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

i) Financial assets

Initial recognition and measurement

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

- measured at amortised cost;
- measured at fair value through other comprehensive income (FVOCI) – debt instruments;
- measured at fair value through other comprehensive income (FVOCI) – equity instruments;
- measured at fair value through profit or loss (FVTPL).

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

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

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

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

Subsequent measurement

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

- Amortised cost;
- 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 2020 and 2019;
- 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 2020 and 2019;
- Fair value through profit or loss. The Company did not have such items as at 31 December 2020 and 2019.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group and the Company. The Group's and the Company's financial assets at amortised cost includes trade, other current and non-current receivables and contract assets. The Group and the Company measures financial assets at amortised cost if both of the following conditions are met and is not designated as at FVTPL:

- 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.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.8. Financial instruments (cont'd)

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.

Impairment of financial assets

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

- Trade receivables, including contract assets (Notes 7 and 8).

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

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

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss (FVTPL) or at amortised costs. Financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss in the statement of other comprehensive income.

The Group's and the Company's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and finance lease liabilities, as well as derivative financials instruments.

iii) Offsetting of financial instruments

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

iv) Derivative financial instruments and hedge accounting

The Group and the Company holds derivative financial instruments to hedge its foreign currency risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met. Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss in the statement of other comprehensive income.

2.9. Derecognition of financial instruments

Derecognition of financial assets

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.9. Derecognition of financial instruments (cont'd)

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

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

Derecognition of 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 at fair value, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.10. Employee benefits

Social security contributions

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

Non-current employee benefits

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

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

2.11. Inventories

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

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 11).

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

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

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

During the year 2020 and 2019 the Group and the Company did not capitalize borrowing costs due to the reason that all outstanding borrowings were related to assets which were not qualifying for borrowing costs capitalization in accordance with IAS 23. Per management judgement made, such specific borrowings outstanding during financial year but with which related assets are already constructed (and not qualifying for borrowing costs capitalization) are not treated as part of general borrowings, and therefore, not allocated to other qualifying assets outstanding during the year.

2.15. Lease

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

The Group and the Company as a lessee

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

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

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

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

The Group and the Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.
Lease payments included in the measurement of the lease liability comprise the following:

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

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

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.15. Lease (cont'd)

Short-term leases and lease of low-value assets

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

The Group and the Company as a lessor

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

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

To classify each lease, the Group and the Company makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

As part of this assessment, the Group and the Company considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

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

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

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% as at 31 December 2020 and 31 December 2019. The Group's subsidiary KN Açu Serviços de Terminal de GNL Ltda applies Brazilian Tax System and subsidiary´s administration has elected the Real Profit Regime that is calculated on quarterly basis. The official rates are 25% for Income tax and 9% Social Contribution on Net Profit.

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

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

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

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

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

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

2.17. Dividends

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

(all amounts are in EUR thousand unless otherwise stated)

2 ACCOUNTING PRINCIPLES (CONT'D)

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 24).

2.19. Provisions

General

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

Greenhouse gas (GHG) emissions

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

2.20. Deferred government grants

Asset-related grants

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

	Group		Company	
	2020	2019	2020	2019
Balance as at 1 January	**5,988**	**4,642**	**5,988**	**4,642**
Received during the year	223	1,763	223	1,763
Reclassified	-	1	-	1
Amortisation	(394)	(400)	(394)	(400)
Compensation of costs	-	(18)	-	(18)
Written-off	-	-	-	-
Balance as at 31 December	**5,817**	**5,988**	**5,817**	**5,988**

Amortisation of grants related to assets of EUR 394 thousand for 2020 (EUR 400 thousand for 2019) has been included into cost of sales in the statement of comprehensive income.

The Group and the Company has no unfulfilled conditions or contingencies attached to these grants as at 31 December 2020 and as at 31 December 2019.

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

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition

Revenue from Contracts with Customers

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

Step 1 - Identification of the contract with the customer.

The contract acknowledges an agreement between two or more parties (subject to purchase / sale conditions) that creates enforceable rights and enforceable obligations (not applicable if a joint venture agreement is signed).
A contract that is subject to IFRS 15 is recognized only if the following criteria are met:

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

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

Step 2 - Identification of operational commitments in the contract.

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

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

Step 3 - Determination of a transaction price.

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

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

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

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

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

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

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

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

The Group and Company has following main revenue streams (Note 19):

- Income from LNGT services (46% from total sales revenue in 2020, 65% in 2019)

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

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

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (cont'd)

Revenue from Contracts with Customers (cont'd)

- Oil products transhipment services (35% from total sales revenue in 2020, 29% in 2019)

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

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

Calculation of percentage of completeness of performance obligation already satisfied at year end is calculated in the following way. The Group and the Company recognises revenues from oil transhipment taking into account the level of fulfilment of a service. The level of service provided is measured as percentage of transhipment 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.

- Income from other LNG terminal activities (15% from total sales revenue in 2020, 3% in 2019). Main source of other LNG terminal activities income:

- Small-scale LNG reloading station in Klaipėda:

Small-scale LNG reloading station activities have one performance obligation exists – to provide LNG reloading station services. Company acts as a principal in service provision. Revenues are recognized over the point of time when services are rendered.

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

- Operation of LNG terminal in Açu port in Brazil:

Operation of LNG terminal in Açu port in Brazil has one performance obligation exists – to provide LNG terminal management and operation services. Company acts as a principal in service provision. Revenues are recognized over the point of time based on services provided.

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

- Other activities

Revenues from other activities consist of sales of goods and other services rendered (mainly storage of oil products, consulting services). The Group and the 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 (over the point in time).

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

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

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. There is no significant impact on financial statements for year ended 31 December 2020 as no significant Take or-Pay transactions occurred in 2020 and 2019.

2 ACCOUNTING PRINCIPLES (CONT'D)

2.22. Revenue recognition (cont'd)

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 27).

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

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

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

Prices set for the LNGT services for the year 2020 and 2019:

- LNG regasification service price fixed part is approved by the NERC based on LNG regasification service price cap set by NERC:
  - price of variable part for the year 2020 set by the resolution No. O3E-724 on 15 November 2020, is 0.35 Eur/MWh
  - price of variable part for the year 2019 set by the resolution No. O3E-404 on 22 November 2019, is 0.13 Eur/MWh
- For 2020 LNG reloading service price is 1.11 Eur/MWh and set by NERC on 15 November 2019 by the resolution No. O3E-725. For 2019 the congestion tariff amounted to 1.10 Eur/MWh, which was set by NERC for a period of 5 years (set on 20 November 2014 by the resolution No. 03-896).
- 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 Group and the Company reviews at least at each reporting date the carrying amounts of non-financial assets, excluding inventories and deferred income tax assets, in order to assess whether an indication of impairment exists. If such indication exists the Company estimates the asset's recoverable amount.

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

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

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

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

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

2.25. Use of estimates and judgements

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

Significant accounting judgements

Information about judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Lease term: whether the Group and the Company is reasonably certain to exercise the option to purchase FSRU (Note 14)
- Provision for acquisition of emission allowances (Note 16);
- The deferred tax (Note 23).

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Impairment evaluation of property, plant and equipment and right of use asset: key assumptions underlying recoverable amounts of identified cash generating units (Note 3);
- Useful life of property, plant and equipment and intangible assets (Note 3);
- Residual value and useful life of FSRU (Note 3);
- Impairment evaluation of investments to subsidiaries: key assumptions underlying recoverable amounts (Note 5);
- Assessment of expected credit losses and impairment loss on receivable amounts: key assumptions determining the impairment allowance (Note 7);
- Recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized (Note 23);
- Measurement of non-current employee benefits: key actuarial assumptions (Note 13);
- Recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources (Note 27).

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 ACCOUNTING PRINCIPLES (CONT'D)

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.

2.28. 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 29).

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 26).

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 valuated, 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.

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

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

(all amounts are in EUR thousand unless otherwise stated)

3 PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost						
Balance as of 31 December 2018	38	163,333	177,441	20,327	14,995	376,134
Acquisitions	-	169	299	754	20,730	21,952
Advance payments	-	-	-	1	60	61
Retirements and disposals	-	-	(634)	(343)	-	(977)
Transfers from inventories	-	-	6	-	17	23
Reclassification of stock	-	-	-	263	-	263
Transfers from construction in progress	-	-	565	518	(1,096)	(13)
Transfer to inventory	-	-	-	-	(10)	(10)
Balance as of 31 December 2019	38	163,502	177,677	21,520	34,696	397,433
Acquisitions	-	25	157	754	5,913	6,849
Advance payments	-	-	-	7	-	7
Retirements and disposals	-	-	(1,613)	(312)	-	(1,925)
Reclassification of stock	-	-	-	-	7	7
Transfer from construction in progress	-	18,129	12,669	3,646	(34,444)	-
Transfer to intangible assets	-	-	-	-	(134)	(134)
Transfer to inventory	-	-	-	-	(82)	(82)
Effect of foreign currency translation	-	-	(2)	(9)	-	(11)
Balance as of 31 December 2020	38	181,656	188,888	25,606	5,956	402,144
Accumulated depreciation and impairment:						
Balance as of 31 December 2018	-	75,165	90,330	11,216	212	176,923
Depreciation for the year	-	4,324	7,340	1,996	-	13,660
Retirements and disposals	-	-	(632)	(341)	-	(973)
Impairment for the year (reversal)	-	(1)	-	-	-	(1)
Balance as of 31 December 2019	-	79,488	97,038	12,871	212	189,609
Depreciation for the year	-	4,596	5,990	1,641	-	12,227
Retirements and disposals	-	-	(1,610)	(310)	-	(1,920)
Impairment for the year (reversal)	-	-	-	-	384	384
Effect of foreign currency translation	-	-	-	(1)	-	(1)
Balance as of 31 December 2020	-	84,084	101,418	14,201	596	200,299
Net book value as of 31 December 2018	38	88,168	87,111	9,111	14,783	199,211
Net book value as of 31 December 2019	38	84,014	80,639	8,649	34,484	207,824
Net book value as of 31 December 2020	38	97,572	87,470	11,405	5,360	201,845

(all amounts are in EUR thousand unless otherwise stated)

3 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

COMPANY

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Construction in progress	Total
Acquisition cost						
Balance as of 31 December 2018	38	163,333	177,441	20,327	14,995	376,134
Acquisitions	-	169	299	754	20,730	21,952
Advance payments	-	-	-	1	60	61
Retirements and disposals	-	-	(634)	(343)	-	(977)
Transfers from inventories	-	-	6	-	17	23
Reclassification of stock	-	-	-	263	-	263
Transfers from construction in progress	-	-	565	518	(1,096)	(13)
Transfer to inventory	-	-	-	-	(10)	(10)
Balance as of 31 December 2019	38	163,502	177,677	21,520	34,696	397,433
Acquisitions	-	25	123	637	5,913	6,698
Advance payments	-	-	-	7	-	7
Retirements and disposals	-	-	(1,613)	(312)	-	(1,925)
Reclassification of stock	-	-	-	-	7	7
Transfer from construction in progress	-	18,129	12,669	3,646	(34,444)	-
Transfer to intangible assets	-	-	-	-	(134)	(134)
Transfer to inventory	-	-	-	-	(82)	(82)
Balance as of 31 December 2020	38	181,656	188,856	25,498	5,956	402,004
Accumulated depreciation and impairment:						
Balance as of 31 December 2018	-	75,165	90,330	11,216	212	176,923
Depreciation for the year	-	4,324	7,340	1,996	-	13,660
Retirements and disposals	-	-	(632)	(341)	-	(973)
Impairment for the year (reversal)	-	(1)	-	-	-	(1)
Balance as of 31 December 2019	-	79,488	97,038	12,871	212	189,609
Depreciation for the year	-	4,596	5,987	1,629	-	12,212
Retirements and disposals	-	-	(1,610)	(310)	-	(1,920)
Impairment for the year (reversal)	-	-	-	-	384	384
Balance as of 31 December 2020	-	84,084	101,415	14,190	596	200,285
Net book value as of 31 December 2018	38	88,168	87,111	9,111	14,783	199,211
Net book value as of 31 December 2019	38	84,014	80,639	8,649	34,484	207,824
Net book value as of 31 December 2020	38	97,572	87,441	11,308	5,360	201,719

The Group's and the Company's depreciation of property, plant and equipment amounts to EUR 12,227 thousand and EUR 12,212 thousand for the year 2020, respectively (EUR 13,660 thousand – in 2019). In 2020 the depreciation EUR 394 thousand was reduced by amortisation of related grant (EUR 400 thousand - in 2019). EUR 11,955 thousand and EUR 11,940 thousand of depreciation charge has been included into cost of sales of the Group and the Company, respectively (EUR 13,405 thousand - in 2019). The remaining amount EUR 272 thousand (EUR 255 thousand – in 2019) has been included into operating expenses in the Statement of comprehensive income of both, the Group and the Company.

Part of the Group's and the Company's property, plant and equipment with the acquisition cost of EUR 40,019 thousand as of 31 December 2020 was completely depreciated (EUR 38,355 thousand on 31 December 2019), however, it was still in operation.

3 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group's and the Company's property, plant and equipment attributed to Liquefied natural gas terminal (net book value amounted to EUR 43,274 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 2020 (net book value amounted to EUR 46,095 thousand as of 31 December 2019).

The Group's and the Company's property, plant and equipment attributed to Subačius oil terminal, with net book value amounting to EUR 4,807 thousand, was pledged to the Ministry of Finance of the Republic of Lithuania for the state guarantee, given to NIB as of 31 December 2020 (net book value of pledged property, plant and equipment amounted to EUR 5,224 thousand as of 31 December 2019).

The management of the Group and the Company has assessed the internal and external indications of impairment for property, plant and equipment as at 31 December 2020 and 31 December 2019:

- Analysis showed that there are impairment indications of property, plant and equipment attributed to LNG reloading station as at 31 December 2020 due to loss making activities. Net book value of property, plant and equipment and right of use asset attributed to LNG reloading station amounted to EUR 26,336 thousand as at 31 December 2020 (EUR 26,591 thousand as at 31 December 2019);
- The management of the Group and the Company has identified that due to loss of a major client as at the end of year 2020, there are indications that property, plant and equipment and right-of-use asset attributed to oil terminal (OT) segment in Klaipėda might be impaired. Net book value of assets attributed to OT segment amounted to EUR 140,329 thousand as at 31 December 2020 (EUR 142,262 thousand as at 31 December 2019).

In 2020 the Group and the Company accounted impairment of EUR 384 thousand for the construction in progress (in 2019 the Group and the Company reviewed property, plant and equipment and reversed impairment of EUR 1 thousand). The impairment of such non-current asset items was included into operating expenses in the Statement of comprehensive income during the year 2020 and 2019. The management has not identified any indications, that the remaining property, plant and equipment as at 31 December 2020 and 31 December 2019 might be impaired.

Impairment of property, plant and equipment and right of use asset attributed to LNG reloading station

As at 31 December 2020, the Group and the Company performed the impairment test of property, plant and equipment attributed to LNG reloading station project by comparing discounted future cash flows forecasted for period till year 2045 (end of estimated useful life of assets) to carrying amounts of this cash generating unit (CGU). The main assumptions used to perform the test were:

- Fixed and variable income as to long-term agreement with client, signed in 2019 for the period of 2020-2024;
- Possible LNG market development after 2024, according to which reloaded LNG volume is assumed to increase 4 times by the year 2030, when the maximum CGU's technical capacity is reached;
- Possible operating expenses based on actual activity expenses and inflated by 2% p.a. starting from 2022;
- Discount rate estimated as weighted average cost of capital (WACC) that as of 31 December 2020 was equal to 5.8% (pre-tax, real prices).

Long-term results, e.g. after the end of the rent period were based on the management judgement, strategic partners assumptions, available LNG market development studies and other publicly available data sources. Based on the results of the impairment test, LNG market development and reloaded LNG volume has the most significant impact to calculation. Sensitivity to reloaded LNG volume is provided in the table below. During the sensitivity analysis performed variable costs have been recalculated accordingly based on the projections of reloading volume.

Decrease in reloading volume, starting from 2025, %	Impairment amount, in EUR thousand
(55%)	-
(60%)	(1,745)
(70%)	(6,812)
(80%)	(11,951)

Based on impairment test results no impairment recognized for property, plant and equipment and right-of-use asset attributed to LNG reloading station as at 31 December 2020 and 31 December 2019.

Impairment test of property, plant and equipment and right of use asset attributed to Klaipėda oil terminal

As at 31 December 2020, the Group and the Company performed the impairment test of property, plant and equipment and right-of-use asset attributed to oil terminal by comparing discounted future cash flows forecasted for period till year 2047 (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:

- Absence of cargo from Belarus over all calculation period;
- Decrease in oil products' transhipment during 2021-2022 due to negative COVID-19 impact on oil segment;
- Increase in oil product storage services from 2021 (capacities not used for transhipment services are used for storage services)
- Income inflated by 2% p.a. depending on amount of transhipment services;
- Possible operating expenses based on actual activity expenses and inflated by 2% p.a. starting from 2022;
- Discount rate estimated as weighted average cost of capital (WACC) that as of 31 December 2020 was equal to 5.8% (pre-tax, real prices).

3 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Based on the results of the impairment test, the most significant impact to the calculation has quantity of transhipped oil products. Sensitivity of impairment indication to the quantity of transhipped oil products is provided in the table below. During the sensitivity analysis performed variable costs have been recalculated accordingly based on the projections of transhipment volume.

Decrease in transhipment, starting from 2021, %	Impairment amount, in EUR thousand
(20%)	-
(22%)	(2,435)
(25%)	(11,014)
(30%)	(25,313)

Based on impairment test results no impairment recognized for property, plant and equipment attributed to Klaipėda oil terminal as at 31 December 2020.

Right-of-use assets

Group and Company

	Land	Buildings and structures	Machinery, plant and equipment	Other non-current assets	Total
Acquisition cost					
Recognition on right-of-use asset at initial application of IFRS 16 (as at 1 January 2019)	21,042	732	258,088	43	279,905
Acquisitions / disposals	-	-	-	-	-
Remeasurement related to purchase option	-	-	134,873	-	134,873
Balance as of 31 December 2019	21,042	732	392,961	43	414,778
Acquisitions / disposals	378	233	-	1	612
Balance as of 31 December 2020	21,420	965	392,961	44	415,390
Accumulated depreciation and impairment:					
Recognition of accumulated depreciation and impairment on right-of-use asset on initial application of IFRS 16 (as at 1 January 2019)	-	-	-	-	-
Depreciation for the year	556	315	43,015	20	43,906
Balance as of 31 December 2019	556	315	43,015	20	43,906
Depreciation for the year	554	323	13,535	19	14,431
Balance at 31 December 2020	1,110	638	56,550	39	58,337
Net book value as of 31 December 2018	-	-	-	-	-
Net book value as of 31 December 2019	20,486	417	349,946	23	370,872
Net book value as of 31 December 2020	20,310	327	336,411	5	357,053

The depreciation of right-of-use asset amounts to EUR 14,431 thousand for the year 2020 (EUR 43,906 thousand in 2019). EUR 14,096 thousand of depreciation charge has been included into cost of sales (EUR 43,577 thousand in 2019) and the remaining amount of EUR 335 thousand has been included into operating expenses in the statement of comprehensive income (EUR 329 thousand in 2019).

The significant decrease in 2020 depreciation amount is related to the decision to realize the purchase option of FSRU until 31 December 2024, therefore, the useful life of FSRU right-of-use asset was prolonged to 20 years. The management of the Group and the Company has evaluated the residual value of the asset based on similar ship demolition market price research and information available to the management. The effect of these changes on actual and expected depreciation expense, included into costs of sales in the statement of other comprehensive income, amounts to EUR 26,627 thousand for the year 2020, EUR 29,890 thousand for the year 2021, EUR (162,494) thousand for the later years.

The management of the Group and the Company has assessed the internal and external indications of impairment of right-of-use assets as part of property, plant and equipment impairment testing as at 31 December 2020 and 31 December 2019. The management did not identify any impairment of the right-of-use assets as at 31 December 2020 and as at 31 December 2019.

(all amounts are in EUR thousand unless otherwise stated)

4 INFORMATION ABOUT SEGMENTS

The management of the Group and the Company has identified the following segments:

- LNGT – LNG terminal in Klaipėda which receives and stores liquefied natural gas, regasifies and supplies it to Gas Main pipeline;
- OT – Oil terminal in Klaipėda and Subačius oil terminal in Kupiškis who are providing oil products transhipment, services of long-term storage of oil products and other services related to oil products transhipment;
- comLNG – LNG commercial activities - includes LNG reloading station and execution of other LNG projects.

The Group and the Company updated the segments. From the year of 2020 the oil terminal in Klaipėda and oil terminal in Subačius presented together as oil terminals in the financial statements. The comparative figures were restated.

The Group includes its investments in subsidiaries and associates to the specific segments according to which activities these entities are involved in: UAB SGD logistika, UAB SGD SPB and KN Açu Servicos de Terminal de GNL LTDA – comLNG, UAB SGD terminalas – LNGT, BALTPOOL UAB and Sarmatia Sp. z. o. o. – OT.

As of 31 December 2020, there were three customers each of which generated revenues exceeding 10% of total Company's revenues and in total amounted to EUR 56,901 thousand:

Customer A – EUR 35,731 thousand (LNGT segment);
Customer B – EUR 10,806 thousand (OT segment);
Customer C – EUR 10,364 thousand (OT segment).

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

Customer A – EUR 67,743 thousand (LNGT segment);
Customer B – EUR 14,814 thousand (OT segment);
Customer C – EUR 8,015 thousand (OT segment).

Main indicators of the segments of the Company included in the statement of comprehensive income and statement of financial position for the financial year 2020 and 2019 are described below:

Group

For the year ended 31 December 2020	LNGT	OT	comLNG	Total
Revenues from contracts with customers	43,395	31,414	5,305	80,114
Profit before income tax	37,443	6,945	(549)	43,839
Segment net profit (loss)	28,420	6,444	(906)	33,958
Interest revenue	9	44	-	53
Loan interest expense	(349)	-	-	(349)
Interest on financial lease liabilities	(1,737)	(309)	(9)	(2,055)
Depreciation and amortisation	3,313	7,253	1,559	12,125
Depreciation of right-of-use-assets	13,752	567	112	14,431
Write-off of non-current assets	-	(5)	-	(5)
Impairment of non-current asset (reversal)	-	384	-	384
Acquisitions of tangible and intangible assets	156	6,423	405	6,984
Segment total assets*	394,341	154,827	27,450	576,618
Loan and related liabilities	96,572	(20)	(42)	96,510
Lease liabilities	289,798	15,432	389	305,619
Segment total liabilities	406,923	22,299	6,146	435,368

For the year ended 31 December 2019	LNGT	OT	comLNG	Total
Revenues from contracts with customers	70,914	32,073	1,376	104,363
Profit before income tax	378	9,288	(3,664)	6,002
Segment net profit (loss)	1,037	9,969	(3,445)	7,561
Interest revenue	62	2	-	64
Loan interest expense	(137)	(9)	(20)	(166)
Interest on financial lease liabilities	(1,805)	(305)	(26)	(2,136)
Depreciation and amortisation	4,327	7,480	1,788	13,595
Depreciation of right-of-use-assets	43,228	534	145	43,907
Write-off of non-current assets	-	(4)	-	(4)
Impairment of non-current asset (reversal)	-	(1)	-	(1)
Acquisitions of tangible and intangible assets	177	21,837	69	22,083
Segment total assets*	408,186	162,185	30,061	600,432
Loan and related liabilities	73,435	(20)	(42)	73,373
Lease liabilities	360,680	14,932	1,265	376,877
Segment total liabilities	451,864	14,125	6,659	472,648

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

(all amounts are in EUR thousand unless otherwise stated)

4 INFORMATION ABOUT SEGMENTS (CONT'D)

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

I. Revenues	2020	2019
Total revenues for reportable segments	80,114	104,363
Consolidated revenue	**80,114**	**104,363**

II. Profit before tax	2020	2019
Total profit before tax for reportable segments	43,839	6,002
Consolidated profit before tax from continuing operations	**43,839**	**6,002**

III. Net profit (loss)	2020	2019
Total net profit (loss) for reportable segments	33,958	7,561
Consolidated net profit (loss)	**33,958**	**7,561**

IV. Interest on financial lease liabilities	2020	2019
Total interest on financial lease liabilities for reportable segments	(2,055)	(2,136)
Consolidated interest on financial lease liabilities	**(2,055)**	**(2,136)**

V. Depreciation and amortization	2020	2019
Total depreciation and amortization for reportable segments	12,125	13,996
Consolidated depreciation and amortization	**12,125**	**13,996**

VI. Depreciation according to IFRS 16	2020	2019
Total depreciation according to IFRS 16 for reportable segments	14,431	43,907
Consolidated depreciation according to IFRS 16	**14,431**	**43,907**

VII. Acquisitions of tangible and intangible assets	2020	2019
Total acquisitions of tangible and intangible assets for reportable segments	6,984	22,083
Consolidated acquisitions of tangible and intangible assets	**6,984**	**22,083**

VIII. Assets*	2020	2019
Total assets for reportable segments	576,618	600,432
Consolidated total assets	**576,618**	**600,432**

IX. Loan and related liabilities	2020	2019
Total loan and related liabilities for reportable segments	96,510	73,373
Consolidated loan and related liabilities	**96,510**	**73,373**

X. Lease liabilities	2020	2019
Total lease liabilities for reportable segments	305,619	376,877
Consolidated financial lease liabilities	**305,619**	**376,877**

XI. Liabilities	2020	2019
Total liabilities for reportable segments	435,368	472,648
Consolidated total liabilities	**435,368**	**472,648**

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

(all amounts are in EUR thousand unless otherwise stated)

4 INFORMATION ABOUT SEGMENTS (CONT'D)

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

	Group		Company	
	2020	2019	2020	2019
Lithuanian clients	59,050	90,797	59,050	90,572
Foreign clients	21,064	13,566	18,424	13,566
	80,114	104,363	77,474	104,138

Majority of property, plant and equipment is located in Lithuania and only less than 1% - in Brazil.

5 INVESTMENT IN SUBSIDIARIES

The Company

	31-12-2020	31-12-2019
Cost of shares of UAB SGD logistika	4,540	4,540
Cost of shares of UAB SGD terminalas	13	13
	4,553	4,553

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

UAB SGD logistika

UAB SGD logistika was established by AB Klaipėdos nafta acquiring 100% of shares. The subsidiary was registered on 20 November 2015. The main activity – expansion of operation of international LNG terminal activities, LNG transportation activities, other economic activities.

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

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

The management of the Company has assessed indications of impairment of investment to subsidiary 31 December 2020 and 31 December 2019, assessment showed, that investment to subsidiary might be impairment. As at 31 December 2020, the Company performed the impairment test of investment to subsidiary UAB SGD logistika by comparing discounted future cash flows forecasted for the project, implemented by established KN Açu Serviços de Terminal de GNL Ltda to carrying value of investment. Impairment test was prepared for the period until the year 2033, as to initial 13-year agreement with GNA. The main assumptions used to perform the test were income level, which is based on different main project phases and agreed in the long-term contract, possible operating costs, which were estimated based on actual LNG terminal operation business activity expenses and adjusted as to local inflation and discount rate, estimated as weighted average cost of capital (WACC) of Brazil market that as of 31 December 2020 was assumed to be 11.3% (as of 31 December 2019 was assumed to be 11.8%).

Based on impairment test results no impairment should be recognized for investment to UAB SGD logistika as at 31 December 2020.

Financial position of UAB SGD logistika is as follows:

	UAB SGD logistika	
	2020	2019
Non-current assets	151	25
Current assets	3,893	3,995
Non-current liabilities	-	-
Current liabilities	1	3,540
Equity	4,043	480

Comprehensive income of UAB SGD logistika is, as follows:

	UAB SGD logistika	
	2020	2019
Income	26	225
(Expenses)	(4)	(637)
Profit (loss)	22	(412)

(all amounts are in EUR thousand unless otherwise stated)

5 INVESTMENT IN SUBSIDIARIES (CONT'D)

UAB SGD terminalas

The subsidiary of AB Klaipėdos nafta – UAB SGD terminalas (Burių str. 19, 92276 Klaipėda, 304139242) was established and registered on 27 December 2018. UAB SGD terminalas objective is to perform activities of operating and managing a whole structure of LNG terminal in Klaipėda. The subsidiary is currently inactive.

Financial position of UAB SGD terminalas is as follows:

	UAB SGD terminalas	
	2020	2019
Non-current assets	-	-
Current assets	6	9
Non-current liabilities	-	-
Current liabilities	-	1
Equity	6	8

Comprehensive income of UAB SGD terminalas is, as follows:

	UAB SGD terminalas	
	2020	2019
Income	0	-
(Expenses)	(3)	(4)
Profit (loss)	(3)	(4)

6 INVENTORIES

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Oil products for sale	499	213	499	213
Diesel fuel for the LNG Terminal purpose	269	409	269	409
Liquefied natural gas	48	335	48	335
Fuel for transport and other equipment	39	41	39	41
Spare parts, construction materials and other inventories	1,560	1,402	1,542	1,402
Total inventories	2,415	2,400	2,397	2,400

No write down to net realisable value accounted as of 31 December 2020. As of 31 December 2019 the allowance amount was EUR 6 thousand.

In 2020 the Group and the Company recognised inventories for EUR 2,143 thousand (in 2019: EUR 3,261 thousand) in cost of sales and EUR 24 thousand in operating expenses (in 2019: EUR 73 thousand). Inventories recognised as costs during the year were included into following captions under costs of sales and operating expenses:

	2020	2019
Natural gas	1,449	2,463
Repair and maintenance of assets	358	264
Work safety costs	142	87
Services for tankers	139	213
Transport	34	48
Tax on environmental pollution	19	184
Other	2	2
Total recognised as cost of sales	2,143	3,261
Expenses for transport	20	25
Donations	3	-
Other	1	48
Total recognised as operating expenses	24	73

As of 31 December 2020, the Group and the Company also had 3.4 thousand tons of heavy oil products for sale, that was collected in the Wastewater Treatment Facilities (1.1 thousand tons of heavy oil products as of 31 December 2019).

As of 31 December 2020, the Group and the Company stored 1.4 thousand MWh (as of 31 December 2019 – 1.4 thousand MWh) (the quantities are unaudited) natural gas in the connecting pipeline for the Liquefied Natural Gas Terminal activities.

(all amounts are in EUR thousand unless otherwise stated)

7 TRADE RECEIVABLES AND OTHER RECEIVABLES

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Trade receivable	9,551	12,559	9,167	12,559
Prepayments	391	568	371	558
Other receivables	704	44	403	44
	10,646	13,171	9,941	13,161

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

Trade receivable disclosed below:

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Receivables from LNG terminal activities	8,126	10,546	8,202	10,546
Receivables for transhipment of oil products and other related services	3,187	2,741	3,187	2,741
Receivable for operating and management services	460	-	-	-
Less: impairment allowance	(2,222)	(728)	(2,222)	(728)
	9,551	12,559	9,167	12,559

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Receivables from third-party customers	2,133	2,222	1,674	2,222
Receivables from related parties (Note 28)	7,418	10,337	7,493	10,337
	9,551	12,559	9,167	12,559

The Group and the Company has recognized impairment allowance in the amount of EUR 2,222 thousand on 31 December 2020 (EUR 728 thousand on 31 December 2019).

Change in allowance for trade receivables for 2020, amounting to EUR 1,494 thousand (for 2019 – EUR 221 thousand) has been included into operating expenses in the statement of the comprehensive income.

The age analysis of trade receivables of the Group and the Company as of 31 December 2020 and 2019 is as follows:

Group

	Trade neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 59 days	60 – 89 days	90 – 359 days	More than 360 days	
2020	5,845	3,530	176	-	-	-	9,551
2019	8,911	3,641	-	-	7	-	12,559

Company

	Trade neither past due nor impaired	Trade receivables past due but not impaired					Total
		Less than 30 days	30 – 59 days	60 – 89 days	90 – 359 days	More than 360 days	
2020	5,461	3,530	176	-	-	-	9,167
2019	8,911	3,641	-	-	7	-	12,559

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

All receivable amounts from the liquefied natural gas terminal services are pledged to UAB Hoegh LNG Klaipėda for 10 years period (Note 27).

(all amounts are in EUR thousand unless otherwise stated)

7 TRADE RECEIVABLES AND OTHER RECEIVABLES (CONT'D)

Other receivables disclosed below:

	The Group		The Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Excise duty receivable	216	5	216	5
VAT receivable	151	18	151	18
Receivable grant	16	14	16	14
Other receivable taxes (1)	284	-	-	-
Other receivables	37	7	20	7
Total	704	44	403	44

(1) Other receivable taxes related to subsidiary KN Acu Servicos de Terminal de GNL Ltda receivable social security taxes (INSS). Any employee on a Brazilian payroll is subject to social security contributions. According to the current legislation, the monthly social security contribution in Brazil is due on the total amount of the remuneration at rates of 7.5% up to 14%.

8 CONTRACT ASSETS

The Group and the Company

	31-12-2020	31-12-2019
Non-current contract assets:		
Accrued rent income (1)	349	974
	349	974
Current contract assets:		
Accrued rent income (1)	624	564
Accrued income (2)	687	592
	1,311	1,156

(1) As at 31 December 2020 and 31 December 2019 contract assets amounts long-term rent revenue accrual arising from Subačius fuel storage reservoirs rent agreement.

Subačius fuel storage reservoirs rent agreement signed with the Lithuanian petroleum products Agency in 2012 for the duration of 10 years is treated. The rent tariffs are different for the first 5 years and for the remaining period. Therefore, the income is recognized on a straight-line basis over the term of an agreement, i.e. the income is calculated on average tariff of the all agreement term (10 years), balances as of 31 December 2020 and 2019 respectively amounted to 973 thousand EUR and 1,538 thousand EUR, part of the accrued income is presented under short-term contract assets (EUR 624 thousand for 2020 and EUR 564 thousand for 2019).

In 2020 income from Subačius fuel storage reservoirs rent reduced by EUR 565 thousand (for 2019 - EUR 552 thousand).

(2) Accrued income for storage of oil products as of 31 December 2020 and 31 December 2019 calculated as percentage of completion based on expenses incurred from the total estimated cost of contracted services. Upon completion of transhipment of oil products and acceptance by the customer, the amounts initially recognized as contract assets are reclassified as trade receivables.

9 SHORT TERM DEPOSITS

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Short-term bank deposits at the commercial banks	24,000	21,000	24,000	21,000

As of 31 December 2020, the Group and the Company had 6 term deposits at banks, amounted to EUR 24,000 thousand, with maturity of more than 3 months. Annual interest rate is 0.07% for all 6 agreements signed.

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

(all amounts are in EUR thousand unless otherwise stated)

10 OTHER FINANCIAL ASSETS

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Excise duty guarantee receivable	1,271	-	1,271	-
Receivable from SEB bank	594	500	594	500
Receivable from Luminor	-	594	-	594
Derivatives	33	180	33	180
Total	1,898	1,274	1,898	1,274

In 2020 the Group and the Company paid a guarantee to the Excise Administration Department for tax which may arise from the movement of excise goods under suspension of excise duty. The guarantee agreement is without a fixed term.

In 2020 the Group and the Company signed a performance guarantee agreement with SEB bank for amount of USD 729 thousand in favour of Brazil subsidiary's KN Açu Serviços de Terminal de GNL Ltda. client UTE GNA I GERACAO DE ENERGIA S.A. As of 1 January 2021, the amendment signed to reduce the guarantee amount to USD 665 thousand. Maturity term of the guarantee is 31 December 2021.

As at 31 December 2019 the receivable amount was accounted based on Luminor bank guarantee (EUR 594 thousand) and SEB bank guarantee (EUR 500 thousand). The Luminor bank guarantee amount was recovered in January 2020, when the Company ensured the implementation of measures provided in the Company's waste reduction plan. SEB bank guarantee agreement was covered as at 8 January 2020.

11 CASH AND CASH EQUIVALENTS

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Cash at banks	51,076	41,865	47,433	37,846

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

Cash and cash equivalents are not pledged as at 31 December 2020 and 31 December 2019.

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

	Group		Company	
Currency	31-12-2020	31-12-2019	31-12-2020	31-12-2019
EUR	46,347	36,583	43,133	32,564
USD	4,300	5,282	4,300	5,282
BRL	429	-	-	-
	51,076	41,865	47,433	37,846

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

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
A +	7,246	25,104	4,032	21,085
AA -	34,717	8,282	34,717	8,282
BBB+	8,684	8,479	8,684	8,479
BB-	429	-	-	-
	51,076	41,865	47,433	37,846

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 2020 and 31 December 2019.

(all amounts are in EUR thousand unless otherwise stated)

12 ISSUED CAPITAL AND RESERVES

The share capital of the Company is equal to EUR 110,505,193.97 and is divided into 381,052,393 units of shares, which grant 381,052,393 votes. Nominal value per share – EUR 0.29. All shares are paid. 72.35% of the shares (275,687,444 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

On 29 March 2019 amended Articles of Association of AB Klaipėda nafta had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorized capital of the Company. Following the increase of the authorized capital of the Company, such capital is equal to EUR 110,476,193.97 is divided into 380,952,393 units of shares, which grant 380,952,393 votes. Nominal value per share – EUR 0.29. 72.34% of the shares (275,587,444 shares) are owned by the State of Lithuania, represented by the Ministry of Energy.

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

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

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

13 NON-CURRENT EMPLOYEE BENEFITS

Provisions for non-current employee 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 2020 the Company and the Group has recognised employee benefits related to the length of service of employees, which is described in collective agreement.

As of 31 December 2020 and 31 December 2019, the Company and the Group reclassified a portion of non-current employee benefits under short term liabilities.

On 31 December 2020 the liabilities related to the defined benefit obligations to the employees terminating the employment on the normal retirement date were EUR 675 thousand (EUR 281 thousand – in 2019) as follows:

Group and Company

	2020	2019
Start of period	281	301
Calculated per year	435	78
Paid per year	(41)	(98)
End of period	675	281
Current	43	41
Non-current	632	240

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

Group and Company

	31-12-2020	31-12-2019
Discount rate	0.22%	0.34%
Staff turnover rate	6.50%	5.81%
Future salary increases	2.80%	2.00%

(all amounts are in EUR thousand unless otherwise stated)

14 LOANS AND LEASE LIABILITIES

Loans

The Group and the Company

	31-12-2020	31-12-2019
European Investment Bank's loan (a)	51,133	53,091
Nordic Investment Bank's loan (b, c)	45,481	20,398
Guarantee payment to the Ministry of Finance to the Republic of Lithuania	(134)	(134)
Payable loan interest	30	18
	96,510	73,373

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

The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee and aligned with EU commission. The Finance ministry of the Republic of Lithuania being issuer of the state aid guarantee has pledge on all property, plant and equipment created during LNGT project (Note 3).

Above credit was facilitated in several tranches:

i. **First tranche.** On 20 December 2013, the 1st tranche amounting to EUR 15,000 thousand was received with full principal amortization till 20 December 2033. The principal repaid by EUR 2,213 thousand as of 31 December 2020. First tranche loan balance as of 31 December 2020 – EUR 12,725 thousand (as of 31 December 2019 – EUR 13,704 thousand).
ii. **Second tranche.** On 28 November 2014, the 2nd tranche amounting to EUR 15,000 thousand was received with full principal amortization till 28 November 2034. The principal repaid by EUR 1,230 thousand as of 31 December 2020. Second tranche loan balance as of 31 December 2020 – EUR 13,708 thousand (as of 31 December 2019 – EUR 14,687 thousand).
iii. **Third tranche**. On 15 December 2017, the 3rd tranche amounting to EUR 24,700 thousand was received with full principal amortization till 20 September 2034. Third tranche loan balance as of 31 December 2020 – EUR 24,700 thousand (as of 31 December 2019 – 0 EUR).

The Company complied with covenants prescribed in the loan agreement as of 31 December 2020 and as of 31 December 2019.

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

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

On 31 August 2017, the Company withdrew the amount of EUR 22,000 thousand. Resulting in requirement of full principal amortization till 19 June 2034. The principal repaid by EUR 2,850 thousand as of 31 December 2020. NIB loan balance as of 31 December 2020 – EUR 19,152 thousand (as of 31 December 2019 – EUR 20,398 thousand).

The performance of 100% Company's contractual financial liabilities is ensured by the State Guarantee and aligned with EU commission. The Finance ministry of the Republic of Lithuania being issuer of the state aid guarantee has pledge on property, plant and equipment created during LNGT project.

(c) On 19 November 2019, the Company concluded the Credit Agreement with the Nordic Investment Bank (NIB) regarding granting a credit of up to EUR 134,145 thousand for restructuring of the lease payments of the FSRU. According to the Loan contract, the term of the credit was up to 25 years (5 years grace period, 20 years linear repayment scheme), interest: floating (a fixed margin + 6 months EURIBOR). The Loan contract also provides that the minimal payable amount of credit is EUR 5,000 thousand with the annual tranche cap EUR 26,829 thousand (making total 5 annual tranches). Loan balance as of 31 December 2020 – EUR 26,329 thousand (as of 31 December 2019 – 0 EUR).

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

On 31 March 2020, the Company withdrew the amount of EUR 6,707 thousand, followed by three consecutive tranches on 30 June 2020, 30 September 2020 and 31 December 2020 respectively, each amounting to EUR 6,707 thousand. Total withdrawn amount by 31 December 2020 was EUR 26,829 thousand. The Company had EUR 134,145 thousand of undrawn loans as at 31 December 2019 and the amount fully consisted of Nordic Investment Bank (NIB) loans.

(all amounts are in EUR thousand unless otherwise stated)

14 LOANS AND LEASE LIABILITIES (CONT'D)

The Company complied with the set financial covenants and non-financial conditions to its creditors as of 31 December 2020 and as of 31 December 2019.

LEASE LIABILITIES

Group and Company

	31-12-2020	31-12-2019
Lease liabilities	305,619	376,877

Lease liabilities as at 31 December 2020 can be specified as follows:

	Land rent	Jetty rent	FSRU lease	Other*	Total
Long term lease liabilities	15,167	5,101	245,026	45	265,339
Short term lease liabilities	320	74	39,596	290	40,280
	15,487	**5,175**	**284,622**	**335**	**305,619**

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

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

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

The interest rate for lease liabilities varies from 0.5% to 2% as of 31 December 2020 and as of 31 December 2019. The main characteristics of rent agreements by asset group, as well as the movement of the lease liability can be presented as follows:

Group and Company, denominated in euros

	Currency	Year of maturity	Carrying amount as at 31-12-2019	Interests	Payments	Reas-sessment	Exchange rate effect	Carrying amount as at 31-12-2020
FSRU lease	USD	2024	355,767	1,640	(44,019)	-	(28,765)	284,623
Land rent	EUR	2055	15,753	311	(625)	48	-	15,487
Jetty rent	EUR	2065	4,913	98	(167)	331	-	5,175
Other	EUR	2021-2022	444	6	(334)	218	-	334
			376,877	**2,055**	**(45,145)**	**597**	**(28,765)**	**305,619**

As of 31 December 2020 and 31 December 2019 the Group and the Company did not have residual value guarantees related to lease agreements or leases not yet commenced to which the Group and the Company is committed. Only one agreement, FSRU lease, contains purchase option, which is described below.

Floating Storage and Regasification Unit (FSRU) lease

On 2nd March 2012 the Company has signed the 10 years Build, Operate and Transfer (BOT) lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) with a purchase option. FSRU has arrived at the Seaport of Klaipėda at 27th October 2014 and has been taken over by the Company on 27th November 2014. There have been no changes in the BOT lease contract with Hoegh LNG Ltd. regarding LNG Floating Storage and Regasification Unit (FSRU) in the year 2020 and 2019. The terms and condition of the BOT lease contract do not provide any restrictions on the Company's activities, associated with dividends, additional borrowings or additional long-term rent.

FSRU operating lease payments include such elements:

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

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

(all amounts are in EUR thousand unless otherwise stated)

14 LOANS AND LEASE LIABILITIES (CONT'D)

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

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

Financing and state guarantee were ensured in December 2019. Accordingly, the management of the Group and the Company reassessed and concluded, that it is reasonably certain to exercise the purchase option. As at 31 December 2019, the management remeasured the lease liability and the right-of-use asset to include the exercise price of purchase FSRU in its lease payments. The Group and the Company discounted lease payments using revised incremental borrowing rate 31 December 2019, which was 0.5%. Lease liabilities were remeasured from EUR 222,894 thousand to EUR 355,767 thousand and the related right-of-use assets from EUR 215,073 thousand to EUR 349,946 thousand.

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

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

Group and Company

	Loans	Lease liabilities
Non-current interest-bearing loans and borrowings, including interest payable as at 1 January 2019	**76,152**	**280,035**
Loan repayments (Cash flows)	(2,649)	-
Remeasurement of lease liabilities	-	134,873
Repayment of lease liabilities (Cash flows)	-	(40,125)
Interest and loan administration fee charged	162	2,136
Interest and loan administration fee paid (Cash flows)	(290)	(1,968)
The effect of changes in foreign exchange rates	-	6,082
Other payments / reclassifications	(2)	(4,156)
Non-current interest-bearing loans and borrowings, including interest payable as at 1 January 2020	**73,373**	**376,877**
Additional loan disbursements (Cash flows)	26,829	-
Loan repayments (Cash flows)	(3,387)	-
Repayment of lease liabilities (Cash flows)	-	(43,145)
Interest and loan administration fee charged	349	2,055
Interest and loan administration fee paid (Cash flows)	(156)	(2,000)
Guarantee payments (Cash flows)	(474)	-
The effect of changes in foreign exchange rates	-	(28,765)
Other payments / reclassifications	(24)	597
Non-current interest-bearing loans and borrowings, including interest payable as at 31 December 2020	**96,510**	**305,619**

(all amounts are in EUR thousand unless otherwise stated)

15 TRADE PAYABLES AND OTHER LIABILITIES

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Trade payables	6,544	8,322	6,511	8,322
Other payables and current liabilities	1,402	1,588	1,209	1,588
	7,946	9,910	7,720	9,910

Trade payables disclosed below:

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Payables for FSRU	4,558	4,620	4,558	4,620
Payable to contractors	726	1,191	726	1,191
Payable for rent of land	333	393	333	393
Other payments related FSRU	285	899	285	899
Payable for gas services	231	368	231	368
Payable for railway services	65	129	65	129
Other trade payables	346	722	313	722
	6,544	8,322	6,511	8,322

On 31 December 2020 trade payables of EUR 5,249 thousand were denominated in USD (EUR 5,232 thousand – on 31 December 2019).

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

Other payables and current liabilities disclosed below:

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Subsidies payable to partners	532	-	532	-
Accrued expenses and liabilities	335	671	335	671
Real estate tax payable	215	112	207	112
Other liabilities	320	233	135	233
Accrual in regard to the emission allowances (LNG)	-	572	-	572
	1,402	1,588	1,209	1,588

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

16 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 ended 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 2020, the Group and the Company has accounted for a provision of EUR 1,709 thousand in regard to the emission made which exceed available emission rights (as of 31 December 2019 – EUR 72 thousand).

Movement of emission allowances in 2020:

Group and Company

	Quantity
As at 31 December 2019	(2,935)
Emission for the year	(64,767)
Emission allowances granted free	19,761
Purchase of emission allowances	7,000
Emission allowances used	(14,031)
As at 31 December 2020	(54,972)

Movement of provision in 2020:

Group and Company

Balance as at 31 December 2019	(72)
Purchase of emission allowances	144
Emission allowances used	(289)
Emission allowances accrued	(1,492)
Balance as at 31 December 2020	(1,709)

(all amounts are in EUR thousand unless otherwise stated)

17 DERIVATIVES

Derivatives disclosed below:

Group and Company

	31-12-2020	31-12-2019
Derivatives	1,946	-

Due to the specifics of the business, the Group and the Company are exposed to the risk of EUR/USD foreign exchange rate fluctuations due to FSRU lease payments in US dollars. The Group and the Company hedge against changes in EUR/USD exchange rates by using futures contracts. When derivatives are realized, the result is recorded in the statement of other comprehensive income each calendar month. For 2020 the Group and the Company accounted EUR 1,869 thousand loss on the fair value change of derivatives. For 2019 the Group and the Company accounted EUR 78 thousand loss on the fair value change of derivatives. The fair value as at the end of reporting period is confirmed by SEB bank. The maturity term of future agreements is 31 December 2021.

18 PAYROLL RELATED LIABILITIES

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Accrued vacation reserve	1,130	1,050	1,077	1,050
Accrual of annual bonuses	646	873	646	873
Salaries payable	518	422	517	422
Social insurance payable	249	225	249	225
Income tax payable	185	153	185	153
Other deductions	3	3	3	3
	2,731	2,726	2,677	2,726

19 REVENUE FROM CONTRACTS WITH CUSTOMERS

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Income from LNGT services regulated by NERC[1] (1)	35,729	67,724	35,729	67,724
Sales of oil transhipment services (2)	28,247	30,062	28,247	30,062
Other sales related to LNG terminals activity (3)	11,808	3,384	9,168	3,384
Other sales related to transhipment (4)	2,830	1,617	2,830	1,617
Sales of consulting services	1,156	944	1,156	944
Sales of inventories	344	407	344	407
LNG transportation revenue	-	225	-	-
	80,114	104,363	77,474	104,138

(1) The significant factor, which has influenced the decrease in Group's and Company's revenue in 2020, is lower revenue of Klaipėda LNG terminal, following from the KN decisions, adopted in 2019, to optimize infrastructure costs of Klaipėda LNG terminal and reduce LNG security supplement for the consumers of Lithuania, starting from 2020.

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

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

(2) In December 2020 the client of the Company BNK (UK) Limited has informed about the temporary suspension of oil products sales through Klaipėda. In the future tenders announced by BNK Klaipėda will not be indicated as their sales point. However, all contracts between BNK and the Company remain in force, but the contractual obligations are suspended until further notice.

[1] NERC – National Energy Regulatory Council

(all amounts are in EUR thousand unless otherwise stated)

19 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

(3) Other sales related to LNG terminals activity includes LNG small scale generated income as well as income generated by KN Acu Servicos de Terminal de GNL Ltda in the Group numbers.

(4) Other sales income related to transhipment include services of moorage, sales of fresh water, transportation of crew and other transhipment related income.

20 COST OF SALES

	Group		Company	
	2020	2019	2020	2019
Depreciation of right-of-use asset	(14,096)	(43,577)	(14,096)	(43,577)
Depreciation and amortisation (incl. amortisation of grants)	(11,815)	(13,284)	(11,785)	(13,284)
Wages, salaries and social security	(8,076)	(7,327)	(7,646)	(7,327)
Expenses related to FSRU rent (OPEX element, management, crew cost)	(5,496)	(8,351)	(5,496)	(8,351)
Emission allowances	(1,637)	(54)	(1,637)	(54)
Natural gas	(1,560)	(2,547)	(1,560)	(2,547)
Port charges	(1,545)	(1,529)	(1,545)	(1,529)
Railway services	(1,458)	(2,135)	(1,458)	(2,135)
Contribution for National Energy Regulatory Council (NERC)	(972)	(441)	(972)	(441)
Electricity	(838)	(1,247)	(838)	(1,247)
Repair and maintenance of assets	(782)	(508)	(775)	(508)
Insurance	(443)	(426)	(398)	(426)
Tax on real estate	(407)	(394)	(407)	(394)
Work safety costs	(320)	(140)	(330)	(140)
Transport	(284)	(287)	(248)	(287)
Cleaning expenses	(208)	(140)	(208)	(140)
Services for tankers	(193)	(217)	(193)	(171)
Tax on environmental pollution	(168)	(862)	(168)	(862)
Other expenses related to FSRU	(118)	(171)	(118)	(217)
Research costs	(82)	(88)	(82)	(88)
Impairment of inventories (reversal)*	6	1,058	6	1,058
LNG transportation services	-	(632)	-	-
Other	(468)	(230)	(237)	(230)
	(50,960)	(83,529)	(50,191)	(82,897)

* As at 31 December 2019 the Group and the Company reviewed the accounting policy for slow-moving and obsolete stock. The write-down to net realizable value accounted only for old, obsolete stock, that the Group and the Company are not going to use any more. The reversal of write-down of inventories to the net realizable value of EUR 6 thousand for 2020 (EUR 1,058 thousand 2019).

(all amounts are in EUR thousand unless otherwise stated)

21 OPERATING EXPENSES

	Group		Company	
	2020	2019	2020	2019
Wages, salaries and social security	(4,688)	(3,620)	(4,254)	(3,614)
Impairment of doubtful receivables	(1,855)	(221)	(1,855)	(221)
Expenses for operating taxes	(463)	(144)	(55)	(144)
Consulting and legal costs	(472)	(942)	(349)	(940)
Impairment of property, plant and equipment	(384)	1	(384)	1
Depreciation of right-of-use asset	(335)	(329)	(335)	(329)
Depreciation and amortization	(310)	(312)	(310)	(312)
Telecommunication and IT expenses	(258)	(196)	(252)	(196)
Administration of bank accounts	(191)	(141)	(189)	(141)
Salaries and other related expenses to governing bodies	(156)	(168)	(156)	(168)
Expenses for utilities	(96)	(90)	(95)	(90)
Expenses for business trips	(60)	(145)	(60)	(145)
Expenses for refresher courses	(58)	(58)	(58)	(58)
Advertising and external communication	(54)	(126)	(44)	(126)
Long-term employee benefits	(41)	(20)	(41)	(20)
Expenses related to the management of securities	(39)	(37)	(39)	(37)
Expenses for transport	(21)	(55)	(21)	(55)
Donations	(19)	(90)	(19)	(90)
Expenses for advertising and representation	(15)	(38)	(15)	(38)
Property rent	(4)	(17)	-	(17)
Other	(292)	(316)	(256)	(314)
	(9,811)	(7,064)	(8,787)	(7,054)

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

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Income from currency exchange on the lease liabilities	28,765	-	28,765	-
Fines income	75	64	75	64
Interest income	53	46	53	46
Income from currency exchange	-	24	-	-
Other financial income	4	7	3	-
Financial activity income, total	28,897	141	28,896	110
Interest on the lease liabilities	(2,055)	(2,136)	(2,055)	(2,136)
Loss from financial derivatives	(1,869)	(78)	(1,869)	(78)
Interest expenses	(349)	(166)	(349)	(166)
Losses from currency exchange	(256)	(17)	(164)	(17)
Fines and penalties expenses	(2)	(4)	(1)	(4)
Losses from currency exchange on the lease liabilities	-	(6,082)	-	(6,082)
Other financial activity expenses	(19)	(1)	-	(1)
Financial activity expenses, total	(4,550)	(8,484)	(4,438)	(8,484)

(all amounts are in EUR thousand unless otherwise stated)

23 INCOME TAX

	Group		Company	
	31-12-2020	31-12-2019	31-12-2020	31-12-2019
Current income tax expense	(273)	-	-	-
Previous year income tax expense	-	(14)	-	(14)
Deferred tax (expenses) income	(9,608)	1,573	(9,608)	1,573
Income tax (expense) income recorded in the profit (loss)	(9,881)	1,559	(9,608)	1,559

Reconciliation between income tax expense of the Group and Company and the result of taxable income of the Group and the Company multiplied by income tax rate for the years 2020 and 2019 is as follows:

Group	2020	2020	2019	2019
Accounting profit before tax		43,839		6,002
Applying 15% profit tax	15.00%	6,576	15.00%	900
Effect of tax rates in foreign jurisdictions	0.63%	273	-	-
Recognition of previously unrecognised tax losses	(2.50%)	(1,094)	-	-
Investment projects' relief	4.32%	1,896	(46.67%)	(2,801)
Tax-exempt income	(0.13%)	(55)	(1.05%)	(63)
Deductible expenses of income tax (charity)	(0.08%)	(36)	(0.45%)	(27)
Non-deductible expenses of income tax	1.57%	688	5.18%	311
Emission allowances	0.39%	171	1.62%	97
Realized derivatives	0.64%	280	0.20%	12
Different depreciation rates of non-current assets	1.24%	543	3.48%	209
Previous year corrections	-	-	0.23%	14
Other deductible temporary differences	1.46%	639	(3.52%)	(211)
	22.54%	9,881	(25.97%)	(1,559)

Company	2020	2020	2019	2019
Accounting profit before tax		42,103		6,388
Applying 15% profit tax	15.00%	6,465	15.00%	958
Recognition of previously unrecognised tax losses	(2.50%)	(1,094)	-	-
Investment projects' relief	4.32%	1,896	(46.67%)	(2,801)
Tax-exempt income	(0.13%)	(55)	(1.05%)	(63)
Deductible expenses of income tax (charity)	(0.08%)	(36)	(0.45%)	(27)
Non-deductible expenses of income tax	1.62%	712	4.22%	253
Emission allowances	0.39%	171	1.62%	97
Realized derivatives	0.64%	280	0.20%	12
Different depreciation rates of non-current assets	1.24%	543	3.48%	209
Previous year corrections	0.00%	-	0.23%	14
Other deductible temporary differences	1.66%	726	3.45%	207
	22.17%	9,608	(24.41%)	(1,559)

(all amounts are in EUR thousand unless otherwise stated)

23 INCOME TAX (CONT'D)

Movements of deferred tax balances:

Group and Company	**Balance as at 31 December 2020**							
2020	**Net balance at 1 January**	**Recognised in profit or loss**	**Recognised in OCI**	**Recognised directly in equity**	**Other**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Investment projects' relief	1,896	(1,896)	-	-	-	-	-	-
Right-of-use asset and lease liability	901	(8,616)	-	-	-	(7,715)		(7,715)
Accelerated depreciation for tax purposes	217	(10)	-	-	-	207	207	-
Vacation reserve	158	4	-	-	-	162	162	-
Accrued annual bonuses	131	(35)	-	-	-	96	96	-
Emission allowances	85	171	-	-	-	256	256	-
Other temporary differences	41	18	-	-	-	59	59	-
Impairment of non-current assets	41	(3)	-	-	-	38	38	-
Long-term employee benefit liability	42	6	53	-	-	101	101	-
Associates' equity method	9	(9)	-	-	-	-	-	-
Write-offs of inventories to realizable value	1	(1)	-	-	-	-	-	-
Different depreciation rates of non-current assets	(209)	(543)	-	-	-	(752)	-	(752)
Accrued income	(231)	85	-	-	-	(146)	-	(146)
Accrued taxable losses	-	1,094	-	-	-	1,094	1,094	-
Investment incentive of non-current assets	(2,132)	127	-	-	-	2,005	-	(2,005)
Tax assets (liabilities) before set-off	**950**	**(9,608)**	**53**	**-**	**-**	**(8,605)**	**2,013**	**(10,618)**
Set-off of tax	**-**	**-**	**-**	**-**	**-**	**-**	**(2,013)**	**2,013**
Net tax assets (liabilities)	**950**	**(9,608)**	**53**	**-**	**-**	**(8,605)**	**-**	**(8,605)**

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

23 INCOME TAX (CONT'D)

As at 31 December 2020 the Group and the Company did not recognise as deferred tax asset in total amounting to EUR 418 thousand: EUR 333 thousand from allowance of trade accounts receivable and EUR 85 thousand – from tax losses carried forward. As at 31 December 2019 the Group and the Company did not recognise as deferred tax asset in total amounting to EUR 188 thousand: EUR 109 thousand from allowance of trade accounts receivable and EUR 79 thousand – from tax losses carried forward.

As of 31 December 2020 the Company's management's judgement was not to recognize as deferred tax asset amounting up to EUR 263 thousand from the investment incentive in the amount of up to EUR 1,756 thousand, whose expiry date is 2024, up to EUR 2,828 thousand from the investment incentive in the amount of up to EUR 18,850 thousand, whose expiry date is 2023, up to EUR 867 thousand from the investment incentive in the amount of up to EUR 5,778 thousand, whose expiry date is 2022, and up to EUR 4,284 thousand from the investment incentive in the amount of up to EUR 28,562 thousand, whose expiry date is 2021 (as of 31 December 2019 amounted up to EUR 2,828 thousand from the investment incentive in the amount of up to EUR 18,850 thousand, whose expiry date is 2023, up to EUR 867 thousand from the investment incentive in the amount of up to EUR 5,778 thousand, whose expiry date is 2022, and up to EUR 4,284 thousand from the investment incentive in the amount of up to EUR 28,562 thousand, whose expiry date is 2021) as the management does not expect to use the investment incentive to set off against 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 2020 and 2019 the Company has used the domestic Lithuanian income tax rate of 15%. The Group's subsidiary KN Açu Serviços de Terminal de GNL Ltda applies Brazilian Tax System and subsidiary´s administration has elected the Real Profit Regime that is calculated on quarterly basis. The official rates for Income tax rate is 25% and Social Contribution on Net Profit is 9%.

24 BASIC AND DILUTED EARNINGS (LOSSES) PER SHARE

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

Basic and diluted earnings per share are as follows:

	Group	
	2020	2019
Net profit attributable to shareholders	33,958	7,561
Weighted average number of outstanding ordinary shares (thousand)	381,000	380,134
Earnings and reduced earnings (in EUR)	0.09	0.02

25 DIVIDENDS

	2020	2019
Dividends declared	(7,947)	(11,577)
Weighted average number of shares (thousand)	381,000	380,134
Dividends declared per share (expressed in EUR per share)	0.02	0.03

The General Meeting of the Shareholders held on 28 April 2020 approved profit appropriation for the year 2019 and allocated to the Shareholders dividends in the amount of EUR 7,947 thousand for 2019. The General Meeting of the Shareholders held on 26 April 2019 approved profit appropriation for the year 2018 and allocated to the Shareholders dividends in the amount of EUR 11,577 thousand for 2018.

The 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 2020. As of 31 December 2020, the outstanding amount of dividends not paid during the previous financial year amounted to EUR 164 thousand (EUR 122 thousand as of 31 December 2019).

26 FINANCIAL ASSETS AND LIABILITIES AND RISK MANAGEMENT

Credit risk

The Company has significant concentration of trading counterparties. Trade receivables from the main customer A of the Company accounted for approximately 64% as at 31 December 2020 (about 80% as of 31 December 2019), customer B – on 31 December 2020 accounted for approximately 13% (no trade receivable from this customer as of 31 December 2019), customer C - on 31 December 2020 accounted for approximately 6% (about 2% as of 31 December 2019), customer D – on 31 December 2020 accounted for approximately 5% (about 4% as of 31 December 2019) of the total Group's and Company's receivables from all its customers. The average payment term for the main customer mentioned above varies from 20 to 10 calendar days, whereas the usual payment terms for all other customers is 5 days. A possible credit risk for the Group's and the Company's customers is managed by a continuous monitoring of outstanding balances.

(all amounts are in EUR thousand unless otherwise stated)

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

Credit risk (cont'd)

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

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

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

Group

31-12-2020	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	5,845	-	No
1-30 days past due	3,530	-	No
31-60 days past due	792	(616)	Yes
61-90 days past due	144	(144)	Yes
More than 90 days past due	1,462	(1,462)	Yes
	11,773	(2,222)	

Company

31-12-2020	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	5,461	-	No
1-30 days past due	3,530	-	No
31-60 days past due	792	(616)	Yes
61-90 days past due	144	(144)	Yes
More than 90 days past due	1,462	(1,462)	Yes
	11,389	(2,222)	

Group and Company

31-12-2019	Gross carrying amount	Loss allowance	Credit impaired
Current (not past due)	8,911	-	No
1-30 days past due	3,678	(37)	Yes
31-60 days past due	60	(60)	Yes
61-90 days past due	60	(60)	Yes
More than 90 days past due	578	(571)	Yes
	13,287	(728)	

(all amounts are in EUR thousand unless otherwise stated)

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

Interest rate risk

The Group's and the Company's income and operating cash flows are influenced by changes in market interest rates, which are linked to EURIBOR base. Overall 73% of loan portfolio is exposed to floating interest rate risk no hedging derivative instruments were used. Thus, such standing has implications on financial results.

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

	Maturity date	Carrying amount as at 31-12-2020	Carrying amount as at 31-12-2019	Interest rate	Floating interest rate exposure
EIB loan:					
1st tranche	20-12-2023	12,725	13,704	fixed margin + 3 months EURIBOR	Negative total interest rate is set at zero
2nd tranche	28-11-2034	13,708	14,687	fixed margin + 3 months EURIBOR	Negative total interest rate is set at zero
3rd tranche	20-09-2034	24,700	24,700	fixed margin + 3 months EURIBOR	Negative total interest rate is set at zero
NIB loan:					
Reloading station	19-06-2034	19,152	20,398	fixed margin + 6 months EURIBOR	Negative interest is accrued and offset on the repayment date as part of the loan
FSRU loan	31-12-2044	26,329	-	fixed	No exposure to floating interest rate
		96,614	73,489		

Fixed margin varies from 0,066% to 0,78% as at 31 December 2020.

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

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

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

As at 31 December 2020 increase in EURIBOR interest rate by 10 basis points would increase yearly interest expenses amount by EUR 28 thousand (as of 31 December 2019 – EUR 32 thousand).

Exchange rate risk

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

Due to the fact that the highest part of lease payments is denominated in US dollars, as a result changes in exchange rates occur in the statement of comprehensive income, the Group and the Company incurred the currency exchange profit amounting to EUR 28,765 thousand for 2020 arising from IFRS 16 "Leases" and loss amounting to EUR 6,082 thousand for 2019.

(all amounts are in EUR thousand unless otherwise stated)

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

In 2020 the Group and the Company started to use derivative instruments in order to manage the risk arising from the USD and BRL currency rate fluctuations.

Summary of exchange rates as of 31 December 2020 and 31 December 2019 to EUR:

	Exchange rate as at 31-12-2020	Average exchange rate in 2020	Exchange rate as at 31-12-2019	Average exchange rate in 2019
USD	1.2281	1.1411	1.1189	1.1196
BRL	6.3574	5.8823	4.5128	4.4145

Group (denominated in euro)

31-12-2020	EUR	USD	BRL	Total
Cash and cash equivalents	46,347	4,300	429	51,076
Trade receivables	9,167	-	384	9,551
Lease liabilities	(20,997)	(284,622)	-	(305,619)
Trade payables	(2,303)	(4,208)	(33)	(6,544)
Total	**32,214**	**(284,530)**	**780**	**(251,536)**

Company (denominated in euro)

31-12-2020	EUR	USD	BRL	Total
Cash and cash equivalents	43,133	4,300	-	47,433
Trade receivables	9,167	-	-	9,167
Lease liabilities	(20,997)	(284,622)	-	(305,619)
Trade payables	(2,303)	(4,208)	-	(6,511)
Total	**29,000**	**(284,530)**	**-**	**(255,530)**

Group (denominated in euro)

31-12-2019	EUR	USD	BRL	Total
Cash and cash equivalents	36,583	5,282	-	41,865
Trade receivables	11,753	704	102	12,559
Lease liabilities	(155,983)	(220,894)	-	(376,877)
Trade payables	(3,072)	(5,249)	(1)	(8,322)
Total	**(110,719)**	**(220,157)**	**101**	**(330,775)**

Company (denominated in euro)

31-12-2019	EUR	USD	BRL	Total
Cash and cash equivalents	32,564	5,282	-	37,846
Trade receivables and other receivables	11,753	704	102	12,559
Lease liabilities	(155,983)	(220,894)	-	(376,877)
Trade payables and other liabilities	(3,072)	(5,249)	(1)	(8,322)
Total	**(110,719)**	**(220,157)**	**101**	**(334,794)**

As at 31 December 2020 increase in USD currency rate by 10 basis points would increase yearly income from currency exchange amount by EUR 232 thousand (as of 31 December 2019 – EUR 179 thousand).

As at 31 December 2020 increase in BRL currency rate by 10 basis points would increase yearly loss from currency exchange amount by EUR 1 thousand (as of 31 December 2019 – no effect calculated).

Liquidity risk

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

The Group's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2020 were 1.47 and 1.43, respectively (1.27 and 1.24 as at 31 December 2019).

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

Liquidity risk (cont'd)

The Company's liquidity (total current assets / total current liabilities) and quick ratios ((total current assets - inventories) / total current liabilities) as of 31 December 2020 were 1.41 and 1.37, respectively (1.21 and 1.17 as at 31 December 2019).

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

The table below summarizes the maturity profile of the Group's and Company's financial liabilities as of 31 December 2020 assessed on contractual undiscounted payments:

Group

	Carrying amount	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	6,544	-	6,544	-	-	-	6,544
Lease liabilities	305,619	-	10,349	31,610	252,086	24,352	318,397
Derivatives	1,946	-	316	1,630	-	-	1,946
Loan and interest	96,510	-	503	2,926	19,655	74,458	97,542
Balance as of 31 December 2020	410,619	-	17,712	36,166	271,741	98,810	424,429

Company

	Carrying amount	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	6,511	-	6,511	-	-	-	6,511
Lease liabilities	305,619	-	10,349	31,610	252,086	24,352	318,397
Derivatives	1,946	-	316	1,630	-	-	1,946
Loan and interest	96,510	-	503	2,926	19,655	74,458	97,542
Balance as of 31 December 2020	410,586	-	17,679	36,166	271,741	98,810	424,396

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

Group and Company

	Carrying amount	On demand	Less than 3 months	3 to 12 Months	1 to 5 years	More than 5 years	Total
Trade and other payables	8,322	-	7,235	1,087	-	-	8,322
Lease liabilities	376,877	-	13,388	40,359	365,797	31,003	450,547
Loan and interest	73,373	-	511	3,434	20,890	49,914	74,749
Balance as of 31 December 2019	458,572	-	21,134	44,880	386,687	80,917	533,618

EUR 726 thousand of the Company's EUR 6,511 thousand trade and other payables as at 31 December 2020 (EUR 1,087 thousand of the EUR 8,322 thousand amount as at 31 December 2019) is the retention amounts under contracts, which are paid for when all work under a contract has been completed. There is no possibility to forecast these payment terms.

Fair value of financial assets and liabilities

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

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

(all amounts are in EUR thousand unless otherwise stated)

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

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

The following methods and assumptions are used to estimation the fair value of each class of financial assets and liabilities as at 31 December 2020:

Group	Carrying amount				Fair value			
	Fair value - hedging instruments	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Derivatives	33	-	-	33	-	33	-	33
	33	**-**	**-**	**33**				
Financial assets not measured at fair value								
Trade receivables	-	9,551	-	9,551	-	-	-	-
Short term deposits	-	24,000	-	24,000	-	-	-	-
Cash	-	51,076	-	51,076	-	-	-	-
	-	**84,627**	**-**	**84,627**				
Financial liabilities measured at fair value								
Derivatives	(1,946)	-	-	(1,946)	-	(1,946)	-	(1,946)
	(1,946)	**-**	**-**	**(1,946)**				
Financial liabilities not measured at fair value								
Loan and interest	-	-	(96,510)	(96,510)	-	(96,510)	-	(96,510)
Trade payables	-	-	(6,544)	(6,544)	-	-	-	-
	-	**-**	**(103,054)**	**(103,054)**				

Company	Carrying amount				Fair value			
	Fair value - hedging instruments	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Derivatives	33	-	-	33	-	33	-	33
	33	**-**	**-**	**33**				
Financial assets not measured at fair value								
Trade receivables	-	9,167	-	9,167	-	-	-	-
Short term deposits	-	24,000	-	24,000	-	-	-	-
Cash	-	47,433	-	47,433	-	-	-	-
	-	**80,600**	**-**	**80,600**				
Financial liabilities measured at fair value								
Derivatives	(1,946)	-	-	(1,946)	-	(1,946)	-	(1,946)
	(1,946)	**-**	**-**	**(1,946)**				
Financial liabilities not measured at fair value								
Loan and interest	-	-	(96,510)	(96,510)	-	(96,510)	-	(96,510)
Trade payables	-	-	(6,511)	(6,511)	-	-	-	-
	-	**-**	**(103,054)**	**(103,054)**				

(all amounts are in EUR thousand unless otherwise stated)

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

The following methods and assumptions are used to estimation the fair value of each class of financial assets and liabilities as at 31 December 2019:

Group	Carrying amount				Fair value			
	Fair value - hedging instruments	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Derivatives	180	-	-	180	-	180	-	180
	180	**-**	**-**	**180**				
Financial assets not measured at fair value								
Trade receivables	-	12,559	-	12,559	-	-	-	-
Short term deposits	-	21,000	-	21,000	-	-	-	-
Cash	-	41,865	-	41,865	-	-	-	-
	-	**75,424**	**-**	**75,424**				
Financial liabilities not measured at fair value								
Loan and interest	-	-	(73,373)	(73,373)	-	(73,373)	-	(73,373)
Trade payables	-	-	(8,322)	(8,322)	-	-	-	-
	-	**-**	**(81,695)**	**(81,695)**				

Company	Carrying amount				Fair value			
	Fair value - hedging instruments	Financial assets at amortised cost	Financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Derivatives	180	-	-	180	-	180	-	180
	180	**-**	**-**	**180**				
Financial assets not measured at fair value								
Trade receivables	-	12,509	-	12,509	-	-	-	-
Short term deposits	-	21,000	-	21,000	-	-	-	-
Cash	-	37,846	-	37,846	-	-	-	-
	-	**71,355**	**-**	**71,355**				
Financial liabilities not measured at fair value								
Loan and interest	-	-	(73,373)	(73,373)	-	(73,373)	-	(73,373)
Trade payables	-	-	(8,322)	(8,322)	-	-	-	-
	-	**-**	**(81,695)**	**(81,695)**				

No transfers occurred between levels in the hierarchy by re-assessing categorization as at 31 December 2020 compared to 31 December 2019.

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

Capital management

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

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

In 2020 the increase on authorized capital of the Company was amounting to EUR 29 thousand (Note 1). In 2019 the increase on authorized capital of the Company was amounting to EUR 100 thousand.

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 2020 and as of 31 December 2019.

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

27 COMMITMENTS AND CONTINGENCIES

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

Material contractual liabilities (acquisition of property, plant and equipment) amounted to EUR 6,389 thousand as of 31 December 2020 (EUR 4,095 thousand as of 31 December 2019).

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 2020 and as at 31 December 2019. The said agreements are intended to secure obligations of the Company to Hoegh LNG Klaipėda under the Time Charter Party (Lease of a Floating Storage and Regasification Unit in conjunction with maintenance and operation services) agreement concluded on 2 March 2012.

Legal disputes

- The Company is defending an action brought in 2014 by UAB "Naftos grupė", which allegedly incurred loss in the amount of EUR 5 mio and additionally aims to recover the surplus of oil products allegedly owned by UAB "Naftos grupė" and stored by the Company. Competition Council is involved in the process, however there is a lack of evidence for the Court and the case is suspended until the criminal case (described in the next bullet point) is resolved.

  Based on judgement of legal advisors, the management of the Company believes that the defence against the action will be successful. In the opinion of the Company's management, the Company will not incur any significant additional costs related to this case, therefore no provisions for this ongoing case have been formed in the preparation of the financial statements of 31 December 2020 and 31 December 2019.

- The Company is a civil plaintiff in a criminal case on the accusations against the former managers of the Company and against companies UAB "Naftos grupė" and UAB "Artilona".

  In 2017 the court of the first instance issued a verdict to award the payment of EUR 20.9 mio and 5% annual interest in favour of the Company and, additionally, to cover the court representation costs. However, all accused persons appealed against the first instance court decision and the case was transferred to the appellate instance, Court of Appeal of Lithuania. Currently, the case is still on-going.

  Since the Company is a plaintiff in the case, no significant additional costs related to this case will be incurred.

- Since 2015 the Company is involved as a third interested party in the legal case with AB Achema, which has submitted 12 complaints regarding the resolutions of the NERC to the court. AB Achema requests the court to annul NERC resolutions related to the additional security component of natural gas supply transmission price.

  As a result of this dispute, AB Amber Grid calculates fine and interest for AB Achema for overdue payments for security component. As of 31 December 2020 the amount of the fine and interest calculated by AB Amber Grid and paid to the Company amounts to EUR 3,554 thousand (as of 31 December 2019 – EUR 3,235 thousand). The Company does not recognise the received payments for fines and interest as income until a court decision is rendered. Payments received are presented under Contract liabilities caption in the statement of financial position.

  In the opinion of the Company's management, the Company will not incur any significant additional costs related to this case, wherefore no provisions for this ongoing case have been formed in the preparation of the financial statements of 31 December 2020 and 31 December 2019.

(all amounts are in EUR thousand unless otherwise stated)

27 COMMITMENTS AND CONTINGENCIES (CONT'D)

- On 19 August 2020, a ruling was passed, whereby it was decided to renew the proceedings in the civil case examined by the Klaipėda District Court, Chamber of Klaipėda City, No e2SP-14151-793 / 2019, and to examine the civil case on the request of applicants AB "Klaipėdos Nafta", BUAB "Kauno Dujotiekio Statyba" on the approval of the peaceful settlement agreement under a simplified procedure, the interested person Luminor Bank AS, operating in Lithuania through the Lithuanian branch of Luminor Bank AS, by the written procedure.

  On 30 December 2020, the Klaipėda City District Court, by its ruling, upheld the request and ordered the KDS bankruptcy administrator to refund EUR 31 thousand to the KN, and Luminor Bank AS ordered to refund EUR 284 thousand to KN.

  On 7 January 2021, Luminor Bank AS filed a procedural appeal requesting the court to annul the ruling of 30 December 2020 and to resolve the issue on the merits - to dismiss the KN's request for reversal. The company submitted a response to the procedural appeal. On 11 February 2021 court satisfied the Company's request for reversal and ordered the bankruptcy administrator of KDS to return to the Company EUR 316 thousand.

  In the opinion of the Company's management, the Company will not incur any significant additional costs related to this case, wherefore no deferrals for this ongoing case have been formed in the preparation of the financial statements of 31 December 2020 and 31 December 2019.

28 RELATED PARTY TRANSACTIONS

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

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

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

Group:		Purchases	Sales	Receivables	Payables
State Enterprise Klaipeda State Seaport Authority	2020	2,334	-	-	328
	2019	2,322	-	-	393
AB "Amber Grid"	2020	-	35,729	7,240	-
	2019	-	67,724	10,156	-
UAB „Ignitis“	2020	293	2,905	178	-
	2019	2,516	1,521	171	368
Public Institution Lithuanian Energy Agency	2020	-	3,133	-	-
	2019	-	2,798	-	-
Lietuvos geležinkeliai, AB	2020	-	-	-	-
	2019	1,004	-	-	-
Energijos skirstymo operatorius, AB	2020	459	-	-	64
	2019	500	-	-	53
AB LTG CARGO	2020	1,529	-	-	65
	2019	1,266	-	-	129
Blue LNG, Nauticor Gmbh & Co.KG	2020	-	-	-	-
	2019	-	27	-	-
Blue LNG Gmbh & Co	2020	-	-	-	-
	2019	674	-	10	129
Other related parties	2020	67	-	-	-
	2019	54	(16)	-	1
Transactions with related parties, in total:	2020	4,682	41,767	7,418	457
	2019	8,336	72,054	10,337	1,073

(all amounts are in EUR thousand unless otherwise stated)

28 RELATED PARTY TRANSACTIONS (CONT'D)

Company:		Purchases	Sales	Receivables	Payables
State Enterprise Klaipeda State Seaport Authority	2020	2,334	-	-	328
	2019	2,322	-	-	393
AB "Amber Grid"	2020	-	35,729	7,240	-
	2019	-	67,724	10,156	-
UAB „Ignitis"	2020	293	2,905	178	-
	2019	2,516	1,521	171	368
Public Institution Lithuanian Energy Agency	2020	-	3,133	-	-
	2019	-	2,798	-	-
KN Acu Servicos de Terminal de GNL Ltda	2020	-	879	75	-
	2019	-	-	-	-
Lietuvos geležinkeliai, AB	2020	-	-	-	-
	2019	1,004	-	-	-
Energijos skirstymo operatorius, AB	2020	459	-	-	64
	2019	500	-	-	53
AB LTG CARGO	2020	1,529	-	-	65
	2019	1,266	-	-	129
Other related parties	2020	43	-	-	-
	2019	33	(16)	-	2
Transactions with related parties, in total:	2020	4,658	42,646	7,493	457
	2019	7,641	72,027	10,327	945

Other related parties are following: UAB Tetas, VĮ Registrų centras, Vilniaus metrologijos centras, AB, UAB GET Baltic, Smiltynės perkėla, AB, Lietuvos paštas, AB, Klaipėdos prekybos, pramonės ir amatų rūmai, UAB Projektų ekspertizė.

- Purchases from State Klaipėda State Seaport Authority include land rent, jetty usage and FSRU port fee.
- Sales to AB Amber Grid include income from additional security supplement to the price of natural gas' transmission. Sales to AB Amber Grid do not include interest and fines for AB Achema for delayed payments of the security component to the upper ceiling of the natural gas transmission price. These amounts are recognized and accounted for as contract liabilities (as of 31 December 2020 – EUR 3,554 thousand, as of 31 December 2019 – EUR 3,235 thousand) (Note 27).
- In 2020 and 2019 there were no transactions with the subsidiary UAB SGD logistika, except of the increase in share capital in 2019, amounting to EUR 4,340 thousand.
- Purchases from UAB Ignitis (until 6 September 2019 UAB Lietuvos energijos tiekimas) include purchases of natural gas. Sales to UAB Lietuvos energijos tiekimas include income from LNG regasification and reloading services as well as income from customs brokerage services. 2019 sales to UAB Ignitis from UAB "SGD logistika" comprise LNG transportation services.
- In 2020 and 2019 sales to Public Institution Lithuanian Energy Agency include income from rent of tanks.
- Purchases from AB LG Cargo and AB Lietuvos geležinkeliai comprise purchase of railway services.
- Purchases from AB Energijos skirstymo operatorius include acquisition of electricity power.
- In 2019 sales to Blue LNG, Nauticor GmbH & Co.KG include disposal of shares of Blue LNG.

Management salaries and other payments

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

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

	Group		**Company**	
	2020	2019	2020	2019
Payroll related costs	691	645	588	644
Number of managers	10	7	6	6

During 2020 and 2019 the management of the Group and the Company did not receive any loans, guarantees, and no other payments or property transfers occurred.

29 SUBSEQUENT EVENTS

After the financial statement date as at 11 January 2021 a new version of the Company's Articles of Association was registered within the Register of Legal Entities of the Republic of Lithuania following the decrease of the authorised capital of the Company, which is now equal to EUR 110,315,009.65 and divided into 380,396,585 units of shares, which grant 380,396,585 votes. The Ministry of Finance of the Republic of Lithuania granted the Company permission to decrease the authorised capital of the Company by cancelling 655,808 units of Company’s acquired own shares which each nominal value EUR 0.29.

After the balance date BUAB “Kauno Dujotiekio Statyba” legal case was resolved by signing a peace agreement between all parties (KDS, the main creditor Luminor bank AS, and the Company). The parties reached an agreement that the amount of EUR 316 thousand paid by the Company to KDS remains covered and is not returned to the Company. All parties agree and confirm that the obligations of the Company are deemed to have been fulfilled and that KDS and Luminor bank AS will have no further claims against the Company.

CONFIRMATION OF RESPONSIBLE PERSONS

Following Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Lithuanian Securities Commission, we, Darius Šilenskis, Chief Executive Officer of AB Klaipėdos nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos nafta, and Rasa Tamaliūnaitė, Chief Accountant, hereby confirm that to the best of our knowledge the above-presented consolidated and separate Financial Statements of AB Klaipėdos nafta for the year 2020, prepared in accordance with the International Financial Reporting Standards as adopted to be used in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss and cash flows of AB Klaipėdos nafta.

Chief Executive Officer	Darius Šilenskis
Chief Financial Officer	Jonas Lenkšas
Chief Accountant	Rasa Tamaliūnaitė

KNOWLEDGE
DRIVEN
KN

AB KLAIPĖDOS NAFTA CONSOLIDATED ANNUAL REPORT

2020

FOR THE FINANCIAL YEAR ENDING ON 31 DECEMBER 2020

CONTENT

Abbreviations:

KN – AB Klaipėdos nafta

KOT – Klaipėda oil terminal

SOT – Subačius oil terminal

OT – Oil terminals

LNGT – regulated LNG activities

comLNG – commercial LNG activities

LNG terminal – Klaipėda LNG terminal

BDP – Segment of LNG related business development and consulting

OP – Oil Products

HFO – Heavy Oil Products

LFO – Light Oil Products

NERC – National Energy Regulatory Council.

GENERAL INFORMATION ABOUT THE GROUP AND THE COMPANY

1. REPORTING PERIOD

AB Klaipėdos nafta Consolidated Annual Report for the year 2020 is prepared for the period from 1 January 2020 until 31 December 2020.

Annual Report for the year 2020 also includes Management Report and Report on Remuneration for the year 2020.

2. ISSUER INFORMATION AND CONTACT DETAILS

Name of the Company:	AB Klaipėdos nafta (hereinafter – the Company, KN or Issuer)
Legal status:	Stock Company
Authorized share capital:	110,505,194 Eur
Date and place of registration:	27 September 1994, State Enterprise Centre of Registers
Company code:	110648893
Address:	Burių Street 19, 92276 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

3. INFORMATION ON SUBSIDIARIES AND CONTACT DETAILS:

Name of the Company:	UAB SGD terminalas
Legal status:	Private Limited Liability Company
Authorized share capital:	12,500 Eur
Date and place of registration:	27 December 2018, State Enterprise Centre of Registers
Company code:	304977459
Address:	Burių Street 19, 92276 Klaipėda
Register of the Company:	State Enterprise Centre of Registers
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	info@kn.lt
Internet site:	www.kn.lt

Name of the Company:	UAB SGD logistika
Legal status:	Private Limited Liability Company
Authorized share capital:	4,540,000 Eur
Date and place of registration:	20 November 2015, State Enterprise Centre of Registers
Company code:	304139242
Address:	Burių Street 19, 92276 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

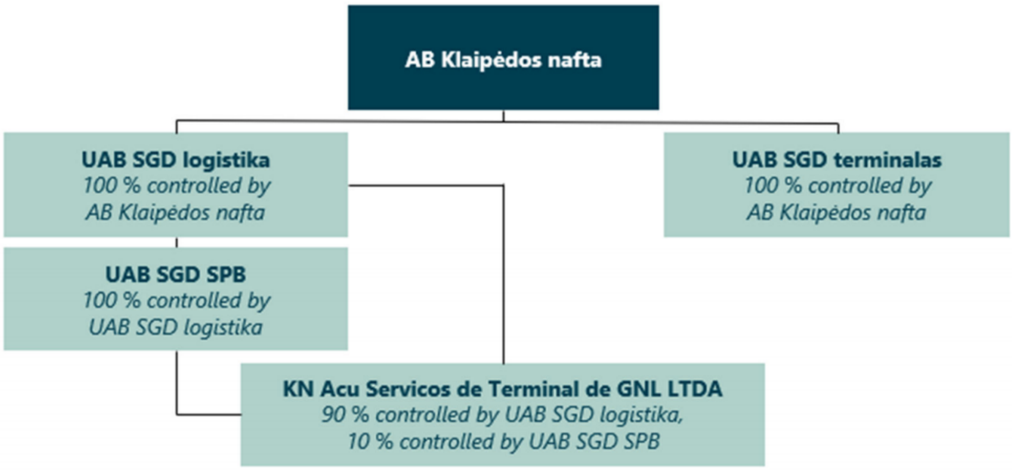
4. INFORMATION ON SUBSIDIARIES OF UAB SGD LOGISTIKA AND CONTACT DETAILS:

Name of the Company:	UAB SGD SPB
Legal status:	Private Limited Liability Company
Authorized share capital:	25,000 Eur
Date and place of registration:	9 October 2019, State Enterprise Centre of Registers
Company code:	305278800
Address:	Burių Street 19, 92276 Klaipėda
Register of the Company:	State Enterprise Centre of Registers
Telephone numbers:	+370 46 391772
Fax numbers:	+370 46 311399
E-mail address:	info@kn.lt
Internet site:	www.kn.lt

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

5. GROUP STRUCTURE AND MAIN TYPES OF ACTIVITY

Structure of the AB Klaipėdos nafta Group (hereinafter – Group) on 31 December 2020:



The Group's Capital on 31 December 2020:

NAME OF THE COMPANY	TYPE OF SHARE	NUMBER OF SHARES (UNIT)	SHARE FACE VALUE	TOTAL FACE VALUE
AB Klaipėdos nafta	Common registered shares	381,052,393	0.29 EUR	110,505,194 EUR
UAB SGD terminalas	Common registered shares	12,500	1.00 EUR	12,500 EUR
UAB SGD logistika	Common registered shares	4,540,000	1.00 EUR	4,540,000 EUR
UAB SGD SPB	Common registered shares	25,000	1,00 EUR	25,000 EUR
KN Acu Servicos de Terminal de GNL LTDA	Common registered shares	642,600	1.00 BRL[1)]	642,600 BRL[1)]

1) BRL - Brazilian real.

The Group's operating highlights:

NAME OF THE COMPANY	ADDRESS	OWNERSHIP PART, PER CENT	ACTIVITIES
AB Klaipėdos nafta	Burių Street 19, 92276 Klaipėda	100	The business activity of AB Klaipėdos nafta can be divided into three segments: Oil terminals, regulated LNG activities, and commercial LNG activities. Oil terminals include activities of Klaipėda Oil terminal and Subačius Oil terminal. Regulated LNG activities stand for Klaipėda LNG terminal. Commercial LNG activities include small-scale LNG station in Klaipėda, operation of LNG terminal in Açu port in Brazil, and other business development projects.
UAB SGD terminalas	Burių Street 19, 92276 Klaipėda	100	Operation (management) and development of the infrastructure of the liquefied natural gas terminal in Klaipeda, other economic activities. The subsidiary is currently not operating.
UAB SGD logistika	Burių Street 19, 92276 Klaipėda	100	Expansion of operation of international LNG terminal activities, LNG transportation activities, other economic activities.
UAB SGD SPB	Burių Street 19, 92276 Klaipėda	100 owned by UAB SGD logistika	Expansion of operation of international LNG terminal activities by investing and establishing project companies in Lithuania and foreign countries (holding activities).
KN Açu Serviços de Terminal de GNL LTDA (KN Acu)	F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro	90 owned by UAB SGD logistika and 10 owned by UAB SGD SPB	LNG terminal operation and maintenance services in the port of Açu, Brazil, including the technical and commercial operation of the installation of the quay and its facilities, gas pipeline and gas metering stations.

6. AGREEMENTS WITH INTERMEDIARIES OF PUBLIC SECURITIES TRADING

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

AB SEB BANK FINANCIAL MARKETS DEPARTMENT:	
Company code	112021238
Address	J. Balčikonis Street 7, LT-08247 Vilnius, Lithuania
Telephone	1528
E-mail	info@seb.lt
Website	www.seb.lt

7. AGREEMENTS WITH BROKERAGES FOR PUBLIC ISSUE

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

THE MAIN DATA ABOUT THE SHARES OF THE COMPANY:	
ISIN code	LT0000111650
Abbreviation	KNF1L
Share emission	381,052,393

The Company's shares have been listed on the Nasdaq Vilnius Secondary List since 16th January of 1996 and since 4th April of 2016 The Company's shares are listed on the Nasdaq Vilnius Main List.
The securities of the subsidiary companies are not publicly traded.

Details of the shares and shareholders are provided in 2020 Annual Report's chapter "Information about the shareholders and shares" of the Company".

8. CONFIRMATION OF RESPONSIBLE PERSONS

Referring to the Article 22 of the Law on Securities of the Republic of Lithuania and the Rules on Preparation and Submission of Periodic and Additional Information of the Bank of Lithuanian, Responsible Persons Darius Šilenskis, Chief Executive Officer of AB Klaipėdos nafta, Jonas Lenkšas, Chief Financial Officer of AB Klaipėdos nafta, and Rasa Tamaliūnaitė, Chief Accountant of AB Klaipėdos nafta, hereby confirm that to the best of our knowledge the Annual Report of AB Klaipėdos nafta for 2020 includes a fair review of the development and performance of the business and the present state of the Company together with the description of the main risks and uncertainties that are encountered.

9. PERSONS RESPONSIBLE FOR THE INFORMATION SUBMITTED IN THE ANNUAL REPORT

JOB TITLE	FULL NAME	TELEPHONE NUMBER
AB Klaipėdos nafta, Chief Executive Officer	Darius Šilenskis	+370 52 127 733
AB Klaipėdos nafta, Chief Financial Officer	Jonas Lenkšas	+370 52 127 733
AB Klaipėdos nafta, Chief Accountant	Rasa Tamaliūnaitė	+370 46 391 636

A FOREWORD OF THE CEO

Dear stakeholders,

Year 2020 had certainly made an imprint globally, which in future will be an important historical mark for the businesses, governments, healthcare systems and regular people. Health safety and security had become more or even most important for everyone personally and for business continuity.

From economic point of view, due to the pandemics in all industries we operate the supply chains were impacted severely. Mobility halted several times per year due to lockdowns in consuming markets' causing unprecedent disbalance in supply and demand. In oil segment this has caused record low refining capacities, margins and historically high stocks of oil and its products. On the other hand, all these developments had a favourable impact on LNG prices and following from that, the demand for this energy resource had manifested through 2020. It was visible both through increasing demand for LNG cargoes, and through the new plans in the market to develop LNG-related energy supply infrastructure. From this perspective, 2020 was outstanding in achievements of key milestones for KN getting towards our strategic goal to ensure region's energy independence in terms of natural gas supply. With financing of FSRU acquisition after 2024 as well as state aid approval from European Commission granted, selection process of FSRU successfully took off and the project of long-term operation of Klaipėda LNG terminal advanced as planned.

For our Company 2020 was a ground-breaking year in many ways. At the beginning of the year, we have presented our strategy for KN stakeholders. It had defined our key milestones for the next decade. Three business directions have been distinguished for the sustainable business perspective with a clear vision to become top LNG terminals operator worldwide and the most competitive oil and refined products handling hub in the Baltic region. Within a year, we have ensured delivery of strategy despite of challenges we have faced and have supplemented our strategy by ambitious and clear goals in ESG, HR, safety, and digitalisation areas.

After we have been rewarded as O&M service provider for the Açu gas to power LNG terminal in Brazil, our motto – bridging energy markets – became even more established. We successfully set up a team of local professionals, with a guiding competence centre in Lithuania. It was very important for us to build and nurture the same value-based culture with a strong client-focus across the continents and with the progress of the project we managed to reach it.

However, the global pandemic didn't provide an opportunity to set into comfort zone and soon enough we have faced the challenges like most businesses in the world. I am proud that we quickly mobilized ourselves to assure safety for our team members, especially those, who cannot work from home due to their responsibilities, and there were no significant outbreaks of Covid-19 within the KN Group. This has proven our digital capabilities and organisational resilience. Also, as responsible community member, we shared our own personal safety equipment with medical staff and other institutions, which faced a shortage of supplies within the first months of pandemics in Lithuania.

One of the main reasons, which allowed us to mitigate pandemic, macroeconomic and geopolitical challenges last year, was timely and thoughtful previous investments into oil terminal infrastructure upgrade. It allowed us to successfully substitute loss of oil products by crude oil, to generate significant revenues from storage and contango businesses as well as to boost volumes of handled renewable fuels by times.

What is equally important, even going through the toughest time of lockdown and uncertainty, we delivered the best results for our clients. At the end of the year, we managed to get a very positive feedback from our partners and clients. According to the client surveys, our clients would highly recommend our services because of our proactive approach, professionalism, and client orientation. I am grateful for the KN team members, as these results reveal that we are a resilient organization, which can adapt to the market challenges quickly to deliver the high-quality service for the clients no matter what.

Despite external market challenges, year 2020 were significant for the Company to focus on internal efficiency. First of all, organizational structure was adjusted, so that the Company could focus more on its clients and efficiency of the managed terminals. Furthermore, HSE and risk management functions were centralized and strengthened to focus on continuous improvement on how we work daily and how we run our business.

We succeeded in 2020 to have no critical incidents in the Company operations, however it is one of the areas where one cannot stop striving for perfection. Therefore, our aim is to strengthen safety based on behaviour culture in KN group, by providing systems supporting and promoting safe behaviour among our employees.

To support it, in 2020 KN received external validation, that our quality, environmental protection, occupational health and safety management meet the requirements of the international ISO standards. Implementation of ISO compliant practices was important part of internally driven efficiency efforts to protect our returns and performance. We committed to promote continuous employees' development, assure appropriate information and cybersecurity, with a major focus on environmental protection and employees' health and safety. Quality assurance, environmental impact mitigation, employees' health, and safety are our top priorities, and it will be among key internal directions for 2021.

As a CEO of the Company, I am proud that our attention to safety of our team members in the face of pandemic, also all the attempts of improving efficiency and getting better at daily routines and processes, was rewarded by highest employee engagement scores since an employee engagement survey was introduced in the Company. I am grateful to the team for all the extra miles and taking care of the Company.

As it comes to 2021, it will not be any easier. The COVID-19 virus still makes pressure on the oil refining margins; the economies globally are not showing fast recovery signs to build an increased demand for oil products. Furthermore, KN has informed the market that oil products from Belarus will not be transhipped through KN oil terminal in Klaipėda and accordingly the Company follows such assumptions for 2021. KN will be coping not only with continuous effects of pandemics but will also have to work actively to diversify our client and product portfolio and further strengthen focus on operational efficiency. In the light of these developments, we have significantly revised investments into oil infrastructure by maintaining only those supporting strategic diversification, increasing safety, efficiency, and sustainability of our services.

And we will have to consider carefully all other external developments that will be impacting our business. Besides the direct impact of COVID-19 pandemics, what made 2020 a history, is a fact that it contributed to the significant shift of mindset towards establishment of climate neutral perception worldwide. The pressure on fossil fuel intensive economies to switch to more sustainable alternatives is increasing significantly. It is becoming key focal point not only on the agendas of activists but is also applied as an instrument seeking progress and balance economies in the national and international politics.

As the Company, which works in energy sector and provides services for the transhipment and handling of mainly fossil fuels, we are thoughtful about the transition and its impact on our business. We are also aware that it could contribute towards more sustainable future. By far, LNG is the cleanest fossil fuel and enabler for the greener economies, as well as the hydrogen driven economies. Pandemics has also caused acceleration of energy transition worldwide hence 2020 gave us a boost to focus more and reflect our business model in the light of this transition. For us, 2020 was a turning year, when from thoughts we switched to real actions to identify KN place in cleaner energy future supply chain. R&D team has been assigned, to purify KN value generation even beyond 2030 on the way to climate neutral and greener world. KN has joined Lithuanian hydrogen platform and is active participant in other regional organisations, which consider faster transition from pollutive present to sustainable future. We concentrate our attention on areas like hydrogen, biogas, renewable fuels, CCS, CCU, renewable energy generation, storage and balancing. I strongly believe that during 2021 our long-term strategy will be supplemented by real actions and planned investments in to one or few mentioned areas.

Given all the circumstances, in 2021 KN will not only be focusing on bridging energy markets and delivering the best services for our clients. Environmental, social and governance aspects of business management are high on our agenda this year, as well as innovation, efficiency improvement and continuous exploring of new busines opportunities.

2021 will be another challenging year with many transitions to face, nevertheless we are ready to change, adopt and compete with more dedication and sustainability in all our activities.

Sincerely,
Darius Šilenskis
Chief Executive Officer

BUSINESS CONTINUITY – IMPACT OF COVID – 19

Coronavirus COVID-19 for the first time has been officially reported on 31 December 2019 in China and during Q1 2020 has rapidly spread around the world. The decisions taken to stop COVID-19 have complicated the normal operations of industries and created a significant level of uncertainty around the world.

The wider economic impacts of these events include:

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

The Company notices a negative global and regional impact of COVID-19 on the demand for oil products and respectively negative impact on:

- transhipment volumes through the Company's oil terminals in 2020 and 2021; and
- clients' ability to fulfil their contractual obligations.

As per above the Company has performed impairment tests and respective sensitivity analysis for property, plant and equipment attributed to the transhipment of oil products as at 31 December 2020. As at the financial statements issue date, there have been no indications of PPE impairment that could have impact to the financial statements of the Group and the Company as at 31 December 2020.

As an outcome of negative impact of COVID-19, additional impairment allowance for doubtful accounts receivables was recognized and amounts to EUR 2,222 thousand as at 31 December 2020 (EUR 728 thousand as at 31 December 2019). The credit limits policy has been revised and respective actions to mitigate credit risk have been taken. The Group and the Company is monitoring the situation since the beginning of the spread of COVID-19 and maintains close communication with major clients on regular basis concerning their plans and fulfilment of contractual obligations.

The Group and the Company on its side have continued their operations as usual - the services provision for the clients of the Group and the Company takes place according to the agreed schedules and plans.

Reacting to the changed environment, the management of the Company has activated business continuity and risk mitigation plan of the Group and the Company, the risk management team has been set up to monitor the situation of the Group and the Company and main partners on a daily basis.

One of the main risks identified at the beginning of the year – inability to operate the infrastructure in case of the infection of critical number of its employees - has been managed. All the Group's and the Company's terminals continue their operations as usual.

Another source of risk for the Group and the Company lies in the disruption of a supply chain – starting from IT/telecommunications services that are necessary to ensure proper functioning of IT systems and remote work mode and ending to goods and services that are necessary to finalize investment programs on time. The management of the Company is constantly communicating with its suppliers in order to follow their situation and possibilities to fulfil their obligations on time. To mitigate this risk of supply during the future periods, the Group and the Company creates and updates the list of alternative suppliers for critical procurements and puts its best efforts to ensure timely implementation of all Group and Company goals. As at the financial statements issue date, there have been no indications from current suppliers that could have impact to the financial statements of the Group and the Company as at 31 December 2020 and as at 31 December 2019.

The management of the Company is carefully monitoring global economic situation and possible long-term financial impact for the Group and the Company. As at 31 December 2020, the Group's and the Company's working capital amounts to EUR 29,424 thousand and EUR 25,338 thousand respectively (as at 31 December 2019 EUR 17,652 thousand and EUR 13,623 thousand respectively), the available Nordic Investment Bank credit facilities amount to EUR 268 million.

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

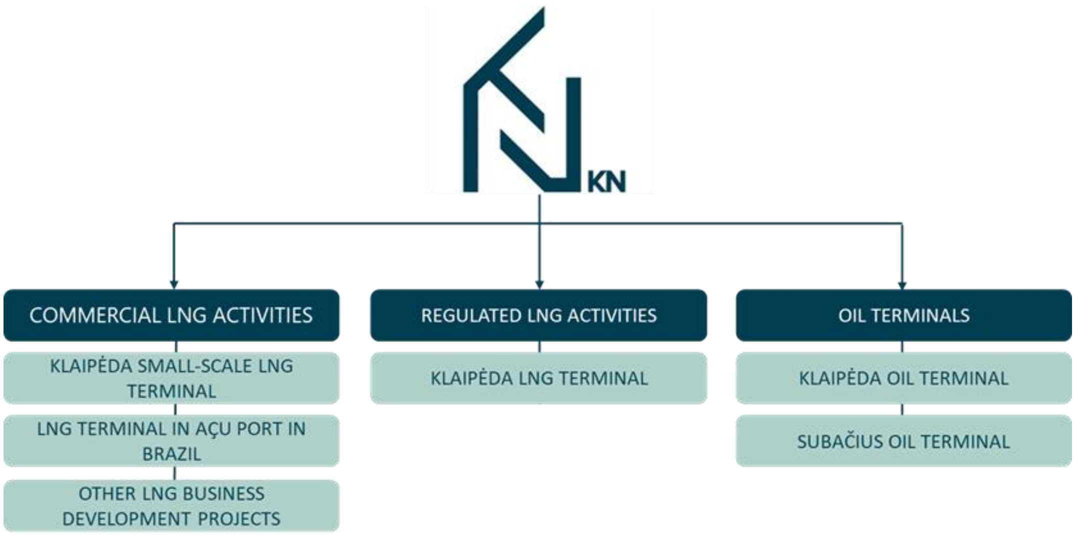
The Company's top management has concluded that under current circumstances at the date of financial statements there is no significant doubt on the Group's and Company's ability to continue as a going concern.

INFORMATION ABOUT THE COMPANY AND ITS ACTIVITIES

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

Currently, the Company's activities can be divided into three main segments: commercial LNG activities, regulated LNG activities, and oil terminals. The Management of the Company evaluates the financial results of each segment and sets separate strategic goals.

MAIN ACTIVITIES:



INFORMATION ABOUT INVESTMENT INTO ASSOCIATES

The Company has investments into the following associate companies as of 31 December 2020:

NAME OF THE COMPANY	ADDRESS	OWNERSHIP PART, PER CENT	ACTIVITIES
UAB BALTPOOL	9 A. Juozapavičiaus str., LT-09311, Vilnius	33	Development of activity of energy resources (biofuel, 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.

OIL TERMINALS

Oil terminals segment (OT) includes activities of Oil Terminal in Klaipėda and Oil Terminal in Subačius which are providing services of oil products transhipment, long-term storage of oil products, and other services related to oil products transhipment.

KLAIPĖDA OIL TERMINAL

The Company is one of the largest oil transhipment terminals in the Baltic States. The terminal's main activity is to tranship oil products delivered by rail tanks into tankers.

The Company's Oil Terminal handles these oil and chemical industry 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.
  - Bitumen (planned from the 3Q of 2021)
- other products of the chemical industry:
  - Ethanol.
  - Monoethylene glycol.
  - Fatty acid methyl ester.

CHARACTERISTICS OF KLAIPĖDA OIL TERMINAL	
Location	Territory of Klaipėdos nafta oil terminal, address: Burių Street 19, Klaipėda
Oil product tanks	45 tanks
Volume of the tanks	575 thousand m^3 total volume
The capacity of the oil terminal	8 - 10 million. t / year
Jetty berths	2 (in 2019 started to modernize the jetty berths and construct an additional multi-functional berth. After the reconstruction will be completed the terminal will be capable to service three oil tankers simultaneously instead of two. The total length of all three berths after reconstruction will be about 750 m)
Harbour entrance depth:	14.5 m
Max. draught at the jetty	14.0 m
Max. length of serviced tankers	275.0 m
Railway	Two double-track rail tank loading racks:
•	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	Equipped to inspect main quality parameters of oil products
Total capacity of three boilers of own boiler station	100 MWh

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

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

Klaipėda oil terminal provides the following services:

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

SUBAČIUS OIL TERMINAL

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

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

Subačius oil terminal provides the following services:

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

The results of activities of Subačius oil terminal for 2020 are present in the Explanatory note "Information about segments" of the Company's financial statements for 2020.

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

REGULATED LNG ACTIVITIES

Regulated LNG activities (LNGT) segment includes activity of LNG terminal in Klaipėda which receives, and stores liquefied natural gas, regasifies, and supplies it to main gas pipeline.

KLAIPĖDA LNG TERMINAL

Ensuring long-term operation of Klaipėda LNG terminal: project progress in 2020

At the end of 2019 Board of KN took necessary decisions regarding implementation of measures for ensuring long-term (until 2044) activities of the Klaipeda LNG Terminal, including principal decision on the FSRU acquisition after 2024. At the end of 2019, Parliament approved state guarantee for Stage I (optimization of LNG security supplement) and Stage II (purchase of FSRU) of the long-term LNG supply project, which enabled Klaipėdos nafta to sign agreement with NIB on the loan for the purpose of Stage I. Consequently, security supplement reduction (by almost 40 % since 2020) was proposed to National Energy Regulation Council (NERC). Based on NERC decision security supplement has been reduced and is applicable to all gas consumers starting January 2020.

Loan agreement for Stage II (FSRU acquisition) has been signed with NIB on 2020-03-09. On 2020-11-20 the European Commission (EC) approved the state aid to be provided in the form of state guarantee for the FSRU acquisition loan. By this, principal issues related to FSRU acquisition financing are solved. Preparatory work for FSRU selection and purchase has been started.

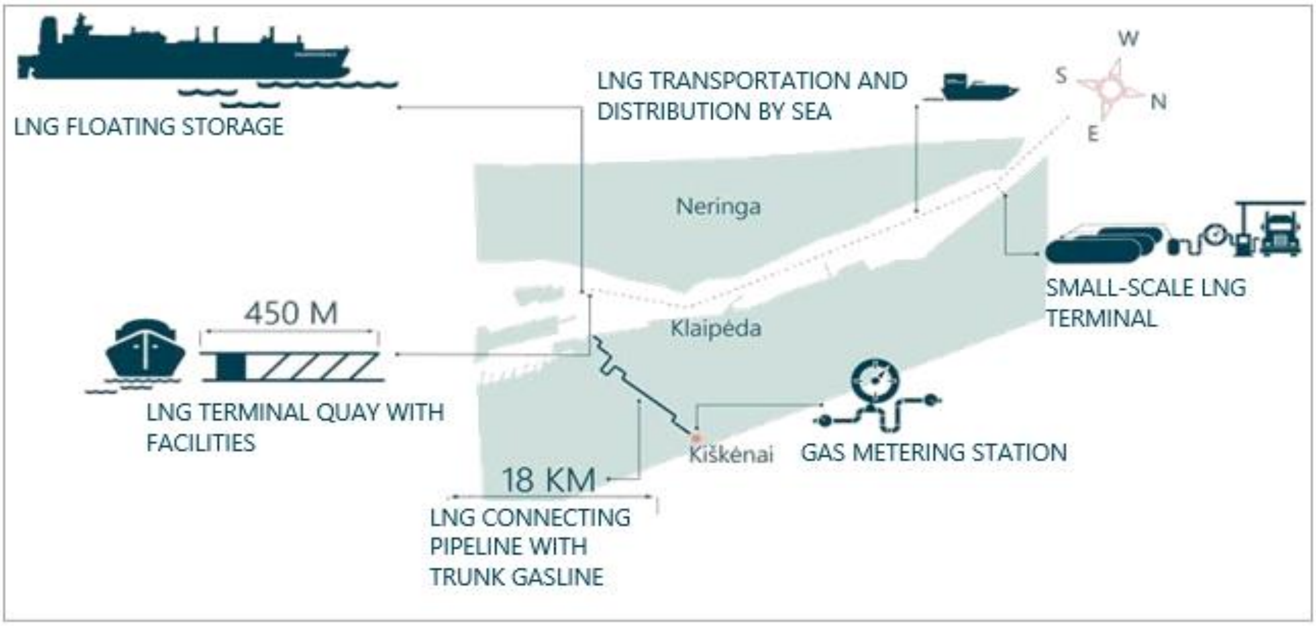
It should be noted that in 2020 LNG terminal has been used by 6 users of the Terminal (5 users in 2019). Of those, two companies are from Estonia and four of the companies are from Lithuania. 73 LNG carriers have arrived at the LNG Terminal and 21,897 TWh of LNG have been regasified and reloaded in 2020.

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

Infrastructure of the Liquefied Natural Gas Terminal

LNG Terminal of AB Klaipėdos nafta is based on a Floating Storage with Regasification Unit (FSRU) technology. The terminal is connected to the gas transmission network of the natural gas transmission system operator AB Amber Grid by an 18-kilometre connecting gas pipeline. LNG Terminal functions - receive liquefied natural gas from LNG carriers, store them, regasify, and supply liquefied natural gas to transmission network or reload into other LNG carriers.

LNG terminal infrastructure



LNG Floating Storage with Regasification Unit

The LNG floating storage with regasification unit is an LNG tanker (Independence), which at the Klaipeda Seaport receives liquefied natural gas from the LNG vessels – LNG carriers, which are moored at the FSRU. According to the schedules of the Terminal users, LNG is passed through special equipment in order to return the LNG to a gaseous state and supply it to the gas transmission system. In 2012 10-year lease (with purchase option) of LNG floating storage with gasification unit has been signed with Norwegian company Höegh LNG Ltd. The builder of this ship is South Korean shipyard Hyundai Heavy Industries Co. Ltd.

TECHNICAL CHARACTERISTICS OF THE FSRU INDEPENDENCE*	
Klaipeda seaport jetty	157
The volume of the tanks	170,000 m^3
Maximum LNG filling level	98% at 70 kPag
Maximum LNG loading capacity	9,000m^3/h LNG
Maximum LNG reloading capacity	5,000 m^3/h LNG when LNG regasification is performed during LNG reloading
FSRU capabilities	3.75 billion m^3 of natural gas per year (10.24 million m^3 per day)
Minimum operative LNG heel	3.500 m^3 LNG
Maximum gas flow into the gas pipeline	10.24 million m^3 per day
*Terminal's technical specifications are given according to the current normative conditions: combustion/measurement temperature - 25/0 °C, pressure - 1.01325 bar.	

Jetty and its facilities

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

Connecting pipeline of the LNG terminal

The terminal is connected to the gas transmission network of the natural gas transmission system operator Amber Grid SC by an 18-kilometre-long and 700 mm diameter connecting gasoline. A gas metering station is built at the point of connection to the transmission network.

Services of the LNG terminal

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

- Acceptance of LNG cargo from the LNG carrier that arrived, physical (up to 60 days) and virtual (up to 12 months) storage of the cargo and LNG regasification in the rate specified in the Terminal user schedule.

The LNG reloading service consists of the following related services:

- Acceptance of LNG cargo from the LNG carrier that arrived, physical and virtual storage of the cargo and reload (re-export) of LNG to an LNG carrier of not less than 5,000 m^3 and not more than 65,000 m^3 (unless agreed otherwise).

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

- The fixed part of the price of the LNG regasification service is approved annually by the National Energy Regulatory Council. This part of the price shall be included in the additional component of the natural gas supply security to the transmission price.
- The variable part of the price of the LNG regasification service shall be paid by the users of the terminal for the regasified gas volume and shall be approved annually by the National Energy Regulatory Council (hereinafter – NERC).

SERVICES OF THE TERMINAL	SERVICE PRICE	NERC DECREE
LNG regasification service price* (set in 2020)	0.35 EUR/MWh excluding VAT	11 November 2019 No. O3E-724
LNG regasification service price* (set in 2021)	0.41 EUR/MWh excluding VAT	23 November 2020 No. O3E-1207
LNG reloading service price* (set in 2020)	1.11 EUR/MWh excluding VAT	11 November 2019 No. O3E- 725
LNG reloading service price* (set in 2021): - Small scale LNG cargo, up to 15.000 m3 - Medium scale LNG cargo, from 15.000 m3 to 50.000 m3 inclusive - Large scale LNG cargo, from 50.000 m3	 0.53 EUR/MWh excluding VAT 0.41 EUR/MWh excluding VAT 0.30 EUR/MWh excluding VAT	23 November 2020 No. O3E-1206

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

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

COMMERCIAL LNG ACTIVITIES

Commercial LNG activities (comLNG) segment includes activities of small-scale LNG reloading station in Klaipėda, operation of LNG terminal in Açu port in Brazil, and other business development projects and consultations.

KLAIPĖDA SMALL SCALE LNG TERMINAL

During 2020 7 cargoes were delivered to Klaipėda small scale LNG terminal (hereinafter - LNG reloading station or ssLNG). The entire LNG cargo was loaded to LNG Trucks and distributed to consumers in Latvia, Lithuania, and Poland. The rest of the LNG was used for the internal needs of the Company. A total of 331 LNG Trucks were loaded at the LNG reloading station in 2020.

On April 1st, 2020, the Polish state oil and gas company PGNiG commences commercial operations at the KN-operated LNG reloading station. The capacities of the station were allocated to PGNiG for a five year period.

AB Klaipėdos nafta has opened an onshore LNG reloading station in the fall of 2017. The purpose of the LNG reloading station project is to develop small-scale LNG infrastructure in the Baltic States and Poland, which not only increases energy security for areas that are further away from the gas pipeline, but also provides the benefits of alternative and clean energy to a significant number of consumers. This infrastructure also contributes to ensuring the availability of LNG as a clean fuel for shipping and heavy road transport.

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

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

[1)] Completion of the project - 30 June 2018.

[2)] Completion of the project – 16 April 2020.

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

LNG for shipping:

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

On 8th March 2020, LNG powered vessel was bunkered for the first time in the port of Klaipėda. During this operation, the fuel tank of the cement carrier MV Greenland was filled with LNG at the Malkos Bay Terminal.

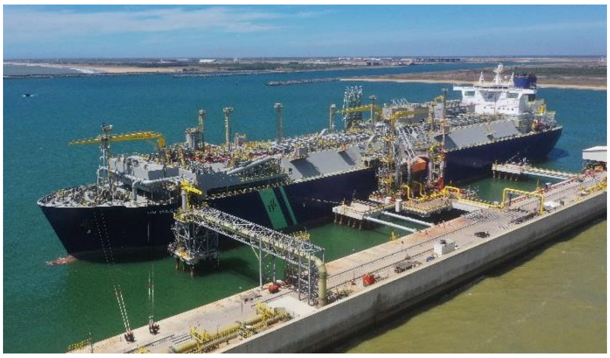
Forty-five cubic meters of LNG were loaded from the ISO container mounted on the truck to the fuel tank of MV Greenland cement tanker. The LNG bunkering operation was conducted in accordance with all good practice requirements and recommendations of the European Maritime Safety Agency. ISO container was filled up at LNG reloading station, operated by KN.

With the amendment of the Regulations of Navigation of Klaipeda State Seaport, by the order of Minister of Transport and Communications of the Republic of Lithuania, No 3-708, dated 23 November 2020, the Regulations were supplemented by the requirements for bunkering of LNG-powered vessels in Klaipėda State Seaport.

8TH MARCH 2020, FIRST LNG BUNKERING OPERATION IN KLAIPĖDA

LNG TERMINAL IN AÇU PORT IN BRAZIL

In 2020 KN became the operator of liquefied natural gas (LNG) terminal at Açu Port, Brazil. Under the contract concluded with Gas Natural Açu (GNA), a joint venture of Prumo Logistica, BP and Siemens, KN as the operator of the LNG Terminal is responsible for the smooth operation of the LNG Terminal, including the technical and commercial operation of the installation of the quay and its facilities, gas pipeline and gas metering stations. KN established a company KN Açu Serviços de Terminal de GNL Ltda., which is responsible for the execution of this project in Brazil, has gathered a team of local professionals, and has begun the activities in 2020. The contract is concluded for a period of 13 years and can be extended with a mutual agreement.



FSRU AT THE PORT OF AÇU. COURTESY BY GNA

THE CORPORATE STRATEGY

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

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

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

The Company sees the biggest potential for growth and net profit generation in LNG business development and investments into LNG import terminals internationally. AB Klaipėdos nafta believes that floating LNG import-based solutions will account for almost a half of the new regasification capacity in the decade ahead and sees the possibility to achieve that by 2030 the profit from oil product handling services is identical to that from LNG business development projects.

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

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

The growing demand for LNG which is transported by road and ships to the off-grid locations in the Baltics and northern Poland, the growing pressure to reduce global emissions and the promotion of LNG as a cleaner energy source give the LNG distribution station a significant role in the Company's portfolio. AB Klaipėdos nafta together with its strategic partners has an aim to stimulate LNG market creation and to increase share of this much cleaner fuel consumption in marine and heavy transport as well as off-grid industry within a region.

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

MAIN BUSINESS LINES BY 2030

OIL TERMINALS

- Handle any oil product without limitation to transhipment mode, provide smart throughput, storage and blending services.
- Be fully capable of working with products that go beyond traditional oil or petroleum products range.
- Invest in sustainable and more efficient technologies and processes to reduce emissions from our activities.

KLAIPĖDA LNG HUB

- Assure the region's access to the global LNG market at least till 2044 and benefit for Lithuanian consumers through commercial activities.
- Assure highest quality bunkering and truck loading services, contribute to innovation development through the LNG cluster.

INTERNATIONAL LNG PROJECTS

- See the net profit from international LNG projects higher than from oil products transhipment services, which is the largest portion today.
- Become the preferred partner for new LNG import terminal projects globally.
- Be within the top three leading floating LNG import terminal companies.

OIL BUSINESS

By 2030 we aim to become the region's top and most efficient oil throughput and storage hub of liquid petroleum, petrochemical products, and refining feedstock for regional and global refineries, traders, and other customers.

WHAT WE PLAN TO ACHIEVE BY 2030:

A. Sustain and increase volumes and profitability of oil terminals under consideration of changes to the market structure.

- **46 MMEUR** revenue

B. Enter market for transhipment of petrochemicals and other new products.

- **12%** share from overall oil business revenue.

C. Ensure environmentally sustainable activities of KN oil infrastructure.

- Full compliance with environmental regulations and reduction of emissions

D. Ensure secure, reliable, and efficient operation of oil terminal.

- No critical accidents.

STRATEGIC DIRECTIONS OF OIL BUSINESS

Oil business strategy is to ensure high rate of profitability and attractiveness by:

- Investing into expanding of technological capacities, acceptance of larger tankers, and ship to ship loading and blending operations.
- Reducing the number of personnel and related costs by automatization and digital measures.
- Handling niche products like petrochemicals, alcohols, octane boosters, and other.

KLAIPĖDA LNG HUB

We aim to provide access to global LNG markets and competitive gas prices for traders and consumers in the Baltic Sea region and beyond, and to become the main small-scale LNG import terminal in the Baltic States and Poland.

WHAT WE PLAN TO ACHIEVE BY 2030:

A. To become regional LNG hub that increases liquidity and flexibility of the interconnected natural gas systems.

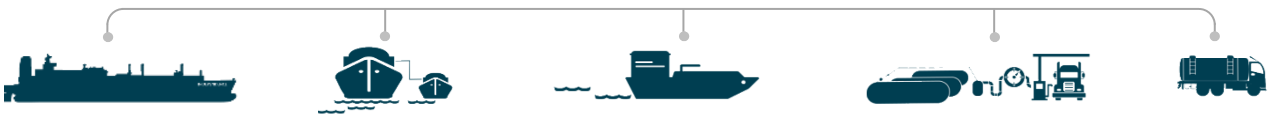
- Ownership of FSRU, full O&M.
- Implemented long term LNG import solution.
- >30% FSRU revenues from international counterparties.
- Provision of quality LNG services under the sustainable business model and for the benefit of the whole region.

B. Profitable small-scale terminal with a proven value in the growing regional small-scale LNG (ssLNG) market.

ACTIONS TO BE MADE

KN will continue growing its market share and make impact by:

- Generating revenue from long-term agreements to small-scale terminal by upstream partnering with strong players in the market who could ensure stable supplies to the reloading station on competitive prices.
- Becoming effective and efficient terminal for the partners, being available when necessary and capable to do significant number of loads.
- Improving business environment in Lithuanian LNG market by continuing spreading awareness in the market, cooperating with institutions and other players, promoting LNG-in-favour legislations, cooperating with Port Authorities to improve bunkering conditions and start bunkering operations in the Port of Klaipėda.



INTERNATIONAL LNG PROJECTS

We aim to become the preferred partner for new LNG import terminal projects globally and be within the top three leading floating LNG import terminal companies by 2030.

WHAT WE PLAN TO ACHIEVE BY 2030:

A. Operator of at least 5 LNG terminals by 2030

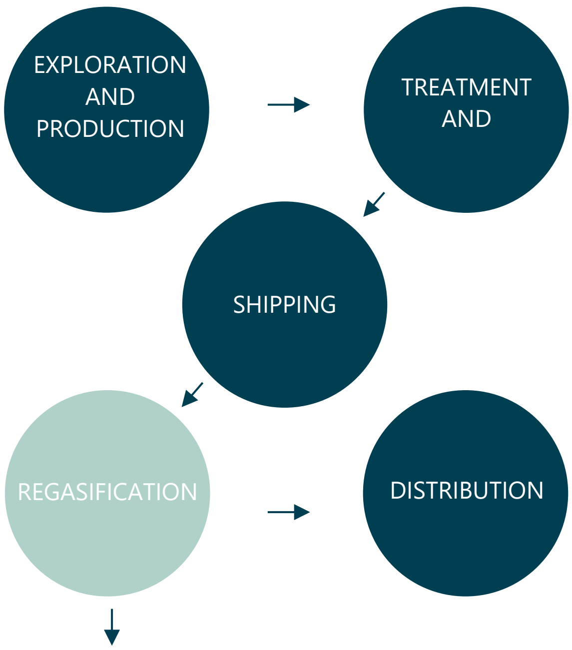
B. Shareholder in at least 4 LNG terminals by 2030

LNG VALUE CHAIN AND KN BUSINESS

While natural gas is globally abundant cleanest burning fossil fuel and a highly competitive source of energy, many energy-hungry countries are at a considerable distance from the extraction locations.

KN draws on the experience in developing and advising more than ten new LNG import projects in Europe, Latin America, and Asia since 2015 and has a track record of on-time and on-budget delivery of floating LNG terminal. Company seeks to:

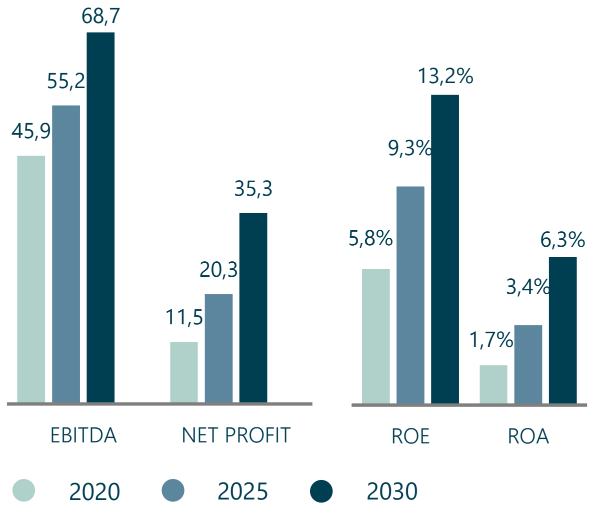
- Engage in early development to capture new projects.
- Monitor and respond to public and private tenders for LNG import terminal development and O&M services.
- Develop and strengthen partner network of FSRU owners, LNG traders, suppliers, and other relevant counterparties.
- Develop market facing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



FINANCIAL FORECASTS OF OVERALL KN ACTIVITIES FOR THE PERIOD 2020 – 2030, MM EUR

- The company is planning to triple its net profit from 11,5 MMEUR (adj.) in 2020 to 35,3 MMEUR by 2030.
- The Company's ambition is to invest up to 320 – 390 MMEUR within strategic horizon of 2020 – 2030.

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



The view of the management and evaluation of possibilities to achieve 2020-2030 strategic goals based on assumptions as at 31 December 2020:

STRATEGIC GOALS	STATUS
OIL TERMINALS	
Increase volumes and profitability of oil terminals. 46 MM revenue	At risk for achievement *
Transhipment of petrochemicals and other products make up to 12% of overall oil business revenue	In line with expectations
Full compliance with environmental regulations and reduction of emissions	In line with expectations
No critical accidents, secure, reliable, and efficient operations	In line with expectations
KLAIPĖDA LNG HUB	
Ownership of FSRU, full O&M	In line with expectations
Implemented long term LNG import solution	In line with expectations
>30% FSRU revenues from international counterparties	In line with expectations
Provision of quality LNG services	In line with expectations
Profitable small-scale terminal	In line with expectations
INTERNATIONAL LNG PROJECTS	
Operator of at least 5 LNG terminals by 2030	In line with expectations
Shareholder in at least 4 LNG terminals by 2030	In line with expectations

* Achievement of this goal could be at risk due to absence of Belarus cargo.

SIGNIFICANT EVENTS OF THE REPORTING PERIOD

3rd February 2020. AB Klaipėdos nafta Group's company - KN Açu Serviços de Terminal de GNL Ltda. and UTE GNA I Geração de Energia S.A. (hereinafter – GNA) signed an Operation and Maintenance Services Agreement for the provision of operations and maintenance services in connection with GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro.

6th February 2020. Amended Articles of Association of Company subsidiary UAB SGD logistika had been registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of UAB SGD logistika. Following the increase of the authorised capital of UAB SGD logistika, such capital is equal to EUR 4,540 thousand and is divided into 4,540,000 units of shares, which grant 4,540,000 votes. Nominal value per share – EUR 1.00.

13th February 2020 The Supervisory Council of the Company approved corporate strategy of the KN until 2030. The main directions of the strategy are international LNG projects, strengthening the competitiveness of oil terminals and developing Klaipeda as an LNG service center in the Baltic region. The Strategy of the Company could be found in: 2030.kn.lt.

9th March 2020 AB Klaipėdos nafta has concluded the Loan Agreement with the Nordic Investment Bank regarding granting a loan of up to EUR 160 million with the purpose to finance an acquisition of the floating liquefied natural gas storage unit.

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

17th March 2020 As UTE GNA I Geração de Energia S.A. (hereinafter – GNA) has adopted remaining corporate decisions and received lenders approvals, the Operation and Maintenance Services Agreement, signed between AB Klaipėdos nafta, KN Açu Serviços de Terminal de GNL Ltda. and GNA, regarding the provision of operations and maintenance services for GNA's liquefied natural gas terminal, located at the Port of Açu in the state of Rio de Janeiro, has become effective.

20th March 2020 Notice is given that on the initiative and by the resolution of the Board, Extraordinary General Meeting of Shareholders of the Company will be held on 10 April 2020. Agenda of the meeting: regarding the increase of authorized capital by additional contribution; regarding the amendment of the Articles of Association of AB Klaipėdos nafta; regarding the reduction of authorized capital of AB Klaipėdos nafta; regarding the amendment of the Articles of Association of AB Klaipėdos nafta; regarding election of a member of the Supervisory Council of AB Klaipėdos nafta.

31st March 2020 The Court of Appeal of Lithuania (hereinafter – the Court) has adopted a judgement in the case regarding the damages from the breach of the competition law, by which ruled to leave unchanged 7 March 2019 Vilnius Regional Court decision and to award AB Klaipėdos nafta compensation of litigation expenses incurred at the Court of Appeal.

1st April 2020 The Polish oil and gas company PGNiG commences commercial operations at the KN-operated Klaipėda liquefied natural gas (LNG) reloading station. The capacities of the station, which will allow more efficient entry into the small-scale regional LNG market, is reserved for a strategic partner for five years.

10th April 2020 Extraordinary General Meeting of Shareholders of the Company adopted decision to elect Karolis Švaikauskas as a member of the Supervisory Council of Klaipėdos nafta AB until the end of the term of office of the existing Supervisory Council of AB Klaipėdos nafta.

28th April 2020 Annual General Meeting of Shareholders of the Company decided to distribute Company's profit received in 2019 and allocate dividends to the amount of EUR 0.02 per share.

5th June 2020 The tanker NS Captain moored at the quay of Klaipėda Oil Terminal managed by KN (AB Klaipėdos nafta), bringing 77,000 tons of crude oil cargo from the USA which is to be used by Belarusian oil refineries.

15th June 2020 A. Varanavičius, a member of the Supervisory Council and the Audit Committee of AB Klaipėdos nafta, submitted a notice of resignation from the Supervisory Council and the Audit Committee of the Company as of 31 July 2020.

1st July 2020. UAB Kroviniu terminalas did not appeal the Supreme Court of Lithuania decision to not accept the appeal submitted by UAB Kroviniu terminalas in the case regarding the alleged damages from the breach of the competition law.

9th July 2020. Amended Articles of Association AB Klaipėdos nafta were registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company.

Following the increase of the authorised capital of the Company, such capital is equal to EUR 110,505,193.97 and is divided into 381,052,393 units of shares. Nominal value per share – EUR 0.29.

1th August 2020. National Energy Regulatory Council set 3.46% rate of return on regulated asset base of the Company for 2021.

26th August 2020. The Ministry of Finance of the Republic of Lithuania has issued permission to AB Klaipėdos nafta to decrease the authorised capital of the Company from EUR 110,505,193.97 to EUR 110,315,009.65 by cancelling 655,808 units of Company's acquired own shares which each nominal value EUR 0.29.

26th August 2020. The second LNG shipment for PGNiG, a partner oil and gas company in Poland, arrived at the KN Liquefied Natural Gas (LNG) reloading station at the port of Klaipėda.

1st October 2020. The new gas year of the LNG terminal began with extremely high operating results: during the last year of natural gas (until 30 September), the largest amount of natural gas was regasified and supplied to the Lithuanian natural gas system to date – 23.9 TWh, when, compared to the previous year, it amounted to 14 TWh.

20th November 2020. The decision of the European Commission has been announced, which will allow the guarantee provided by the Republic of Lithuania to secure the Company's financial obligations for the acquisition of a floating LNG carrier.

20th November 2020. Žaneta Kovaliova was elected as a member of the Supervisory Council of AB Klaipėdos nafta on November 20th and elected as a member of Audit Committee on December 8th.

23rd November 2020. National Energy Regulatory Council adopted decisions on fixed and variable components of LNG regasification and reloading services prices. NERC established the price of 151.38 EUR/MWh/day/year for fixed tariff component and 0.41 EUR/MWh for variable tariff component (0.35 EUR/MWh in 2020). Differentiated LNG reloading tariff was also set based on size of LNG cargos to be reloaded. New tariffs are applicable from 1 January 2021.

30th November 2020. The Ministry of Energy and 19 organizations, including KN, have signed an agreement on the establishment of a hydrogen platform in Lithuania. The signatories have agreed to cooperate in the creation and development of hydrogen technologies, which will be crucial for achieving national and European energy and climate targets.

7th December 2020. KN concluded an agreement with UAB Elektrėnų energetikos remontas on the reconstruction and adaptation of two storage tanks for bitumen loading. These tasks are scheduled for completion in the second half of 2021. The agreement is valued at EUR 2.1 million. This is one of several investment projects planned by the company in order to increase the efficiency and flexibility of the oil terminal in Klaipeda by adapting the existing infrastructure to new cargoes.

15st December 2020. BNK (UK) Limited informed KN about the temporary suspension of oil products sales through Klaipėda. In the future tenders announced by BNK Klaipėda will not be indicated as their sales point. All contracts between BNK and KN remain in force, but the contractual obligations are suspended until further notice. Cargo, albeit to a lesser extent, is currently being sent to Klaipeda and reloaded at the KN oil terminal for further export.

SIGNIFICANT EVENTS OCCURRED AFTER THE END OF THE REPORTING PERIOD

11th January 2021 The new wording of Articles of Association of the Company was registered within the Register of Legal Entities of the Republic of Lithuania following the decrease of the authorised capital of the Company, which is now equal to EUR 110,315,009.65 and divided into 380,396,585 units of shares. Nominal value per share – EUR 0,29.

After the balance date BUAB "Kauno Dujotiekio Statyba" legal case was resolved by signing a peace agreement between all parties (KDS, the main creditor Luminor bank AS, and the Company). The parties reached an agreement that the amount of EUR 316 thousand paid by the Company to KDS remains covered and is not returned to the Company. All parties agree and confirm that the obligations of the Company are deemed to have been fulfilled and that KDS and Luminor bank AS will have no further claims against the Company.

INFORMATION ABOUT PUBLIC ANNOUNCEMENTS

Following the requirements of the Law of the Republic of Lithuania, all main events concerning the Company and information about the time and venue of the General Meeting of Shareholders are published on the website of the Company www.kn.lt and in AB NASDAQ Vilnius (www.nasdaqomxbaltic.com) Stock Exchange.

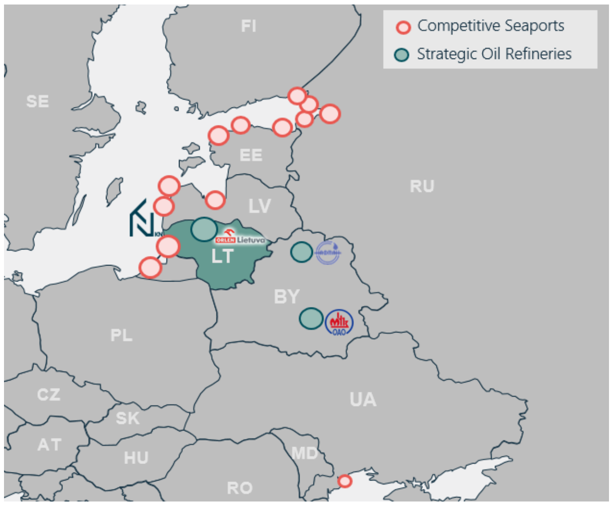
BUSINESS ENVIRONMENT AND MARKET

OIL TERMINALS' BUSINESS ENVIRONMENT AND MARKET

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

- Company's suprastructure for transhipment and storage of oil products (number of tanks, pipelines, trestles, etc.) and infrastructure limitations (number of jetties, water depth at jetties);
- Oil terminals' economic attractiveness from logistical point of view (both transhipment tariffs and costs of the entire logistic chain);
- Macroeconomic and geopolitical environment in regional and global oil processing and trade markets.

Strategic oil refineries (hereinafter – Refineries), whose oil products were transhipped through Company's oil terminals in 2020, are located in east and southeast directions. Those refineries were Mažeikiai plant in Lithuania (managed by AB ORLEN Lietuva, hereinafter - Orlen), OJSC Mozyr and OJSC Naftan Refineries in Belarus. Main Company's competitors are oil terminals operating along the eastern coast of the Baltic Sea, also in Gulf of Finland and Black Sea, located at Ust-Luga, Primorsk, St. Petersburg, Ventspils, Riga, Tallinn, Odesa ports.



At the end of last year Belarusian company BNK (UK) temporary suspended export of Belarussian oil products through the KN oil terminal in Klaipėda. At the same time Belarusian's intentions, and thus Russian's willingness, to reroute following oil product flows towards Russian ports is noticeable. In this context, it is also important to note Russia's overall aim to tranship both Belarussian and Russian origin oil and chemical products mainly through its own seaports located on Gulf of Finland Coast (St. Petersburg, Primorsk, Ust-Luga) as well as new target to handle petrochemicals, which are currently being handled in Finnish and Baltic ports.

It should also be mentioned that oil terminals of the region, including KN Oil Terminal's, activities in 2020 were also affected by the slowdown in the global economy caused by the coronavirus pandemic, leading to a drop in demand for petroleum products and stabilizing oil refining margins in record lows.

Therefore, region's competitive environment in oil products transhipment market is getting more intense.

As a result of the decline of Russian-origin oil products flow to the Baltic States, the uncertainty regarding Belarussian oil product flows and negative oil business environment due to coronavirus pandemic, Estonian and especially Latvian ports are losing more and more major oil product flows. Consequently, due to the shortage of the cargo flows, Estonian, and especially Latvian ports, are becoming more active competitors for the Company's oil terminal.

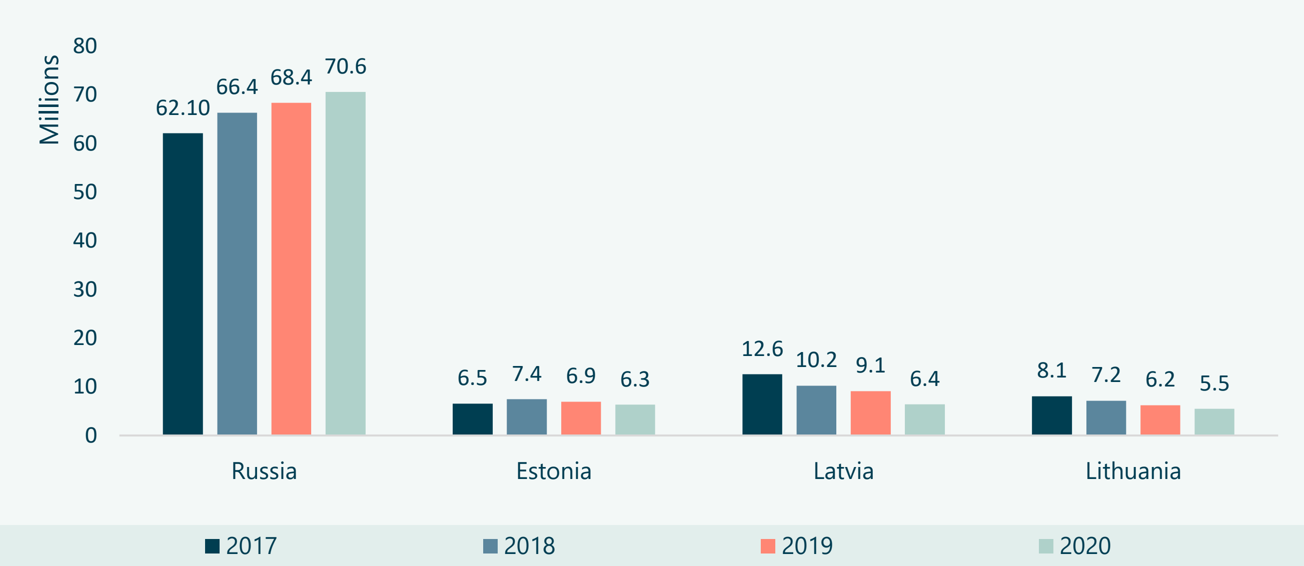
According to statistical data, in 2020 ports of the eastern Baltic Sea coast transhipped approximately 88.81 million tons of oil products, i.e. 1.81 million tons or 2% less compared to 2019.

In 2020, port of Klaipėda handled about 5.47 million tons of oil products, i.e. 1.03 million tons or 12% less than in 2019.

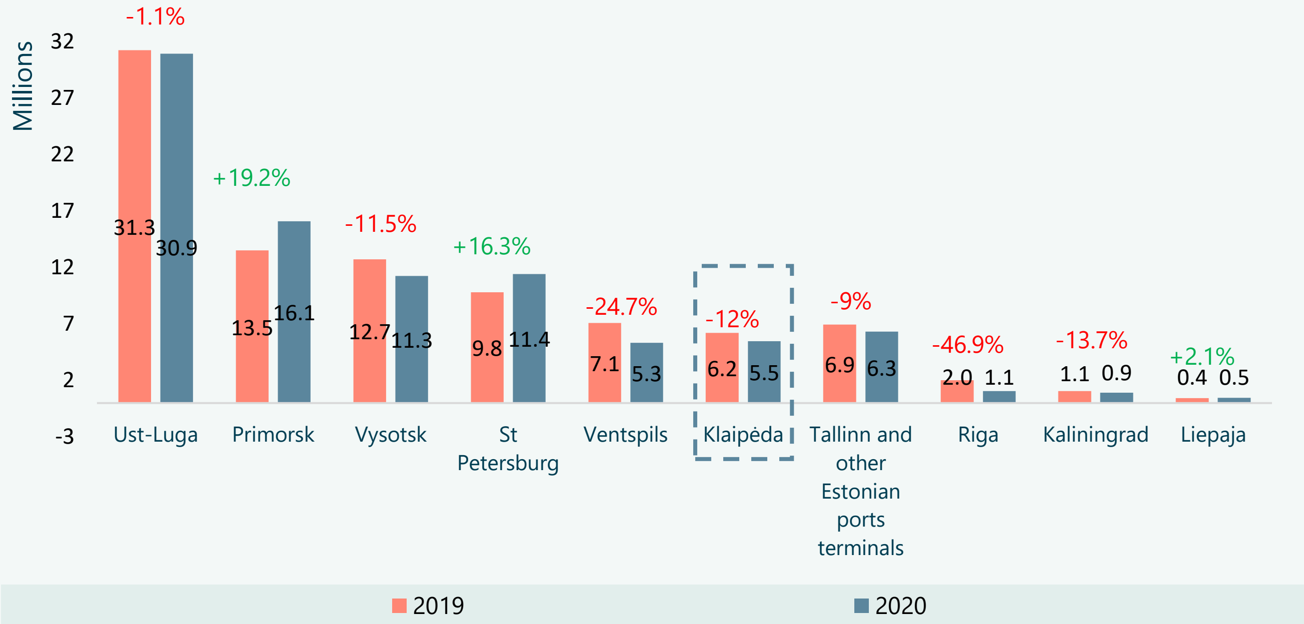
As shown in chart "Dynamics of oil products transhipment at the eastern Baltic Sea coast ports in 2017-2020" below, the share of Russian ports in eastern Baltic Sea coast oil products transhipment market is growing steadily. During 2017 – 2020 Russian ports yearly transhipment amount increased in approx. 13.7%.

The overall change of oil product yearly transhipment through the Baltic ports (Lithuania, Latvia, Estonia) in 2017-2020 respectively – decrease by 33%. Oil products transhipment market share decreased in 2017 was caused by the loss of oil product flows at Latvian and Estonian ports, and during 2018 – 2019 at Klaipėda port as well. The amount of oil products transhipped at Klaipėda port in 2017 increased by 1.1%, in 2018 it decreased by 11.2%, 2019 – by 13.1%, 2020 – 12%.

DYNAMICS OF OIL PRODUCTS TRANSSHIPMENT AT THE EASTERN BALTIC SEA COAST PORTS IN 2017 – 2020



DYNAMICS OF OIL PRODUCTS TRANSSHIPMENT AT THE EASTERN BALTIC SEA COAST PORTS IN 2019 – 2020



** Figures based on Klaipėda Port Authority and Argus Media Ltd. data*

TRANSSHIPMENT OF OIL PRODUCTS

In 2020 Company's Klaipėda and Subačius oil terminals, transhipped 5,149 kt of oil products in total. Klaipėda oil terminal transhipped 5,045 kt of oil products, meanwhile Subačius oil terminal transhipment amounted to 104 kt.

In 2020 the turnover at Klaipėda Oil Terminal was 11.3% lower compared to 2019, while Subačius oil terminal performance was 70.1% higher.

The total result of both terminals for 2020 is 10.4% less than in 2019. The decrease of the total transhipment amount was influenced by both global and regional factors, such as:

- Lock-down of crude oil supply by pipeline from Russia to Belarus in 1Q 2020 that caused decrease of petroleum products export from Belarus via Klaipėda oil terminal,
- Global oil products demand dropped due to i) especially warm 2019/2020 winter season, ii) COVID-19 declared pandemic and worldwide lockdowns started in March 2020,
- One of the key clients – BNK (UK) Limited decided to suspend trade of oil products with the transhipment through Klaipeda port.

It is noteworthy that loss of oil products transhipment volumes from Belarus in 1Q 2020 was nevertheless partially substituted by income from crude oil import to Belarus via Klaipėda oil terminal, which also included the first crude import case from USA. As a result – n 2020 BNK delivered over 2,007 kt of cargo to the Company, which is about 55.1% more than in 2019.

During 2020 one of the Company's main clients – AB ORLEN Lietuva for further transhipment via Company's terminal delivered approx. 1/3 of total quantity transhipped through KN, which is 30.7% less compared to 2019. The main reason for it was the drop of throughput and utilization at the refinery in order to minimize the negative effect of unfavourable market conditions.

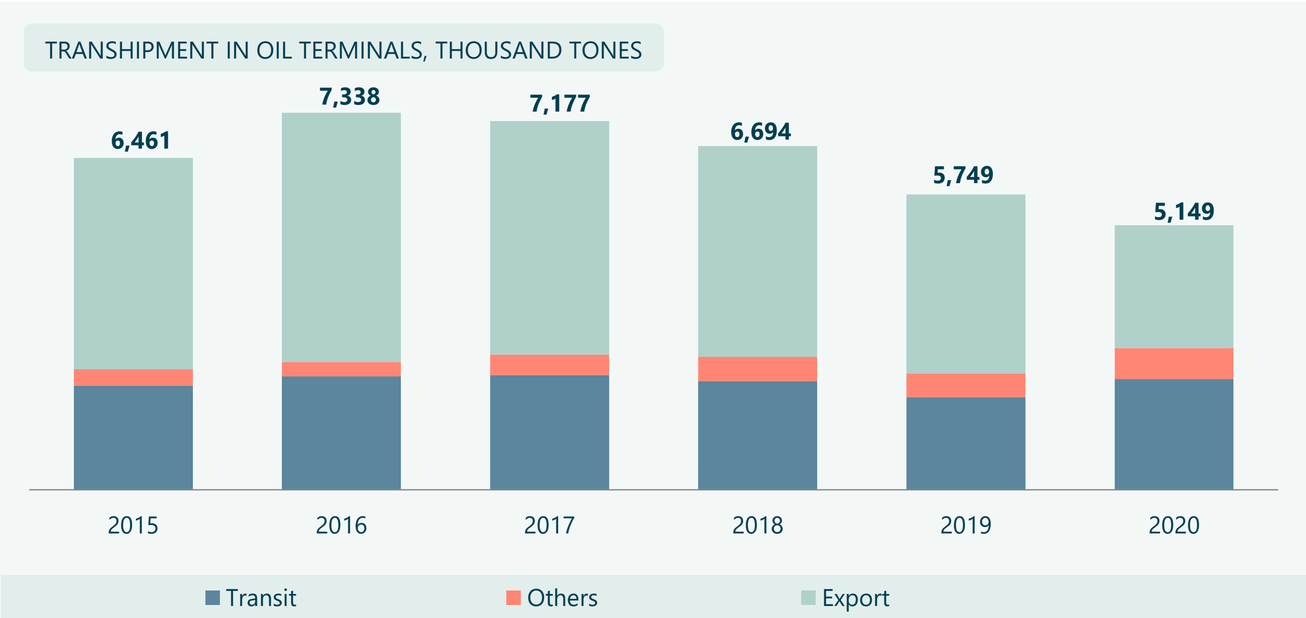
In 2020 Klaipėda oil terminal started transformation of part of tank farm (8,5 thousand cbm in total) in order to adapt it to the storage and load of bitumen. It is planned to start loading it in 3Q 2021.

In 2020, the Company approx. 8 times increased total transhipment of biofuels segment cargo, i. e. transhipped 26 kt of ethanol (vs 4 kt in 2019), 44 kt of FAME (vs 0 kt in 2019), 12 kt of HVO (vs 5 kt 2019).

Imports of light oil products for further supply to Lithuanian market via Company's trucks loading station in 2020 increased by 9% compared to 2019.

In order to expand the scope of activities and diversify products portfolio in Klaipėda and Subačiaus terminals, Company continues to develop business relationships with international and regional market players.

Taking into account the uncertainty in the market conditions, unpredictability of COVID-19 impact and its continuation the management of the Company in addition to impairment test performed for Klaipėda oil terminal CGU, will closely monitor possible changes and developments in the course of 2021 and will perform stress-test for oil segment in order to evaluate Company's vulnerability and resistance to various possible unfavourable conditions that might arise.



OVERVIEW OF KLAIPĖDA LNG TERMINAL OPERATING ENVIRONMENT

During 2020 NERC adopted the following resolutions related to the operating environment of Klaipėda LNG terminal:

- On October 30, 2020 decree no. O3E-1044 - changes made in the methodology for establishing regulated prices in the natural gas sector. The approved amendments enable the operator of the liquefied natural gas (LNG) terminal to cover long-term lease contracts using derivatives on the basis of a financial justification for the decision. The resolution also revised the calculation of the LNG reloading price, providing for the possibility for the LNG terminal operator to differentiate the reloading price, and made other changes to the methodology.
- On November 23, 2020 decree no. O3E-1206 - NERC has set prices for liquefied natural gas reloading services, effective from January 1, 2021. This resolution established differentiated LNG reloading prices based on the amendments made to the methodology for setting state regulated prices in the natural gas sector.
- On November 23, 2020 decree no. O3E-1207 - NERC approved LNG regasification prices valid from January 1, 2021. The fixed part of the LNG regasification price approved by the decree (included in the security supplement to the natural gas transmission price) decreases by 22% to 151.38 EUR / (MWh / day / year), the variable part increases by 17% up to 0.41 EUR / MWh.
- On November 30, 2020 decree no. O3E-1265 - NERC has revised an additional component to the security supplement to the natural gas transmission price applicable from January 1, 2021 - EUR 346.11 / (MWh / day / year). The set security supplement increased by 0.7%.
- On December 31, 2020 decree no. O3E-1582 - Resolution no. O3-510 "On Approval of the Methodology for Determining the Rate of Return on Investment" adopted by the State Control Commission for Prices and Energy on September 22, 2015 was amended and a new wording with corresponding amendments to the Methodology for Determining the Rate of Return on Investment was set out.
- On December 31, 2020 decree no. O3E-1572 - NERC approved the Methodology for Assessing Additional Regulatory Incentives and Risks for Investment Projects. This methodology establishes the procedure for granting additional regulatory incentives to electricity and natural gas companies whose prices are regulated and which are exposed to higher risks by implementing projects of common interest or other projects that are practically equivalent in scope and socio-economic benefits.

Other relevant 2020 events related to the operation of the LNG terminal:

- On December 30, 2020 the Resolution of the Government of the Republic of Lithuania No. 1482 amended by the Government of the Republic of Lithuania November 7 Resolution no. 1354 "On the Approval of the Description of the Procedure for the Supply of the Required Quantity of the Liquefied Natural Gas Terminal and the Determination of the Natural Gas Consumption Capacity", which establishes the LNG terminal minimum quantity of natural gas in 2021. The said resolution also amended the description of the procedure for the supply of the required quantity of the Liquefied Natural Gas Terminal and the natural gas consumption capacity, which provides for the obligation of the LNG terminal operator until 20 July of the current year to provide the Ministry of Energy of the Republic of Lithuania with information on the required quantity of the LNG terminal required in the coming year, as well as the possibility to adjust the required quantity of the LNG terminal in the current year.
- From 2021 January 1 implemented requirements set by the application guidelines announced by the Agency for the Cooperation of Energy Regulators (ACER) on October 25, 2011 for the European Parliament and Council Regulation (EU) No 1227/2011 on the Wholesale Energy Market Integrity and Transparency Regulation (REMIT). The application guidelines foresee requirements for the disclosure of inside information through Inside information platforms (IIPs). Undisclosed information related to the operation of the LNG terminal, ensuring proper implementation of the provisions of the REMIT Regulation, is published on the IIP platform managed by the market operator UAB GetBaltic by providing standardized messages (Urgent market messages (UMM)).

LNG terminal capacity allocated for the Gas Year 2020 (period from 1 October 2019 to 30 September 2020):

ALLOCATED CAPACITY	AMOUNT OF ALLOCATED CAPACITY, kWh*	PERIOD
LNG regasification capacity**	500,083,800	From 1 October 2019 to 30 September 2020
	388,272,000	From 1 October 2019 to 29 December 2019
	1,066,121,000	From 1 December 2019 to 1 February 2020
	944,000,000	From 1 October 2019 to 31 October 2019
	130,000,000	From 1 November 2019 to 31 December 2019
	8,271,000,000	From 1 January 2020 to 30 September 2020
	118,750,000	From 1 November 2019 to 31 December 2019
	61,500,000	From 20 January 2020 to 9 March 2020
	430,500,000	From 1 May 2020 to 31 August 2020
	103,173,000	From 11 February 2020 to 31 March 2020
	59,140,000	From 14 February 2020 to 31 March 2020
	999,970,000	From 13 May 2020 to 31 May 2020
	62,000,000	From 6 April 2020 to 31 May 2020
	60,000,000	From 13 April 2020 to 1 May 2020
	949,191,600	From 7 June 2020 to 4 July 2020
	949,191,600	From 5 July 2020 to 31 July 2020
	60,961,737	From 1 October 2020 to 30 November 2020
	123,000,000	From 1 September 2020 to 31 October 2020
	62,500,000	From 1 September 2020 to 30 September 2020
	61,800,000	From 5 September 2020 to 30 September 2020

*Combustion / measurement temperature 25/0 °C, pressure 1.01325 bar, natural gas gross calorific value 11.90 kWh/nm3, expansion factor 1: 578 m3 LNG / nm3 of gas).
**During Gas Year LNG regasification capacity may be changed to LNG reloading capacity.

LNG terminal capacity allocated for the gas year 2021 (period from 1 October 2020 to 30 September 2021):

ALLOCATED CAPACITY	AMOUNT OF ALLOCATED CAPACITY, kWh*	PERIOD
LNG regasification capacity**	8,363,500,000	From 1 October 2020 to 30 September 2021
	919,703,774	From 30 September 2020 to 21 November 2020
	62,500,000	From 1 October 2020 to 30 November 2020
	60,961,737	From 1 October 2020 to 30 November 2020
	242,000,000	From 1 November 2020 to 31 December 2020
	61,500,010	From 20 November 2020 to 18 December 2020
	62,500,000	From 18 December 2020 to 30 December 2020
	9,878,600,000	From 24 December 2020 to 30 September 2021
	61,878,334	From 5 January 2021 to 31 January 2021
	13,800,000	From 2 December 2020 to 15 December 2020
	62,500,000	From 4 December 2020 to 31 December 2020
	158,000,000	From 1 February 2021 to 28 February 2021
	60,480,000	From 1 February 2021 to 28 February 2021

*Combustion / measurement temperature 25/0 °C, pressure 1.01325 bar, natural gas gross calorific value 11.90 kWh/nm3, expansion factor 1: 578 m3 LNG / nm3 of gas).
**During Gas Year LNG regasification capacity may be changed to LNG reloading capacity.

Total 23,396,356,937 kWh LNG regasification capacities of LNG terminal were allocated for the Gas Year 2020 (period from 1 October 2019 to 30 September 2020). Meanwhile, total 20,007,923,855 kWh LNG regasification capacities of LNG terminal were allocated for the Gas Year 2021 (period from 1 October 2020 to 30 September 2021). LNG terminal users can book LNG terminal capacities during a Gas Year.

The year 2020 was a record, LNG terminal utilization was 49 % (66% of natural gas in Lithuania was imported via LNG terminal) and was above the European average (45%). 21.897 TWh of LNG have been regasified and transmitted to AB "Amber Grid" transmission system in 2020. It should be noted that in 2020 LNG terminal has been used by 6 users of the Terminal, of which two companies are from Estonia.

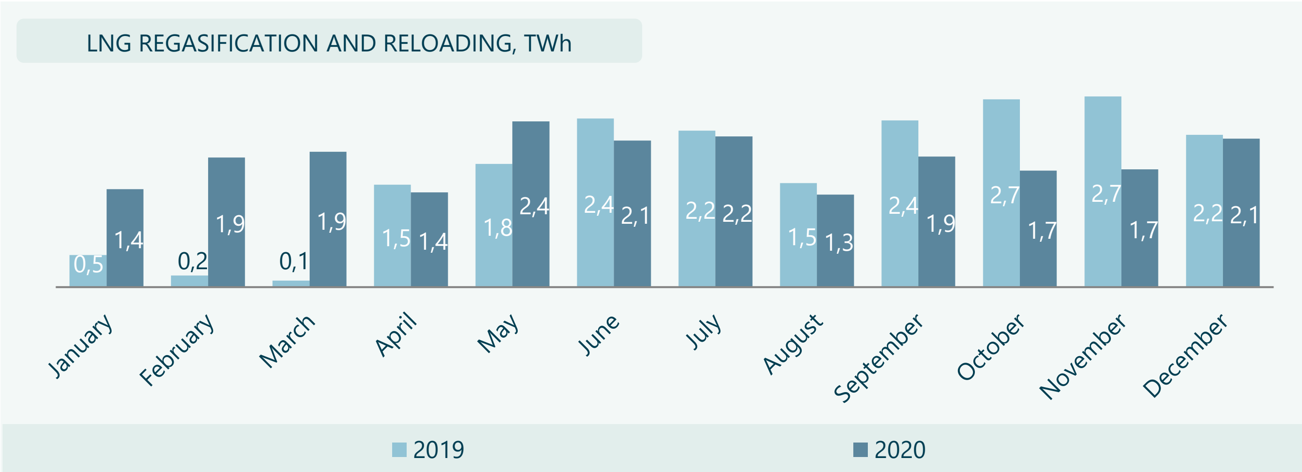
During 2020 the LNG terminal:

- Performed 73 ship-to-ship operations (51 ship-to-ship operations in 2019).
- 1,429.6 thousand tonnes of LNG were received (1,375.4 thousand tonnes in 2019).
- 1.887 billion nm^3 of natural gas were regasified and supplied to the natural gas transmission system (1.646 billion nm^3 in 2019).
- no LNG was reloaded into small scale LNG carriers (comparing 13 LNG carriers, 81.4 thousand m^3 of LNG in 2019).
- Accepted LNG origin was 51 percent from Norway, 34 percent from US and 15 percent from Russia.

Revenue of LNG Terminal for 2020 amounts to EUR 43.4 thousand (EUR 70.9 thousand in 2019).

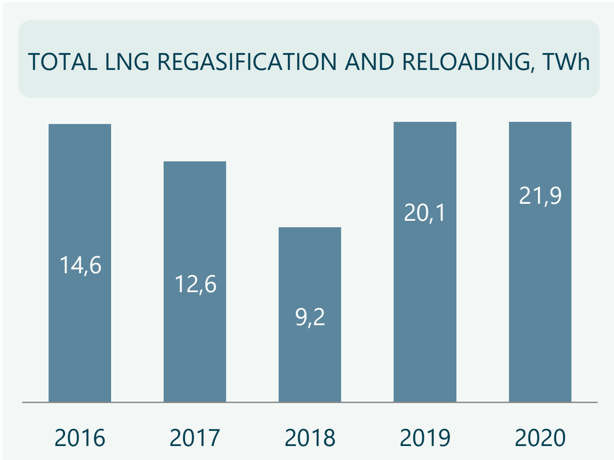
The need for LNG terminal capacity depends on several key criteria:

- Joint gas demand of Lithuania and other Baltic States.
- Pricing offered by competing natural gas supply sources (gas supplied by pipeline) and quantity of gas supplied.
- Limitations of the Lithuanian natural gas infrastructure (transmission system capacity);
- Supply of LNG in the global market.
- LNG prices in the region and worldwide.
- Duration and terms of gas supply contracts.
- Availability and freight costs of LNG carriers.

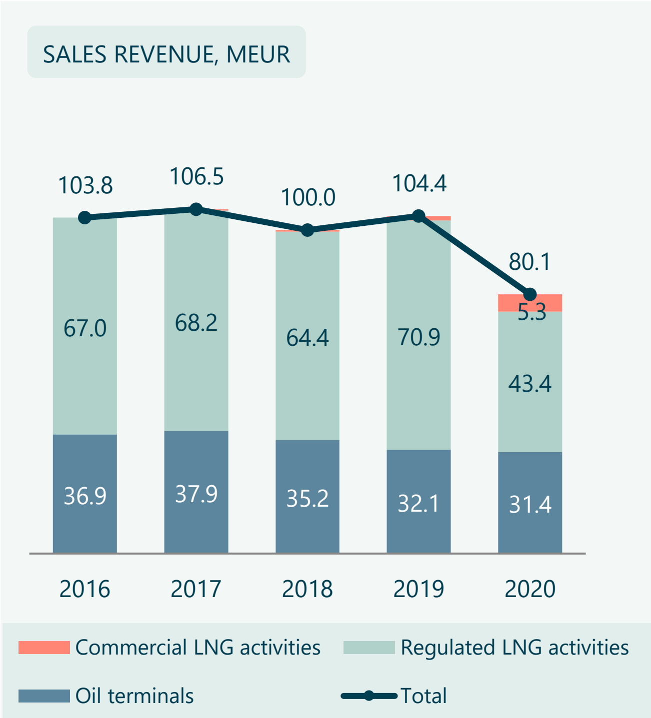


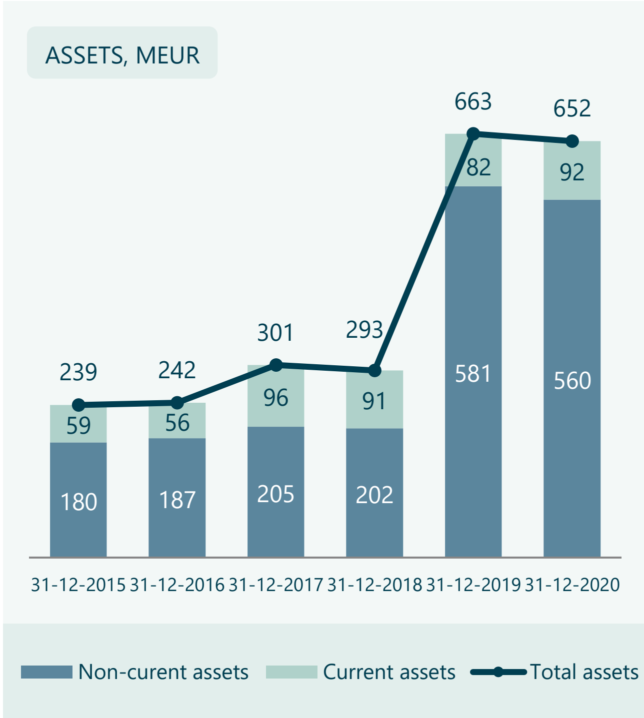
GAS PIPELINES PROJECTS IN THE BALTIC STATES

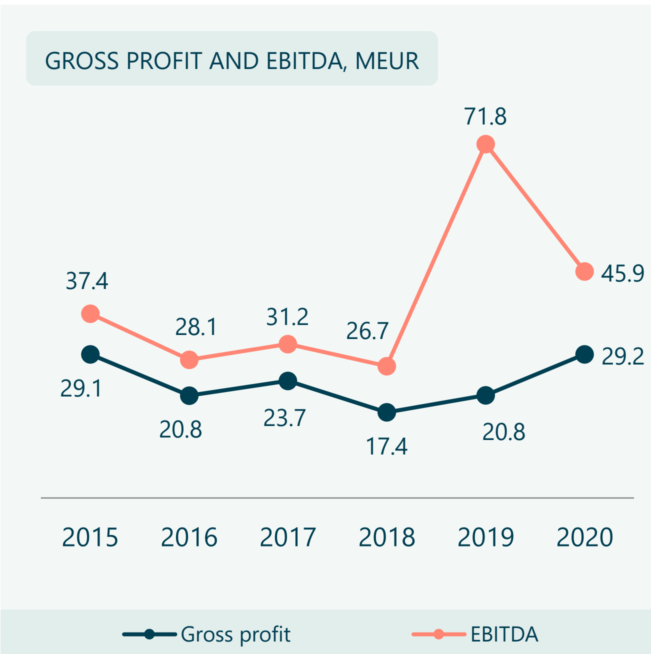
Energy projects implemented in the Baltic region would enable the development of the LNG market and more efficient use of the available capacity of the LNG terminal. In 2020, natural gas exports from Lithuania to other Baltic countries and Finland reached 7.9 TWh (volumes increased by +52% in comparison to exports in 2019). The growth of exports can be related to the new natural gas transmission pipeline Balticonnector between Finland and Estonia which has been operational since the start of 2020. At the beginning of 2022, the GIPL gas transmission pipeline between Lithuania and Poland will increase demand for the LNG terminal.

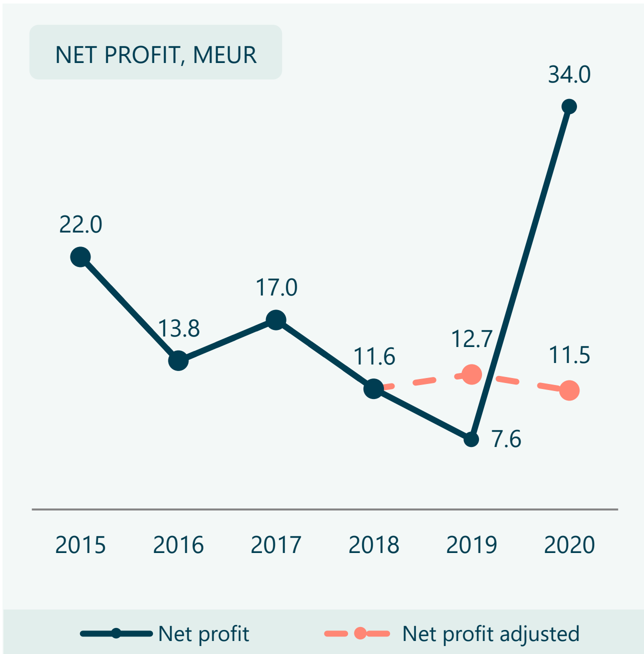


FINANCIAL RESULTS OF GROUP'S ACTIVITY









CONSOLIDATION

The financial results of the Group consist of the financial results of the parent company AB Klaipėdos nafta and its directly and indirectly controlled subsidiaries. According to IFRS 10, the parent company controls an entity when the parent company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is generally obtained by holding more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

The financial statements of subsidiaries have been prepared using uniform accounting policies and for the same reporting period as that covered by the financial statements of the Group. On consolidation, all inter-company transactions, balances, and unrealized gains and/or losses on transactions among the Group companies are eliminated.

On consolidation, the revenue and expenses are translated into euros at an average exchange rate observed during reporting period. The assets and liabilities of foreign operations are translated into euros at the rate of exchange prevailing at the reporting date. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

CONSOLIDATED FINANCIAL RESULTS OF THE GROUP INCLUDE THE FOLLOWING COMPANIES:

NAME OF THE COMPANY	ADDRESS	OWNERSHIP PART, PER CENT
AB Klaipėdos nafta	Burių Street 19, 92276 Klaipėda	100
UAB SGD terminalas	Burių Street 19, 92276 Klaipėda	100
UAB SGD logistika	Burių Street 19, 92276 Klaipėda	100
UAB SGD SPB	Burių Street 19, 92276 Klaipėda	100 owned by UAB SGD logistika
KN Açu Serviços de Terminal de GNL LTDA (KN Acu)	F66 Fazenda Saco Dantas s/n, Distrito Industrial, Area 1 and Area 2, 28200-000 São João da Barra, State of Rio de Janeiro	90 owned by UAB SGD logistika and 10 owned by UAB SGD SPB

More information about the structure of the Group and its subsidiaries can be found in the Annual Report section "General Information About the Group and the Company"

THE KEY FINANCIAL RATIOS OF THE GROUP (IN EUR THOUSAND, IF NOT INDICATED OTHERWISE)

** adj. - adjusted financial indicators/data are recalculated and presented by eliminating from net profit the following amounts: (1) the impact of unrealised foreign currency exchange rates (forex) arising from IFRS 16 requirements, (2) respective impact of deferred income tax arising from forex and (3) impact of financial derivatives. As the Company has changed adjusted figures calculation method in 2020, comparative figures are adjusted accordingly:*

THE GROUP	2020	2020 adj.*	2019	2019 adj.*	2018	2017	2016
Transhipment of oil products, thousand t	5,149	5,149	5,749	5,749	6,694	7,177	7,338
LNG regasification and reloading, thous. MWh	21,987	21,987	20,237	20,237	9,213	12,646	14,611
Investments of non-current assets	7,163	7,163	22,051	22,051	13,156	32,858	16,874
FINANCIAL FIGURES							
Sales	80,114	80,114	104,363	104,363	99,998	106,484	103,839
Gross profit	29,154	29,154	20,834	20,834	17,369	23,745	20,797
EBITDA (APM)	45,935	45,935	71,818	71,818	26,749	31,235	28,060
EBIT (APM)	46,275	19,456	8,304	14,386	12,065	17,711	15,270
Financial and investment activities	24,460	-2,359	-8,314	-2,232	-8	-94	211
Profit before income tax (EBT)	43,839	17,020	6,002	12,084	11,857	17,513	15,095
Net profit	33,958	11,454	7,561	12,731	11,577	17,031	13,794
Current assets	91,695	91,695	81,946	81,946	90,654	96,268	55,536
Non-current assets	559,999	559,999	581,351	581,351	202,473	204,977	186,895
Total assets	651,694	651,694	663,297	663,297	293,127	301,245	242,431
Equity	216,326	198,992	190,649	195,819	195,490	200,344	192,969
PROFITABILITY							
Return on assets (ROA) (APM)	5.2%	1.7%	1.6%	2.7%	3.9%	6.3%	5.7%
Return on equity (ROE) (APM)	16.7%	5.8%	3.9%	6.5%	5.9%	8.7%	7.1%
Return on Capital Employed (ROCE) (APM)	6.2%	6.5%	5.4%	5.3%	4.3%	6.3%	6.6%
Gross profit margin (APM)	36.4%	36.4%	20.0%	20.0%	17.4%	22.3%	20.0%
EBITDA margin (APM)	57.3%	57.3%	68.8%	68.8%	26.7%	29.3%	27.0%
EBIT margin (APM)	57.8%	24.3%	8.0%	13.8%	12.1%	16.6%	14.7%
EBT margin (APM)	54.7%	21.2%	5.8%	11.6%	11.9%	16.4%	14.5%
Net profit margin (APM)	42.4%	14.3%	7.2%	12.2%	11.6%	16.0%	13.3%
FINANCIAL STRUCTURE							
Debt ratio (D/E) (APM)	201%	219%	248%	241%	50%	50%	26%
Debt ratio (D/E) – excluding IFRS 16 liabilities (APM)	60%	65%	50%	49%	50%	50%	26%
Debt to EBITDA (APM)	9	9	7	7	4	3	2
Debt (excluding IFRS 16) to EBITDA (APM)	3	3	1	1	4	3	2
Debt service coverage ratio (DSCR) (APM)	7	7	12	12	9	66	136
Leverage ratio (D/A) (APM)	0.67	0.67	0.71	0.71	0.33	0.33	0.20
Leverage ratio (D/A) (excluding IFRS 16) (APM)	44%	44%	33%	33%	33%	33%	20%
Interest coverage ratio (EBITDA/interest expense)	19	19	31	31	129	158	160
Effective tax rate	23%	33%	-26%	-5%	2%	3%	9%
Capital to assets ratio (APM)	33%	31%	29%	30%	67%	67%	80%
Gross liquidity ratio (current ratio) (APM)	1.47	1.47	1.27	1.27	4.87	4.78	3.61
Quick ratio (APM)	1.43	1.43	1.24	1.24	4.77	4.72	3.52
Quick ratio (excluding IFRS 16) (APM)	4.06	4.06	3.98	3.98	4.77	4.72	3.52
MARKET VALUE RATIOS							
Price-Earnings Ratio (P/E)	3.6	10.7	18.3	10.9	13.4	11.4	14.8
Earnings per share (EPS)	0.089	0.030	0.020	0.033	0.030	0.045	0.036

THE KEY FINANCIAL RATIOS OF THE COMPANY (IN EUR THOUSAND, IF NOT INDICATED OTHERWISE)

** adj. - adjusted financial indicators/data are recalculated and presented by eliminating from net profit the following amounts: (1) the impact of unrealised foreign currency exchange rates (forex) arising from IFRS 16 requirements, (2) respective impact of deferred income tax arising from forex and (3) impact of financial derivatives. As the Company has changed adjusted figures calculation method in 2020, comparative figures are adjusted accordingly:*

THE COMPANY	2020	2020 adj.*	2019	2019 adj.*	2018	2017	2016
Transhipment of oil products, thousand t	5,149	5,149	5,749	5,749	6,694	7,177	7,338
LNG regasification and reloading, thous. MWh	21,987	21,987	20,237	20,237	9,213	12,646	14,611
Investments of non-current assets	7,163	7,163	22,051	22,051	13,156	32,858	16,874
FINANCIAL FIGURES							
Sales	77,474	77,474	104,138	104,138	99,998	106,484	103,839
Gross profit	27,283	27,283	21,241	21,241	17,369	23,745	20,797
EBITDA (APM)	45,058	45,058	72,235	72,235	26,749	31,235	28,060
EBIT (APM)	45,508	18,689	8,690	14,772	12,065	17,711	15,270
Financial and investment activities	24,571	-2,248	-8,345	-2,263	-8	-94	211
Profit before income tax (EBT)	43,103	16,284	6,388	12,470	11,857	17,513	15,095
Net profit	33,495	10,991	7,947	13,117	11,577	17,031	13,794
Current assets	87,329	87,329	77,917	77,917	90,654	96,268	55,536
Non-current assets	564,218	564,218	585,904	585,904	202,473	204,977	186,895
Total assets	651,547	651,547	663,821	663,821	293,127	301,245	242,431
Equity	216,459	199,125	191,173	196,343	195,490	200,344	192,969
PROFITABILITY							
Return on assets (ROA) (APM)	5.1%	1.7%	1.7%	2.7%	3.9%	6.3%	5.7%
Return on equity (ROE) (APM)	16.4%	5.6%	4.1%	6.7%	5.8%	8.7%	7.1%
Return on Capital Employed (ROCE) (APM)	5.9%	6.2%	5.5%	5.4%	4.3%	6.3%	6.6%
Gross profit margin (APM)	35.2%	35.2%	20.4%	20.4%	17.4%	22.3%	20.0%
EBITDA margin (APM)	58.2%	58.2%	69.4%	69.4%	26.7%	29.3%	27.0%
EBIT margin (APM)	58.7%	24.1%	8.3%	14.2%	12.1%	16.6%	14.7%
EBT margin (APM)	55.6%	21.0%	6.1%	12.0%	11.9%	16.4%	14.5%
Net profit margin (APM)	43.2%	14.2%	7.6%	12.6%	11.6%	16.0%	13.3%
FINANCIAL STRUCTURE							
Debt ratio (D/E) (APM)	201%	218%	247%	241%	50%	50%	26%
Debt ratio (D/E) – excluding IFRS 16 liabilities (APM)	60%	65%	50%	49%	50%	50%	26%
Debt to EBITDA (APM)	10	10	7	7	4	3	2
Debt (excluding IFRS 16) to EBITDA (APM)	3	3	1	1	4	3	2
Debt service coverage ratio (DSCR) (APM)	7	7	12	12	9	66	136
Leverage ratio (D/A) (APM)	0.67	0.67	0.71	0.71	0.33	0.33	0.20
Leverage ratio (D/A) (excluding IFRS 16) (APM)	44%	44%	33%	33%	33%	33%	20%
Interest coverage ratio (EBITDA/interest expense)	19	19	31	31	129	158	160
Effective tax rate	22%	33%	-24%	-5%	2%	3%	9%
Capital to assets ratio (APM)	33%	31%	29%	30%	67%	67%	80%
Gross liquidity ratio (current ratio) (APM)	1.41	1.41	1.21	1.21	4.87	4.78	3.61
Quick ratio (APM)	1.37	1.37	1.17	1.17	4.77	4.72	3.52
Quick ratio (excluding IFRS 16) (APM)	3.91	3.91	3.77	3.77	4.77	4.72	3.52
MARKET VALUE RATIOS							
Price-Earnings Ratio (P/E)	3.6	11.1	17.4	10.5	13.4	11.4	14.8
Earnings per share (EPS)	0.088	0.029	0.021	0.034	0.030	0.045	0.036

ALTERNATIVE PERFORMANCE MEASURES

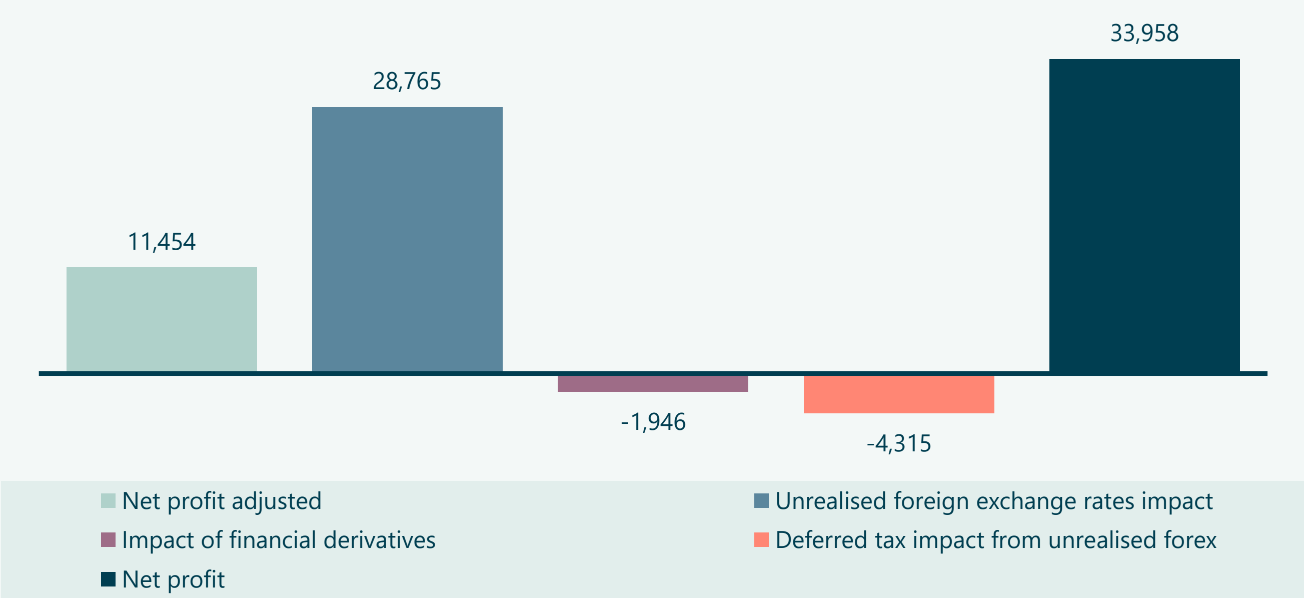
MEASURE	CALCULATION
Capital to assets ratio	total capital at the end of the period / total assets at the end of the period
Debt (excluding IFRS 16) to EBITDA	(total current and non-current liabilities at the end of the period – current and non-current IFRS lease liabilities) / EBITDA
Debt ratio (D/E)	total current and non-current liabilities at the end of the period / total equity at the end of the period
Debt ratio (D/E) – excluding IFRS 16 liabilities	(total current and non-current liabilities at the end of the period – total current and non-current IFRS 16 lease liabilities) / total equity at the end of the period
Debt service coverage ratio (DSCR)	EBITDA / total current debt obligations
Debt to EBITDA	total current and non-current liabilities at the end of the period / EBITDA
EBIT	earnings before interest and taxes
EBIT margin	EBIT / revenue
EBITDA	earnings before taxes – financial activity income + financial activity expenses + depreciation and amortization expenses
EBITDA margin	EBITDA / revenue
EBT margin	(earnings before taxes) / revenue
Gross liquidity ratio (current ratio)	total current assets at the end of the period / total current liabilities at the end of the period.
Gross profit margin	(revenue – COGS) / revenue * 100
Leverage ratio (D/A)	total current and non-current liabilities at the end of the period / total assets at the end of the period
Leverage ratio (D/A) (excluding IFRS 16)	(total current and non-current liabilities at the end of the period – current and non-current IFRS lease liabilities) / total assets at the end of the period
Net profit margin	net profit / revenue
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
Quick ratio (excluding IFRS 16)	(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 - total current IFRS 16 lease liabilities)
Return on assets (ROA)	net profit of the last twelve moths / (total average assets at the end of the period + total average assets at the beginning of the period) / 2
Return on Capital Employed (ROCE)	(EBITDA - depreciation and amortization expenses) / (shareholder's equity + total long-term liabilities at the end of the period)
Return on equity (ROE)	net profit of the last twelve moths / (total average equity at the end of the period + total average equity at the beginning of the period) / 2

FINANCIAL RESULTS

KN uses alternative performance measures (APM) in order to provide better understanding of the Group and the Company business operations. Currently, net profit of the Group and the Company is affected by material non-cash items. Therefore, the adjusted financial indicators are recalculated and presented by eliminating from net profit the following amounts: (1) the impact of unrealised foreign currency exchange rates (forex) arising from IFRS 16 requirements, (2) respective impact of deferred income tax arising from forex and (3) impact of financial derivatives. As the Company has changed adjusted figures calculation method in 2020, comparative figures are adjusted accordingly.

KN's financial results of 2020 and 2019 have mainly been affected by IFRS 16 "Leases" - a new standard which came into effect on 1 January 2019 and by the reduction of LNG security supplement from 1 January 2020 by EUR 26.8 million per annum. These changes have significantly affected KN's statement of financial position, statement of comprehensive income, and financial indicators. When the standard has become effective, the lease obligations are recognized in the statement of financial position as an asset and a liability (right-of-use assets and a lease liability). As most lease payments are denominated in USD, the positive impact of unrealized USD/EUR exchange rate in amount of EUR 28,765 thousand has been recognized in the statement of comprehensive income in 2020. However, it is a non-cash item, which has no impact to the Group's and the Company's actual earnings. The reduction of the LNG security supplement reduced revenue of the Group and the Company for 2020 in amount of EUR 26.8 million. The LNG security supplement reduction is financed by NIB loans; therefore, the cash flows of the Group and the Company are not affected.

GROUP'S NET PROFIT ADJUSTED AND THE IMPACTS TO NET PROFIT IN 2020, EUR THOUSAND



The calculation of net profit adjusted of the Group and the Company is presented below:

INCREASE/(DECREASE) IN EUR THOUSAND	31-12-2020 THE GROUP	31-12-2020 THE COMPANY
Net profit	**33,958**	**33,495**
Unrealised foreign exchange rates impact	-28,765	-28,765
Impact of financial derivatives	1,946	1,946
Deferred tax impact from unrealised forex	4,315	4,315
Net profit adjusted	**11,454**	**10,991**

In year 2020 the main KN financial indicators have changed compared to 2019 as follows:

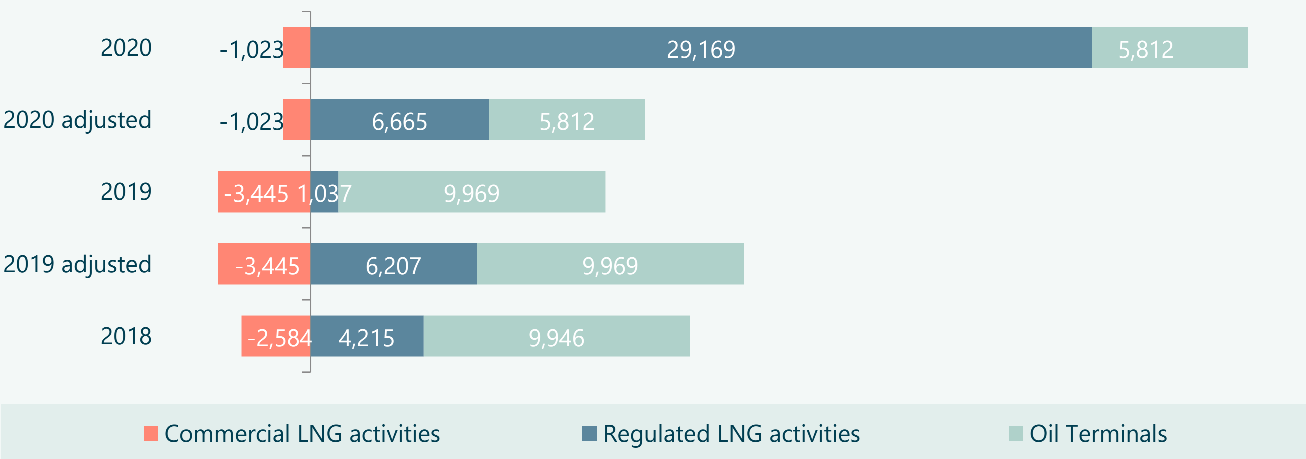
	2020	2020 adj.	2019	2019 adj.	CHANGE, 2020A VS 2019A +/-	%
GROUP						
Gross profit	29,154	29,154	20,834	20,834	8,320	39.9%
Net profit	33,958	11,454	7,561	12,731	-1,277	-10.0%
EBITDA (APM)	45,935	45,935	71,818	71,818	-25,883	-36.0%
Gross profit margin (APM)	36.4%	36.4%	20.0%	20.0%	16.4%	82.0%
Net profit margin (APM)	42.4%	14.3%	7.2%	12.2%	2.1%	17.2%
EBITDA margin (APM)	57.3%	57.3%	68.8%	68.8%	-11.5%	-16.7%
Earnings per share (EPS)	0.089	0.030	0.020	0.033	-0.003	-9.1%
Financial activity result	24,460	-2,359	-8,314	-2,232	-127	5.7%
Return on assets (ROA) (APM)	5.2%	1.7%	1.6%	2.7%	-0.9%	-37.0%
Return on equity (ROE) (APM)	16.7%	5.8%	3.9%	6.5%	-0.7%	-10.8%
COMPANY						
Gross profit	27,283	27,283	21,241	21,241	6,042	28.4%
Net profit	33,495	10,991	7,947	13,117	-2,126	-16.2%
EBITDA (APM)	45,058	45,058	72,235	72,235	-27,177	-37.6%
Gross profit margin (APM)	35.2%	35.2%	20.4%	20.4%	14.8%	72.5%
Net profit margin (APM)	43.2%	14.2%	7.6%	12.6%	1.6%	12.7%
EBITDA margin (APM)	58.2%	58.2%	69.4%	69.4%	-11.2%	-16.1%
Earnings per share (EPS)	0.088	0.029	0.021	0.034	-0.005	-14.7%
Financial activity result	24,571	-2,248	-8,345	-2,263	15	-0.7%
Return on assets (ROA) (APM)	5.1%	1.7%	1.7%	2.7%	-1.1%	-37.0%
Return on equity (ROE) (APM)	16.4%	5.6%	4.1%	6.7%	-1.1%	-16.4%

In 2020 **the Group's net profit adjusted** is EUR 11,454 thousand and is 10.0 per cent or EUR 1,277 thousand lower compared to 2019 (EUR 12,731 thousand).

The Group's adjusted net profit margin (APM) for 2020 is 14.3 per cent, the adjusted gross profit margin (APM) reached 36.4 per cent (in 2019 respectively 12.2 per cent and 20.0 per cent). The profit per one share amounts to EUR 0.089/share in 2020 (EUR 0.020/share in 2019).

In 2020 **the Company's net profit adjusted** is EUR 10,991 thousand and is 16.2 per cent or EUR 2,126 thousand lower compared to 2019 (EUR 13,117 thousand). The Company's adjusted net profit margin (APM) for 2020 is 14.2 per cent, the adjusted gross profit margin (APM) reached 35.2 per cent (in 2019 respectively 12.6 per cent and 20.4 per cent). The profit per one share amounts to EUR 0.088/share in 2020 (EUR 0.021/share in 2019).

THE GROUP'S PROFIT BY BUSINESS SEGMENTS, TEUR



The main reasons for the decrease of Group's net profit adjusted by EUR 1,277 thousand compared to 2019 are - EUR 4,157 thousand lower adjusted net profit from Oil terminals, commercial LNG activities loss was EUR 2,422 thousand lower, and EUR 458 thousand higher adjusted net profit of regulated LNG activities. For detail explanations see below:

- Net profit adjusted of Oil terminals is lower by EUR 4,157 thousand mainly due to higher impairment allowances for doubtful accounts receivable. Also, sales income was lower slightly lower compared to 2019.
- The adjusted loss of commercial LNG activities is lower in EUR 2,422 thousand because in the beginning of 2020 the Company became the operator of a liquefied natural gas (LNG) terminal in the Brazilian port of Açu, as well as a long-term contract with the Polish state gas company PGNiG was signed for reserving capacity of Klaipeda LNG distribution station for the next 5 years, starting from Q2 2020.
- Net profit adjusted of regulated LNG activities (EUR 6,665 thousand) is higher by EUR 458 thousand Eur due to lower expenses by EUR 31,851 thousand or by 50,9 per cent (for more details, please see section "Expenses") and lower revenue. The total revenue of the regulated LNG activities in 2020 amounted to EUR 43,395 thousand and is EUR 27,519 thousand or 38.8 per cent lower compared to 2019 due to the reduction of LNG security supplement by EUR 26.8 million since 1 January 2020.

In 2020 **Group's EBITDA** (APM) is EUR 45,935 thousand and is lower by 36.0 per cent or by EUR 25,883 thousand compared to 2019 (EUR 71,818 thousand). EBITDA margin (APM) is 57.3 per cent, for 2019 – 68.8 per cent.

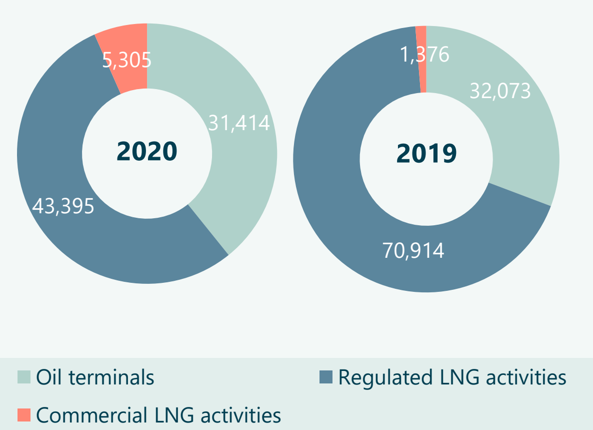
In 2020 **Company's EBITDA** (APM) is EUR 45,058 thousand and is lower by 37.6 per cent or by EUR 27,177 thousand compared to 2019 (EUR 72,235 thousand). EBITDA margin (APM) is 58.2 per cent, for 2019 – 69.4 per cent.

The **adjusted Group's return on assets (ROA**) (APM) is 1.7 per cent in 2020 (2.7 per cent in 2019), the **Company's adjusted return on assets (ROA)** (APM) is 1.7 per cent (2.7 per cent in 2019).

In 2020 the **Group's adjusted** annual **return on equity (ROE)** (APM) is 5.8 per cent (6.5 per cent in 2019), the **Company's adjusted** annual **return on equity (ROE)** (APM) is 5.6 per cent (6.7 per cent in 2019).

SALES REVENUE

THE GROUP'S SALES REVENUE, TEUR



The **Group's sales revenue** in 2020 (EUR 80,114 thousand) was lower by 23.2 per cent or by EUR 24,249 thousand compared to 2019 (EUR 104,363 thousand).

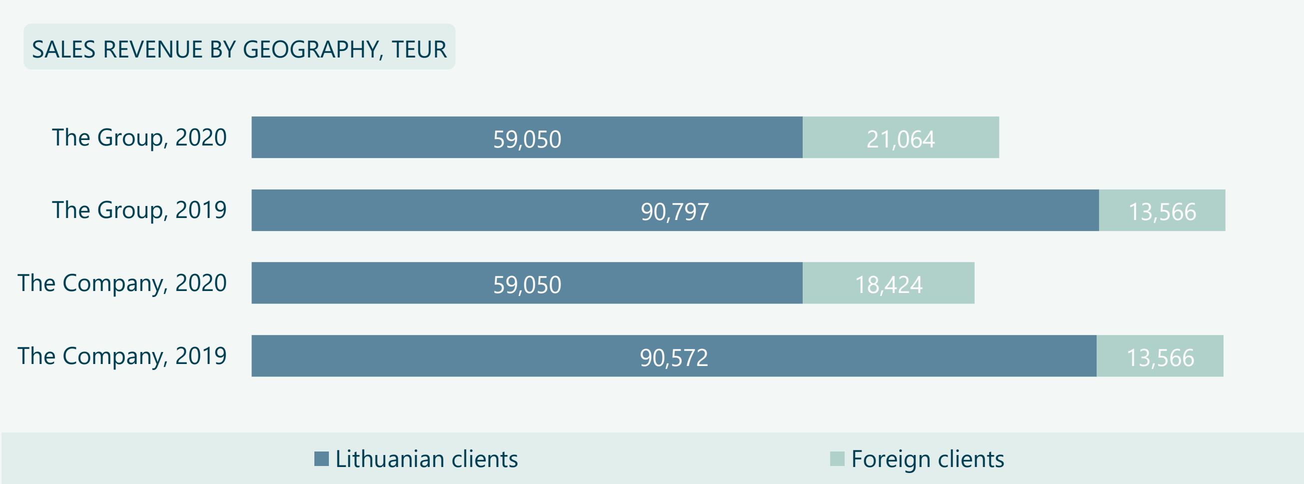
The Company's **sales revenue** in 2020 (EUR 77,474 thousand) was lower by 25.6 per cent or by EUR 26,664 thousand compared to 2019 (EUR 104,138 thousand). The main reason was lower revenue from regulated LNG activities in 2020 due to the reduction of LNG security supplement by EUR 26.8 million starting from 1 January 2020.

The total **revenue of the regulated LNG activities** in 2020 amounted to EUR 43,395 thousand and was EUR 27,519 thousand or 38.8 per cent lower compared to 2019. The activity of LNG terminal is regulated and has a price cap; therefore, return from LNG activity does not depend on regasification volume. For more information, concerning regulated revenues refer to the article *"Regulated profit of LNG terminal"*.

Sales revenue from oil terminals in 2020 amounted to EUR 31,414 thousand and was EUR 659 thousand or 2.0 per cent lower compared to 2019 (EUR 32,073 thousand). The decrease of revenue was influenced by COVID-19 pandemic which had a negative impact on the demand for petroleum products, the period of unfavourable low refining margins around the world has prolonged and the volumes of the transhipment were affected negatively, though partly compensated by increased demand for oil product storage.

Sales revenue from **commercial LNG activities** in 2020 (EUR 5,305 thousand) was in 3.9 times or by EUR 3,929 thousand higher than in 2019 (EUR 1,376 thousand), because in the beginning of 2020 the Company became the operator of a liquefied natural gas (LNG) terminal in the Brazilian port of Açu, as well as a long-term contract with the Polish state gas company PGNiG was signed for reserving capacity of Klaipeda LNG distribution station for the next 5 years, starting from Q2 2020.

Sales revenue by geography is provided bellow. Sales revenue from foreign clients is revenue from the clients not registered in Lithuania.



EXPENSES

2020 and 2019 cost of sales and operating expenses for the Group and the Company:

	2020	2019	CHANGE 2020 VS 2019		2020	2019	CHANGE 2020 VS 2019	
	GROUP	GROUP	+/-	%	COMPANY	COMPANY	+/-	%
Cost of sales	50,960	83,529	-32,569	-39.0%	50,191	82,897	-32,706	-39.5%
Operating expenses	9,811	7,064	2,747	38.9%	8,787	7,054	1,733	24.6%
Total costs	**60,771**	**90,593**	**-29,822**	**-32.9%**	**58,978**	**89,951**	**-30,973**	**-34.4%**

Total **cost of sales of the Group** of 2020 comprises EUR 50,960 thousand and was lower by 39.0 per cent or by EUR 32,569 thousand comparing to 2019 (EUR 83,529 thousand), due to lower depreciation of right-of-use asset by EUR 29,476 thousand. Total **cost of sales of the Company** of 2020 comprises EUR 50,191 thousand and was lower by 39.5 per cent or by EUR 32,706 thousand compared to 2019 (EUR 82,897 thousand). This change is related to the lower depreciation of right-of-use asset by EUR 29,476 thousand and lower expenses of FSRU Independence (hereinafter – FSRU) operation by EUR 2,907 thousand and other expenses by EUR 323 thousand. The significant decrease in depreciation amount in 2020 is related to capitalisation of purchase option as at 31 December 2019, as a result the useful life of right-of-use asset was prolonged from 5 to 25 years.

The **Group's operating expenses** of 2020 comprise EUR 9,811 thousand and were higher by 38.9 per cent or EUR 2,747 thousand compared to 2019 (EUR 7,064 thousand). The main impact to the increase in Group's operating expenses is: impairment of doubtful receivables is higher by EUR 1,634 thousand and salary and social security expenses are higher by EUR 1,068 thousand. **The Company's operating expenses** of 2020 were higher by 24.6 per cent or EUR 1,733 thousand and for the end of the year 2020 comprised EUR 8,787 thousand (EUR 7,054 thousand in 2019). This change is mainly related to the higher impairment of doubtful receivables expenses by EUR 1,634 thousand.

The listing of **the Group's** major expenses is presented below:

	2020				2019				CHANGE 2020 VS 2019	
	OT	LNGT	comLNG	**TOTAL**	OT	LNGT	comLNG	**TOTAL**	+/-	%
Depreciation and amortization	7,253	3,313	1,559	**12,125**	7,480	4,327	1,788	**13,595**	-1,470	-10.8%
Depreciation of right-of-use asset	567	13,752	112	**14,431**	534	43,228	145	**43,907**	-29,476	-67.1%
Expenses related to FSRU rent (OPEX element, management, crew cost)	-	5,615	-	**5,615**	-	8,522	-	**8,522**	-2,907	-34.1%
Wages, salaries and social security	7,609	2,697	2,458	**12,764**	7,064	2,365	1,518	**10,947**	1,817	16.6%
Variable costs (natural gas, electricity, railway services, vessel service expenses and other)	4,058	42	26	**4,126**	6,009	28	35	**6,072**	-1,946	-32.0%
Emission allowances and tax on environmental pollution	339	1,466	-	**1,805**	249	667	-	**916**	889	97.1%
Port charges	4	1,541	1	**1,546**	-	1,529	-	**1,529**	17	1.1%
Work safety costs	274	26	20	**320**	128	10	2	**140**	180	128.6%
Contribution for National Energy Regulatory Council (NERC)	-	972	-	**972**	-	441	-	**441**	531	120.4%
Impairment of doubtful receivables	1,855	-	-	**1,855**	220	-	1	**221**	1,634	739.4%
Impairment of inventories (reversal)	-6	-	-	**-6**	-877	-181	-	**-1,058**	1,052	-99.4%
Other cost of sales and operating expenses	2,418	1,288	1,512	**5,218**	2,241	1,627	1,493	**5,361**	-143	-2.7%
Total expenses	**24,371**	**30,712**	**5,688**	**60,771**	**23,048**	**62,563**	**4,982**	**90,593**	**-29,822**	**-32.9%**

In 2020 **regulated LNG activity expenses** amounted to EUR 30,712 thousand, a major part of which were: depreciation of right-of-use asset expenses amounted to EUR 13,752 thousand and was lower by 68.2 per cent or by EUR 29,476 thousand comparing to 2019 and expenses related to FSRU rent (OPEX element, management, crew cost) amounted to EUR 5,615 thousand that were lower by 34.1 per cent or by EUR 2,907 thousand comparing to 2019.

Other LNG terminal's expenses (staff remuneration, depreciation, jetty lease) amounted to EUR 11,345 thousand and were higher by 4.9 per cent or by EUR 532 thousand comparing to 2019. The emission allowances and tax on environmental pollution increased in 2.2 times or by EUR 799 thousand.

In 2020 the total amount of **Oil terminal's** expenses amounted to EUR 24,371 thousand (2019 – EUR 23,048 thousand) and was higher by EUR 1,323 thousand due to higher impairment of doubtful receivables by EUR 1,635 thousand. The Oil terminals variable costs (gas, electricity, and railroad costs, vessel service expenses and other) were lower by 32.5 per cent or by EUR 1,951 thousand. OT's depreciation and amortization expenses were lower by EUR 227 thousand due to increase in fully depreciated assets.

In 2020 the total amount of **commercial LNG activity expenses** amounted to EUR 5,688 thousand (2019 – EUR 4,982 thousand) and was higher by EUR 706 thousand mainly due to newly established subsidiary's KN Acu Servicos de Terminal.

REGULATED PROFIT OF LNG TERMINAL

LNG terminal, its infrastructure and 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 NERC based on the regulations set in the Energy Law, Natural Gas Law and other laws of the Republic of Lithuania related with energy prices regulation.

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

The revenue of the LNG terminal activity comprises of 3 components:

- Fixed part of LNG regasification service price is approved annually by NERC. This part of the price is included into the additional Security Supplement added to the gas transmission price.
- Variable part of LNG regasification service price is received for the regasified volume directly from the clients. The regasification tariff is approved annually by NERC.
- LNG reloading service revenue for reloaded LNG quantity. The tariff of the LNG reloading service is also approved annually by NERC.

Revenue from LNG regasification (variable part) and LNG reloading service revenue are recognized at the moment of providing the services according to the tariffs approved by NERC.

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

Actual LNG Security Supplement contributions and payments may differ from planned ones (calculated at the approval of Security Supplement) due to the variation of consumption capacities or other differences.

The differences between the net profit of LNG terminal segment (non-regulated) and the profit of the regulated activity are determined by different calculation principles. Financial accounting is in accordance with IFRS, while the result of regulated activities is calculated in accordance with the methodology approved by NERC.

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

The regulated profit of LNG terminal is calculated by adjusting the determined return on investment by income and expenses not attributable for the regulated activity in terms of regulation (which have an effect on financial results).

During the 1st regulatory period (2015-2019) a surplus has been calculated by NERC after the third and the fifth regulatory years. The surplus after third regulatory year (2015-2017) has reduced the level of LNG terminal revenue of 2019 and surplus after fifth regulatory year (2015-2019) reduces the level of LNG terminal revenue of 2021. The identified surplus has reduced LNG terminal revenue of 2019 by 787 thousand EUR and revenue of 2021 by 1 965 thousand EUR.

For the 2nd regulatory period (2020-2024) NERC will calculate the surplus of regulated profit after two periods (2020-2021) and will reduce the level of LNG terminal revenue of 2023.

IMPACT OF IFRS 16 AND CAPITALISATION OF PURCHASE OPTION

As at 31 December 2019 the Group and the Company has capitalized purchase option under the lease agreement. According to IFRS 16 requirements, lessee should remeasure lease liability of each agreement upon the occurrence of either a significant event or a significant change in circumstances at each financial statements' date. It is the duty of the management to re-evaluate the probability to realise the purchase option at each financial statements' date in the upcoming reporting periods and in circumstances if any changes occur, it has to be reflected in the financial statements respectively. During the year 2020 no significant events and circumstances have occurred that would have the impact and respectively no changes in finance lease accounting under IFRS 16 requirements have been made as at 31 December 2020.

During the year of 2019 the following significant events have happened that determined the need to reassess the probability of realizing the purchase option:

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

While evaluating the probability to realize the purchase option the management of the Company has considered a number of economic, size and FSRU technological circumstances, which has shown that:

- Currently used FSRU is economically most favourable when compared to the 1) availability; 2) price factors of the same size and functionality of new and used FSRUs and conversions of LNG carriers and 3) possible additional investments needed for any other FSRU;
- In terms of size the industry is currently being equipped by modern 170-180 tm3 FSRUs and LNG carriers, enabling to unload to FSRU full cargo of conventional size LNG carriers (140-180 tm3) and not limiting LNG suppliers' interest in using the terminal;
- Current terminal size and parameters are needed in order to meet N-1 criteria for energy security, i.e. to ensure gas supply in the event of failure of the largest supply infrastructure during highest daily demand;
- Technologically currently used FSRU has the technology that is still regarded as advanced/not obsolete in comparison with other developments and can easily accept "green gases" and remain functional in the context of the EU "green policy" decisions in a long term;
- In 2020 implemented dry-dock has confirmed that currently used FSRU is in good condition and is designed to be operative for at least 25 more years.

As at 31 December 2020 the aforementioned conditions are still applicable and have not changed. Moreover

- On 20th November 2020 European Commission has approved state aid consent regarding acquisition of LNG floating and storage unit. The decision of the European Commission secures Company's ability to make a withdrawal of funds under the Loan agreement concluded between the Company and Nordic Investment Bank on 9 March 2020.

Therefore, from the current point of view, the management of the Company is reasonably certain that the purchase option of lease contract will be realized. As a result, no changes in purchase option accounting as at 31 December 2020 have been made.

The management of the Company ensures that the transparent FSRU selection process will be organized in order to choose the most economically favourable option, as required by the Law and decision of the Board.

FINANCIAL RISK MANAGEMENT

FOREIGN EXCHAGE RATE RISKS

Due to the specifics of the business, the Group and the Company are exposed to the risk of EUR/USD foreign exchange rate fluctuations due to FSRU lease payments in US dollars and to the risk of EUR/BRL foreign exchange rate due to activity of subsidiary KN Acu in Brazil. The Group and the Company hedge against changes in EUR/USD exchange rates by using futures contracts. When derivatives are realized, the result is recorded in the profit (loss) statement of each calendar month. For 2020 the Group and the Company accounted EUR 1,869 thousand loss on the fair value change of derivatives. For 2019 the Group and the Company accounted EUR 78 thousand loss on the fair value change of derivatives. The fair value as at the end of reporting period is confirmed by SEB bank. The maturity term of future agreement is 31 December 2021.

CREDIT RISKS

A possible credit risk of the Group's and the Company's customers is managed by a continuous monitoring of outstanding balances. The Group's and 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. More information about the exposure to credit risk for trade receivables from the customers can be found in the Note 26 of the Explanatory Notes in the financial statements.

INTEREST RISKS

The Group's and the Company's income and operating cash flows are influenced by changes in market interest rates, which are linked to EURIBOR base. Overall, 73% of loan portfolio is exposed to floating interest rate risk; no hedging derivative instruments were used. Thus, such standing has implications on financial results.

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

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

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

More information about the interest risk can be found in the Note 26 of the Explanatory Notes in the financial statements.

LIQUIDITY RISKS

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

The Group's gross liquidity (APM) and quick ratios (APM) as of 31 December 2020 were 1.47 and 1.43, respectively (1.27 and 1.24 as at 31 December 2019).

The Company's gross liquidity (APM) and quick ratios (APM) as of 31 December 2020 were 1.41 and 1.37, respectively (1.21 and 1.17 as at 31 December 2019).

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

More information about the management of liquidity risk can be found in the Note 26 of the Explanatory Notes in the financial statements.

INVESTMENTS

The most important investment projects of 2020:

NO.	PROJECT	INVESTMENTS IN 2020 (INCL. PREPAYMENTS)	PROJECT DESCRIPTION
1.	Modernization of jetty No. 1 and No. 2	EUR 1.8 million	Reconstruction of berth No. 1 phase I construction works were continued throughout the year 2020 – suprastructure installation and construction works are underway, installation of berth load-bearing structures and engineering networks, technological pipelines are pursued.
2.	Vapor collection from railway trestles and HFO tank park	EUR 1.2 million	Environmental safety related project for the purpose of collecting vapor generated during transhipment process in railway trestle and HFO tank park and transition to existing vapor utilization facilities. During the year 2020 mechanical works were fully completed, instrumentation and electrical works are initiated.
3.	Klaipėda oil terminal LFO tank park expansion	EUR 0.8 million	During 2020 Klaipėda oil terminal LFO tank park expansion stage was finished - new 4x20,000 tanks; 2x10,000 and 4x5,000 tanks mechanically fully finished, pipeline construction works are completed, final equipment tests and adjustments are underway.
4.	Renovation of automatic control system	EUR 0.7 million	Automatic control system responsible for transhipment processes in Klaipėda oil terminal HFO tank park, oil product pumping stations and railway trestle were renovated throughout 2020.
5.	Boiler No. 1 and No. 2 fuse replacement	EUR 0.3 million	Replacement of fuses of heat production boilers, used in oil terminal activities due with new ones to comply with the new regulations of emission limit requirements for combustion plants.

ACTIVITY PLANS AND FORECASTS

On 13th February 2020 the Supervisory Council of the Company has approved corporate strategy of the KN until 2030. The main directions of the strategy are international LNG projects, strengthening the competitiveness of oil terminals and developing Klaipėda as an LNG service center in the Baltic region. KN corporate strategy until 2030 is available at: 2030.kn.lt/en.

For the Group and the Company year 2020 was unconventional in many ways. At the beginning of the year a subsidiary company in Brazil has been set up and activities of providing O&M service for the LNG terminal in the port of Açu have been started which brings KN closer to its long-term goals.

On the other hand, the COVID-19 virus puts a lot of pressure on the oil refining margins; the economies globally are not showing fast recovery signs for oil products demand increase.

In December 2020, AB Klaipėdos nafta has received the notification from its client BNK (UK) Limited regarding the temporary suspension of concluding new contracts for the export of oil products through the port of Klaipėda. Terms of the tenders announced by the Belarusian refineries in January 2021 does not include the port of Klaipėda as a delivery destination for their products sold. Belarusian oil products cargo in February 2021 and subsequent periods is not nominated through the port of Klaipėda as well.

Transhipment revenue from Belarus oil products comprised 12.5 % of total revenue of the Group in 2020, therefore the developments related to transhipment of oil products from Belarus changes the Group's and the Company's assumptions for transhipment volumes and revenues from Belarus cargo are not planned and forecasted for 2021 accordingly. Nevertheless, the Group and the Company is estimated to be profitable despite the negative impact of decrease in oil products transhipment. The valuation of property, plant and equipment of oil business segment has been made and no indications of possible impairment as at 31 December 2020 identified.

A decrease in transhipment of oil products from Belarus is partially compensated by oil products' storage services, the demand for which has grown significantly during 2020 due to the coronavirus pandemic. The management of the Group and the Company anticipates a continuity of demand for the lease of oil terminal tanks for medium and long-term storage of products. Several contracts for such services, including contracts for the lease of petrol tanks, which will allow the Group and the Company to employ infrastructure used for transhipment of oil products from Belarus, are already concluded. The management of the Group and the Company see this as a stable alternative to the handling of oil products.

Reacting to the anticipated decrease in transhipment of oil products, the Company has reviewed its investment plans for 2021, deferring investments that are not related to business continuity. The Company undertake projects related to cost reduction and operational efficiency and will continue its main focus on diversifying the portfolio of services and products in oil terminals activities and activities in international LNG projects.

In light of the events of 2020, the aforementioned goals set in the corporate strategy 2030 are as important as never before and have proven to be the right ones. However, the Company will have to transform its activities faster than it has been expected in the initial strategy assumptions (for more details on the strategic goals please see the section "the corporate strategy" of the 2020 annual report). The Group and the Company aims at having several equivalent activities that contribute to the return for the shareholders, thus reducing the potential short-term negative impacts on one or another business segments. Therefore, innovations and exploring new business opportunities, diversification of business activities are high on the agenda for 2021, as well as environmental, social and governance aspects of business management.

INFORMATION ABOUT THE SHAREHOLDERS AND SHARES OF THE COMPANY

SHAREHOLDERS AND SHARES OF THE COMPANY

THE MAIN DATA ABOUT SHARES OF THE COMPANY:	
ISIN code	LT0000111650
Abbreviation	KNF1L
Share emission	381,052,393

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

SHAREHOLDERS OF THE COMPANY

As at 31 December 2020 all the shares of the Company were owned by 3,444 shareholders (on 31 December 2019 – 2,646). All shares of the Company are of one class ordinary registered shares granting their owners (shareholders) equal rights. One ordinary registered share of the Company grants one vote in the General meeting of Shareholders.

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

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

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

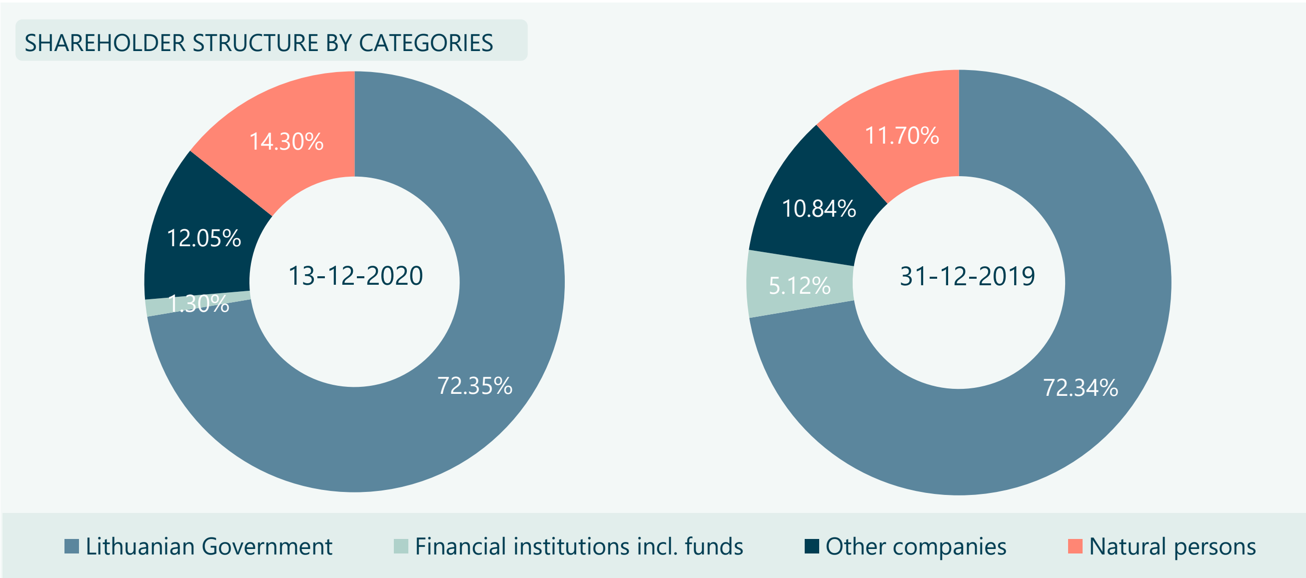
1. To attend the General Shareholders' Meetings and to vote according to voting rights carried by their shares (unless otherwise provided for by the laws);
2. To receive information on the Company to the extent allowed by the imperative norms of the valid laws;
3. To file a claim with the court for reparation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

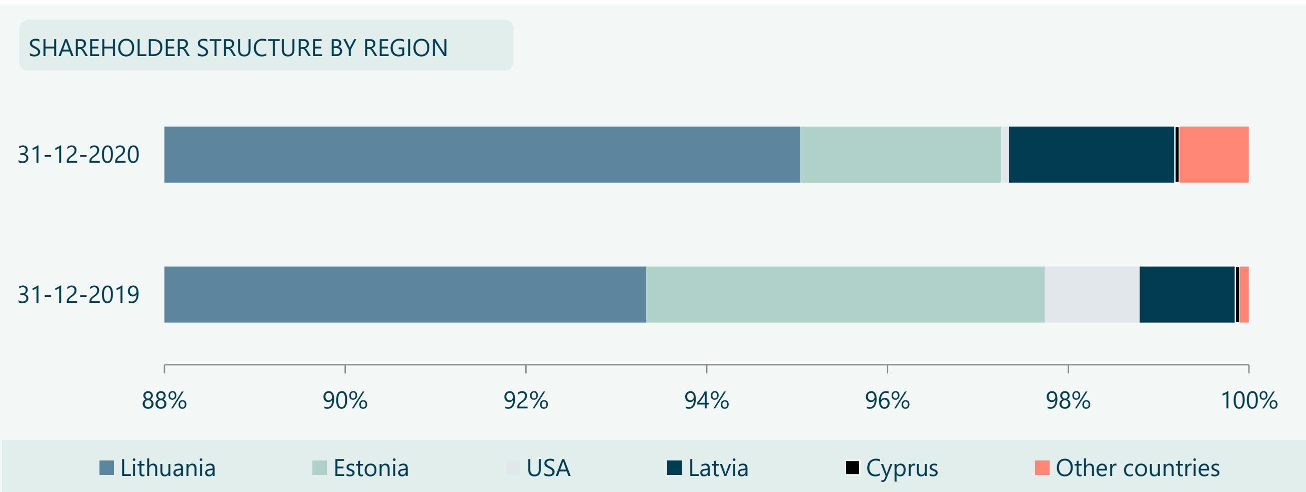
The Company has not been informed about mutual agreements of its shareholders which could limit the transfer of securities and (or) right of vote.

Major shareholders of the Company having more than 5% of shares (each) of the Company as at 31 December 2019 and 2020:

SHAREHOLDER'S NAME (COMPANY'S NAME, ADDRESS, COMPANY CODE OF REGISTRATION)	31 DECEMBER 2020		31 DECEMBER 2019	
	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)	275,687,444	72.35%	275,587,444	72.34%
Concern UAB Achemos grupė (Vykinto st. 14, Vilnius, 156673480)	39,662,838	10.41%	39,650,338	10.41%
Other (each owning less than 5%)	65,702,111	17.24%	65,714,611	17.25%
Total	**381,052,393**	**100.00%**	**380,952,393**	**100.00%**

SHAREHOLDERS STRUCTURE BY CATEGORIES AND BY THE REGIONS:

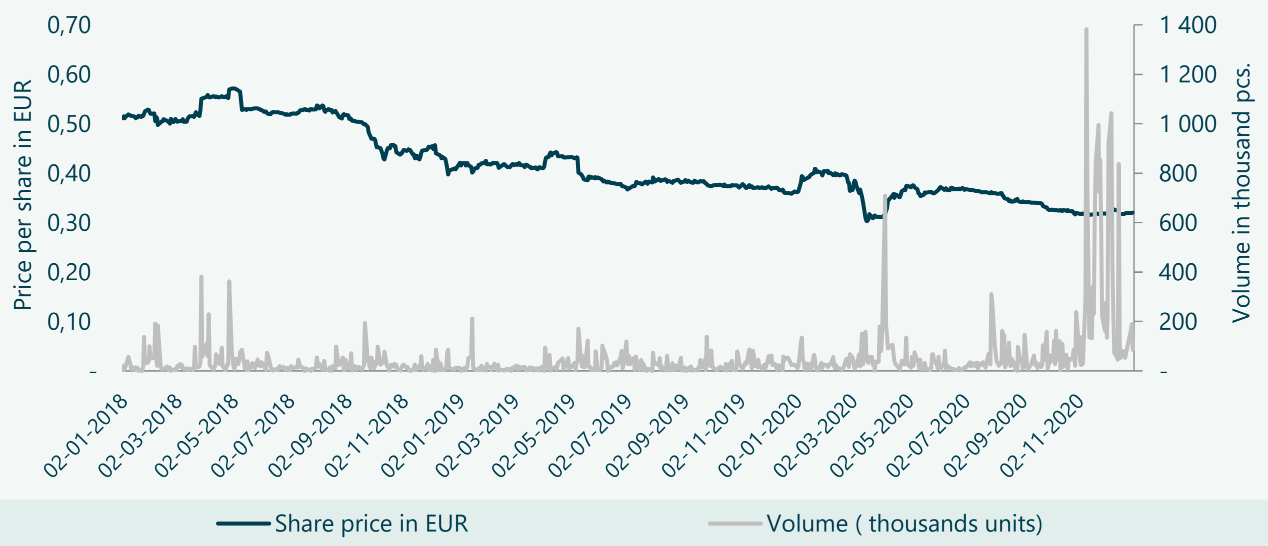




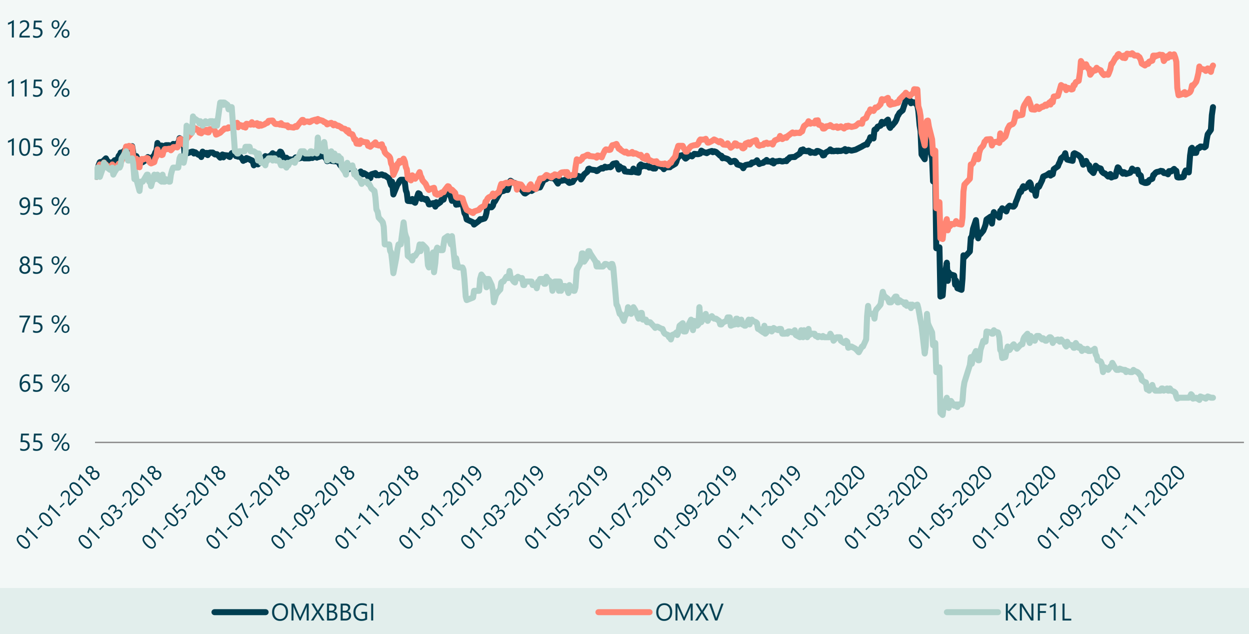
Dynamics of KNF1L share price at NASDAQ Vilnius during 2016 – 2020:

	2020	2019	2018	2017	2016
Highest share price in EUR	0.414	0.444	0.574	0.572	0.705
Lowest share price in EUR	0.301	0.357	0.386	0.428	0.360
Price per share at the end of the period in EUR	0.320	0.362	0.410	0.508	0.538
Average share price in EUR	0.331	0.393	0.502	0.490	0.505
Traded volume, pcs.	23,934,244	5,908,666	6,936,769	10,501,664	17,879,294
Turnover in EUR thousand	7,928	2,296	3,552	5,083	8,730
Capitalisation in EUR thousand	121,920	137,875	156,049	193,348	204,766

TRADING IN KNF1L SHARES ON NASDAQ VILNIUS STOCK EXCHANGE IN 2018-2020



KNF1L SHARE PRICE COMPARISON WITH OMX VILNIUS AND OMX BALTIC BENCHMARK GI IN 2018 - 2020



AUTHORIZED SHARE CAPITAL OF THE COMPANY

The Company's authorized share capital amounted to EUR 110,505 thousand as of 31 December 2020 (EUR 110,476 thousand as of 31 December 2019). All the shares of the Company are fully paid. The authorized capital is divided into 381,052,393 ordinary shares with a nominal value of 0.29 Eur. On 9 July 2020 amended Articles of Association of the Company were registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorized capital to EUR 110,505 thousand.

During 2020 the Company did not acquire any of its own shares and at the end of the year 2020 had a balance of own shares of EUR 267 thousand (655,808 units).

DIVIDENDS

On 28th April 2020, the ordinary General Meeting of Shareholders has been held which approved the audited financial statements and profit distribution of 2019. In 2020 the Company has paid dividends in amount of EUR 7,947 thousand or EUR 0.0209 for one share from the profit of 2019 (in 2019 the Company paid EUR 11,577 thousand dividends or EUR 0.0304 for one share).

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

	2020	2019	2018	2017	2016
Dividends paid in EUR thousand	7,947	11,577	17,031	9,656	17,629
Dividends per one share in EUR	0.0209	0.0304	0.0447	0.0254	0.0463
Net profit per 1 share in EUR	0.02	0.03	0.04	0.04	0.06
Dividends for net profit (of previous FY), %	100%	100%	100%	70%	80%

DIVIDEND POLICY

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.

The Company sets the goal to increase the shareholders' value and pay stable dividends. The main objectives for a Dividend Policy are:

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

AB Klaipėdos nafta Dividend Policy is based on the existing legislation of the Republic of Lithuania (including, but not limited to, the Lithuanian Government Resolution of 14th January 1997 No. 20 on the dividends for the state-owned shares (Official Gazette., 1997, no. 6-102, 2012 No. 42-2054) (hereinafter – the Resolution), the Company's Articles of Association and other Company's internal documents.

According to the art. 2.1. of the Resolution dividends for the financial year should be allocated as follows:

- 2.1.1. not lower than 85 % from the Company's distributable profit if ROE of the financial reporting year is not higher than 1 %.
- 2.1.2. not lower than 80 % from the Company's distributable profit if ROE of the financial reporting year is higher than 1 % but not higher than 3 %.
- 2.1.3. not lower than 75 % from the Company's distributable profit if ROE of the financial reporting year is higher than 3 % but not higher than 5 %.
- 2.1.4. not lower than 70 % from the Company's distributable profit if ROE of the financial reporting year is higher than 5 % but not higher than 10 %.
- 2.1.5. not lower than 65 % from the Company's distributable profit if ROE of the financial reporting year is higher than 10 % but not higher than 15 %.
- 2.1.6. not lower than 60 % from the Company's distributable profit if ROE of the financial reporting year is higher than 15 %.

According to the art. 4.5 of the Company's Dividend Policy, the Board of the Company shall consider the following on a yearly basis:

- the Company's net profit.

- the financial indicators for assessment of the Company's current financial position (net debt / EBITDA, DSCR, ISCR, Equity ratio).
- the Company's performance of the current period to ensure the scope of funds needed for the smooth operation.
- the scope of equity and loan necessary for strategic and investment projects' implementation.
- any financial and non-financial liabilities for the Company investors.
- the stock market situation related to dividend income.
- the Strategy of the Company.

Dividend rate may be adjusted in the following cases:

- a significant change in the Company's forecasted financial condition and results.
- a change in plans for strategic, investment projects, their scope, or their financing.
- a change in the Lithuanian legislation regulating the payment of dividends to the shareholders of the Company.
- the Government of the Republic of Lithuania, in accordance with the Resolution provisions, shall decide on the payment of different dividend rate.

The full Company's Dividend Policy is available here.

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 GROUP

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 empowers personal growth and creates additional value for the company and its stakeholders.

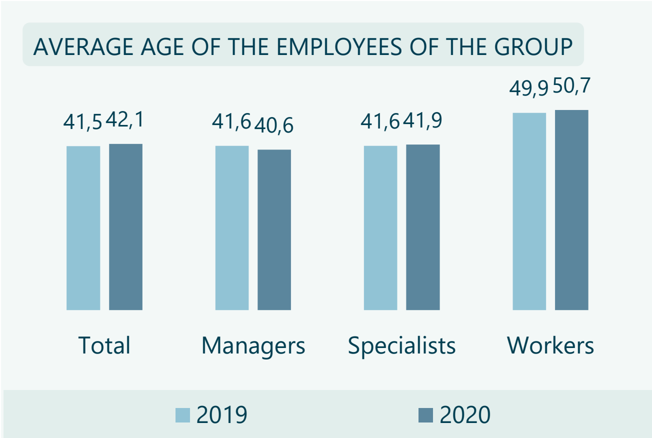
Number of the Group employees at the end of the year:

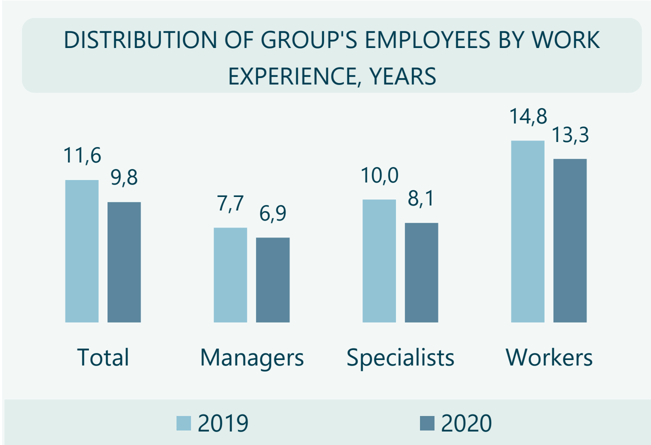
	31-12-2020	31-12-2019	CHANGE, %
AB Klaipėdos nafta	383	359	6.7
UAB SGD terminalas	2	2	-
UAB SGD logistika	2	2	-
UAB SGD SPB	2	2	-
KN Acu Servicos de Terminal de GNL LTDA	22	0	100
Total	**411**	**365**	**12.6**
Remarks: - The number of employees does not include employees on maternity/paternity leave.			

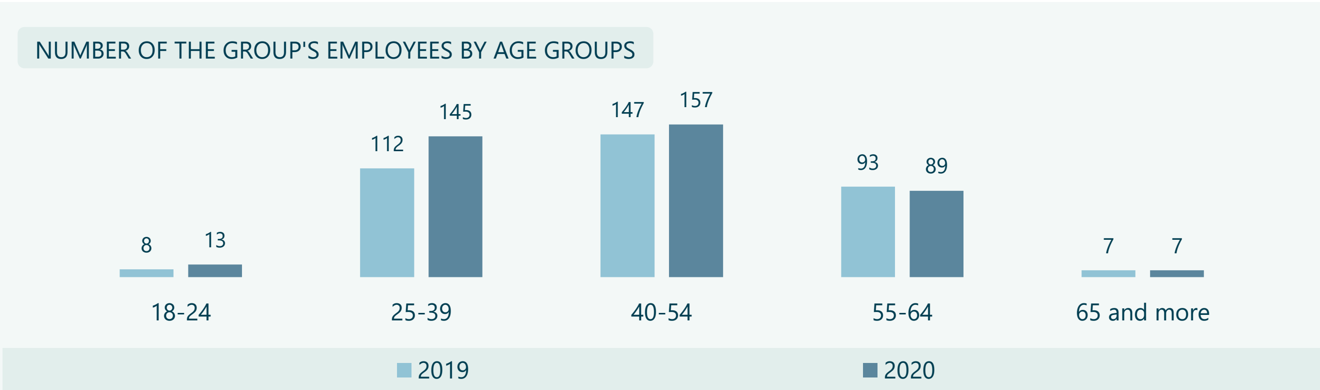
The breakdown of the number of the Group and the Company employees by gender as at 31 December 2020:

	FEMALES	%	MALES	%
AB Klaipėdos nafta	94	24.5%	289	75.5%
UAB SGD terminalas	1	50.0%	1	50.0%
UAB SGD logistika	1	50.0%	1	50.0%
UAB SGD SPB	1	50.0%	1	50.0%
KN Acu Servicos de Terminal de GNL LTDA	2	9.1%	20	90.9%
Total	99	24.1%	312	75.9%

The average age of the Group's employees – 42 years. Detailed information about employees' age, work experience and education are provided in Figures bellow in years.







Education of the Group's employees by categories:

EMPLOYEE CATEGORY	EMPLOYEES ON 31-12-2020	UNIVERSITY	VOCATIONAL	SECONDARY AND OTHER	EMPLOYEES ON 31-12-2019	UNIVERSITY	VOCATIONAL	SECONDARY AND OTHER
Managers [1)]	50	48	2	-	44	42	2	-
Specialists	215	183	17	15	181	149	17	15
Workers	146	15	49	82	142	10	51	81
Total	**411**	**246**	**68**	**97**	**367**	**201**	**70**	**96**

1) The managers of the Company include: Chief Executive Officer (CEO), Directors, Functional Managers and Heads of Divisions

PAYROLL SYSTEM AND REMUNERATION POLICY

The Company seeks to create motivating, efficient, fair, transparent, and easy to understand compensation system which aims to attract, retain, and motivate employees whose skills and work results help the Company to successfully develop and implement its mission and achieve strategic business objectives. Therefore, in September of 2016 the Employee Remuneration Policy has been formed and approved, on September of 2017 The Procedure of Remuneration System Formation has been approved. Starting, from January of 2018, the remuneration structure has been changed and in November of 2018 Rules for Granting Shares have been approved, in March of 2019 Procedure of the Program for Employee's pension saving in Pension Funds has been approved.

The Employee Remuneration Policy defines the principles of determination and payment of remuneration as well as the incentives of employees. The remuneration policy applies to all employees of the Company.

The goals of the Remuneration Policy are to:

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

The remuneration of the employee 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 Methodology, determining the weight of each position (to ensure fair remuneration for work within the Company). The amount of the monthly remuneration for the position is determined by assessing the level of knowledge and work experience required to perform the functions of each position, the complexity of the functions, the degree of responsibility and management level, the impact / risk on the Company's performance, working conditions. In order to ensure the competitiveness of the remuneration of the Company's employees and to promote the achievement of results, the remuneration (fixed and variable remuneration components) focuses on the range of the 50th and 75th per centiles of the remuneration market of foreign capital companies operating in Lithuania. 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.

Remuneration is reviewed once a year taking into account: Lithuanian labour market trends; the Company's performance results; The results of the evaluation of the Company's employees; demand - supply situation for jobs important to the company in the labour market.

Detailed information on the remuneration system of the Company's management is provided in 2020 AB Klaipėdos nafta Report on Remuneration.

The breakdown of employee related expenses (EUR thousand) of the Group:

	2020	2019	CHANGE, %
AB Klaipėdos nafta	11,900	10,940	8.8
UAB SGD terminalas	3	3	-
UAB SGD logistika	3	3	-
UAB SGD SPB	3	1	200.0
KN Acu Servicos de Terminal de GNL LTDA	855	-	100.0
Total	**12,764**	**10,947**	**16.6**

Employees according to categories:

EMPLOYEE CATEGORY	AVERAGE NUMBER OF EMPLOYEES					
	GROUP 2020	GROUP 2019	CHANGE, %	COMPANY 2020	COMPANY 2019	CHANGE, %
Managers [1)]	48	43	11.6	42	41	2.4
Specialists	210	183	14.8	188	181	3.9
Workers	142	147	-3.4	142	147	-3.4
Total	**400**	**373**	**7.2**	**372**	**369**	**0.8**

[1)] The managers of the Company include: Chief Executive Officer (CEO), Directors, Functional Managers and Heads of Divisions

All the Company's employee's average monthly salary of 2020 increased comparing to 2019, because around 50% of bonus has been paid out in shares in 2019 and another part has been transferred to the 3rd pension fund.

EMPLOYEE CATEGORY	AVERAGE MONTHLY SALARY (GROSS), EUR					
	GROUP 2020	GROUP 2019	CHANGE, %	COMPANY 2020	COMPANY 2019	CHANGE, %
Managers [1)]	5,507	4,701	17.2	5,719	4,744	20.5
Specialists	2,511	2,281	10.1	2,552	2,286	11.7
Workers	1,741	1,621	7.4	1,741	1,621	7.4
Total	**2,543**	**2,280**	**11.6**	**2,574**	**2,282**	**12.8**

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 Group's managers in 2020: EUR 3,137 thousand, in that amount taxes paid by the employer included EUR 103 thousand (when in 2019 were EUR 2,827 thousand from which EUR 48 thousand of taxes paid by the employer). The average annual salary of manager of the Group amounted to EUR 65.3 thousand in 2020 (in 2019 - EUR 65.7 thousand).
2) The average monthly salary is calculated according to the average monthly wage calculation procedure as stated in the State companies' employees' average monthly salary calculation procedure approved by the Government of Lithuania on 23 August 2002, resolution No. 1341 and its subsequent changes.

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, service director or for the Company. Annual employee performance review together with periodic and frequent 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 annual goals as well as set the new goals and form the feedback culture, strengthen collaboration and unity between a supervisor and a subordinate. In 2020 implementation of Asaichi methodology being one of the three LEAN tools initiated in the company brought even better performance management when KPIs have been reviewed and actioned with personal accountability on a daily basis. Annual performance review meetings, on the other hand, allow to review entire year with the step back for s review of competence development, learning opportunities, and career review and aspirations.

EMPLOYEE SELECTION AND RECRUITMENT

In April 2020 the Company has approved an Employee Selection and Recruitment procedure whose purpose is to standardize the employee selection process and ensure efficient and effective procedures for organizing the selection of KN personnel (employees and trainees) in order to successfully achieve the objectives of KN - to select employees who recognize the values of KN and have the greatest potential to achieve the objectives set for them.

In order to ensure that the objectives set out in KN's strategy are met, an assessment and planning of staffing needs must be carried out. Each year management of the Company draws up a staffing plan for the upcoming year. The plan takes into account the workload of staff, the need for new posts (due to organizational changes or legal requirements), staff mobility (transition from one staff post to another) and natural change (retirement, parental leave, etc). The main steps of the recruitment process include the evaluation of need for employee, determination of required competencies, search and attraction of potential candidates, job interviews, final decision, and preparation of the offer.

EMPLOYEE SATISFACTION AND ENGAGEMENT

For the last six years the Company conducts personnel surveys 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 2020 revealed that 67 per cent of employees (in 2019 – 60 per cent) are fully satisfied with their work environment, the Company, and its culture. This indicator exceeds of Lithuania organizations employee satisfaction of satisfaction with the work (55 per cent).

The Company is measuring the level of engagement as it believes that colleagues who are engaged in their job, are more likely to do it easier, feel happier, are more innovative and accordingly generate greater returns to shareholders by effectively implementing corporate strategy and achieving the goals. Engagement level went up from 69% in 2019 to 75% in 2020. The result of KN exceeds the average level of work engagement in Lithuanian organizations (60%) in 2020.

PRINCIPLES OF EMPLOYEE COMPETENCE DEVELOPMENT

KN education system is designed to promote the development of employees both independently and through the learning processes of strategically important knowledge and skills that are part of the curricula. All employees are given the opportunity to participate in the programs. The implementation of KN education system is based on 6 principles: link with business strategy, cooperation between departments, identification of needs based on assessment of employees' competencies, measurement of learning effectiveness, integration of education with other processes and selection of appropriate educational tools.

15% of annual learning and development budget is allocated to fund employees with various formal studies at different Universities.

For the last three years Company conducts 360-degree feedback study for managers. Following the method, KN Managers receive feedback on their behaviour according to the Company's values and leadership competencies from people who work with them. Based on survey results Managers create their Personal development plans and thus grow to be even better leaders for their teams.

GROUP'S SOCIAL RESPONSIBILITY

In February 2020, KN introduced a new business strategy for the period till 2030. It is established, that one of the key principles is the pursuit of sustainable and responsible activity in each of the business segments. From KN point of view, in order to be successful and responsible member of the society in the long-term perspective, one should adhere to principles of business sustainability and take responsibility for building the path for future. The Company understands that all its activities can contribute both to well-being or distress for future generations and therefore strives for own environmental, social and governance consciousness.

Based on the nature of the Company's operations and long-term strategy, as well as business risks and opportunities, KN identifies following key areas of the organization's efforts:

IN OUR OPERATIONS, WE FOCUS OUR RESPONSIBILITY (IN A BROAD SENSE) ON THE FOLLOWING MAIN AREAS

ECONOMIC RESPONSIBILITY

KN is the company of the strategic importance for energy security of Lithuania and the surrounding region, which ensures the possibility to import oil and liquefied natural gas into Lithuania and neighbouring countries, as well as the storage of the mandatory oil product reserve of the Republic of Lithuania, and a reliable and efficient transhipment of oil products in the port of Klaipėda. The Company will be also responsible for operating and management of LNG terminal in the port of Açu in Brazil, which will supply natural gas and electricity to the Brazilian market. We understand role of our activities in contributing to sustainable economic growth in the regions where we are operating through taxes, employment policies, education initiatives, business innovations and etc. both directly and indirectly.

Given the strategic function of the Company, KN is driven by the goal to increase shareholder value and to represent fair and conscious business practices in the market. Company is continuously strengthening the excellence of the company's management and implementing the highest management and corporate governance standards and principles to create tangible benefits for the state and its people. In 2020 the Company was announced as one of ten most valuable state-owned companies in Lithuania. In the top 100 most valuable Lithuanian companies list compiled by news portal 15min KN took 34th place. Furthermore, the Company is continuously listed among biggest taxpayers. Despite the challenges brought by global pandemic, according to the Lithuanian State tax inspectorate, in 2020 KN established itself in the 4th position among other 500 hundred companies.

KN's focus on good governance and unconditional pursuit of best practices were highly evaluated in the assessment regarding listed companies' compliance with Nasdaq Vilnius Corporate Governance Code, which was initiated by the Lithuanian Central Bank as a supervisory authority for the listed companies. KN has been evaluated as one of the Nasdaq compliant among all 26 Lithuanian listed companies and compliance has been met in all 10 Principles of Nasdaq Vilnius corporate governance code. In addition, in February 2021, KN was recognized as one of the top 10 best investor relations companies listed at Nasdaq Baltic stock exchange. Nasdaq Baltic Awards assess companies for excellence in the areas of transparency, corporate governance, and investors relations.

KN supports free and fair competition in our industry while striving to deliver superior commercial solutions to our customers. Good governance practices were reinforced within the Company by the upgraded Code of Conduct, which is applied in all the markets the Company operates in.

In the light of fair competition, KN maintains zero tolerance for the corruption. In 2020 the activities in all business segments were assessed through the lens of corruption risk and 28 activities and processes from the corruption risk list were revised. The company has initiated 5 internal corruption prevention trainings, which were attended by 60 employees. There were no corruption incidents in the company in 2020. Additionally, 18 business counterparties were contacted to get them acquainted with KN anticorruption policy and to get their commitment to follow the policy.

KN has also joined initiative of Transparency Academy, initiated by the office of President of the Republic of Lithuania. Aim of the Academy is to encourage companies to share best practices in the field of corruption prevention and get insights and practical advice from experts.

RESPONSIBILITY TO EMPLOYEES

The Company's main asset is its employees, who are the most important link to the achievement of Company's goals. They are at the centre of our performance with technology. Company's personnel policy is focused on the development of teamwork and unity, constant progress, the optimal use of work resources, training of staff competencies, and development of the engaging culture that creates higher added value and enables personal and company growth.

We promote diversity within our workforce and an inclusive working environment. A variety of ideas, perspectives and talents are essential for long-term success, so we support diversity as it is an important asset and a crucial resource for innovation and competitiveness, that allows each of us to fully participate and contribute to KN success and to ensure that business operates effectively and captures the appropriate growth opportunities. The Company employs, assesses, promotes, and compensates based on competencies and performance, not on bias or personal preference. We reject all forms of discrimination.

The Company provides a working environment that meets the strict standards of safety at work and well-being of its employees. We foster such an environment, where every employee is treated equally, respected and empowered to unleash their potential.
The Company's remuneration system is based on job structure made using Hay methodology and by benchmarking pay values against foreign capital companies within Lithuanian market to ensure that each employee in KN is rewarded fairly and competitively. KN is one of very rare examples in the Lithuanian market, involving jobholders into the job measurement process – when a job is (re)evaluated, external consultants (Hay methodology experts from Korn Ferry), direct manager and one jobholder of the specific job jointly discuss the factors defining Hay level: range of knowledge and experience required for the job, the complexity of functions, spectrum of tasks, degree of responsibility, freedom in decision making, etc. Salary ranges (Min – Mid- Max) are set for each Hay level by benchmarking them to P50 and P75 of market values and reviewed and adjusted yearly. Aim of the company is to ensure competitiveness of the employees' pay in the market, internal equity of remuneration and eliminate possibility of discrimination on any ground (age, gender, etc).

Working with terminal infrastructure, health and safety issues are KN's top priority. KN provides and maintains a health and safety management system, which is used to ensure high safety performance based on national legislation, best industry practice and sets clear commitment, objectives, responsibilities as the Operator of the terminals. Created Safety management system requires strong management commitment and employee involvement and continuous improvement. In 2020 KN has been certified according to ISO 45001:2018 standard for all Terminals activities in Lithuania including international business development. For KN Açu terminal activities certification process for ISO 45001:2018 standard already started and planned to be certified in 2021.

CORONAVIRUS PREVENTION

Right after the state-level emergency was declared in Lithuania in March 2020, the Company adopted a range of health safety precautions for its employees and partners. Employees of the Company, whose duties allows it, work remotely. For the employees, who cannot work remotely, additional health safety measures are provided and proper health safety related practices in the terminals of the Company have been implemented. All measures are being reviewed and updated regularly. Also, at the beginning of the pandemics, when there was a shortage of personal protective equipment, the Company provided sets of protective equipment not only for the KN employees, but also for their family members to decrease anxiety among employees and to increase safety within terminals of the Company.

Despite all the uncertainties brought by the pandemic, KN is proud to be among top 20 employers in Lithuania. The rating is compiled annually by the business newspaper "Verslo žinios".

SOCIAL RESPONSIBILITY

In all our global activities, we strive for sustainability and face up to our socio-environmental responsibility. We work on strong and enduring relationships with the local communities where KN operates and strives for being a good corporate neighbour with its corporate initiatives.

In 2020, most attention were focused on dealing with impacts of coronavirus pandemics. At the very beginning there was a lot of uncertainty, neither business nor government were prepared for the coronavirus outbreak. In March and April Lithuanian medical workers faced shortages of personal protective equipment (PPE). Therefore, KN has shared its own supplies with local hospitals and institutions, that were in need for PPE to carry on their duties. When the supply chains broke globally, it was the most needed help for the community from the business perspective. KN has also joined initiative by business associations for purchasing medical equipment to hospitals and medical institutions. Equally important was sharing Company's best practices with other businesses to cope with coronavirus in the workplace to strengthen resilience of business community against the effects of the pandemics.

Although pandemics broke the routines of direct meetings, KN has continued the dialogue with its neighbouring communities. In total three meetings were arranged to discuss matters, important for the neighbouring communities, to answer questions that concerned them. Moreover, KN has been mediating a discussion helping the communities to voice their concerns for other companies and institutions.

The Company has also maintained its focus in education initiatives, especially through volunteering and knowledge sharing with youngsters. KN has been cooperating with National Academy of Pupils and Lietuvos Junior Achievement for several years now and there were no exceptions in 2020. The Company encouraged team members to meet young people to talk about career development, give advice on how to prepare for the future careers. We have also welcomed a group of students visit and meeting at the KN lab to show how science is translated into the business operations. At the end of the year KN has signed other partnership – with a non-profit agency Klaipėda ID to cooperate on encouraging interest of young people in science and its practical applicability.

Last but not least, even in the year of the remote work, KN continued encouraging its team to engage in corporate volunteering. As previously, KN chose to donate funds, otherwise devoted for corporate Christmas presents, for the elders in need. The company initiated the project "Let's light up the smiles", which matched a secret dream of the elder person with a KN employee (or a team), who was eager to fulfil the dream. The project provided positive emotions so needed in the lockdown and within limited social contacts.

The team in Brazil, on its own turns, has contributed with the donation of 166 toys for socially vulnerable children in the local community.

As the Group we respect human rights and ensure that we do not contribute to human rights violations. No human rights violations were recorded in the company's activities in 2020.

Since 2020 KN started preparing unaudited CSR Report, which provides non-financial information on Group's corporate social responsibility activities to all stakeholders - customers, shareholders, investors, employees, suppliers, business, and social partners and the public.

ENVIRONMENTAL RESPONSIBILITY

Goal of the Company is to avoid, mitigate and manage our environmental and social impacts of our operations. We aim to be both good neighbour and member of the society, taking care of interests of the communities that are directly or indirectly affected by Company's activities. We feel responsible for our environmental footprint, therefore we aim at minimizing and balancing adverse Company's impact on the environment.

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 company's efforts in the field of environmental protection can be divided into the following areas:

- The Company constantly implements environmental measures, focuses on environmental pollution prevention and control.
- It is conscious about natural resources.
- The Company contributes to the development of the market for LNG as a clean and safe fuel in Lithuania and the Baltic Sea region.

KN works to improve our environmental performance through monitoring, pollution prevention, waste minimization, water and energy efficiency, effective use of raw materials and by paying maximum attention to the efficient use of resources in all phases of the lifecycle, from business development to abandonment. We support and encourage the use and development of environmentally friendly technologies, products, and services, looking to contribute to sustainable development - blue hydrogen potential as such.

The Company constantly implements technical measures to reduce waste emissions, as well as carries out adequate and regular maintenance and surveillance.

KN carries out the regular monitoring of air pollution emissions from stationary air pollution sources and the monitoring of an impact on the environmental air quality. Monitoring data is provided on the website of the Company. All the wastewater generated and collected by the company, as well as bilge water from ships is being thoroughly cleaned.

Since 2018 KN implements the Environmental Action Plan, which sets out measures and a commitment to continue to operate sustainably and to ensure the highest environmental standards. Once the Action plan is implemented (by the end of 2021), it will contribute to the reductions of emissions of volatile organic compounds (VOCs), ensure minimal emissions to the environment, ensure more efficient VOC vapour neutralization.

In 2020 KN has been certified according to the ISO 14001: 2015 standard for its Environmental Management System.

In addition to that, KN has also been focusing on digitization of the processes and increasing share of paperless operations. In 2020, paper has been completely relinquished in the operation of KN Klaipėda liquefied natural gas (LNG) terminal and the submission of reports required for the operation is carried out only in digital way.

KN is actively engaging into the discussion about the shift towards more climate neutral economy and future of fossil fuels. Given that LNG is considered as an enabler to move from fossil fuel economies to more sustainable options, including hydrogen, KN has joined Lithuanian Hydrogen platform and Maritime business cluster.

Detailed corporate social responsibility report of KN Group for the year 2020, which is prepared in accordance with the Global Reporting Initiative (GRI) guidelines, will be published on www.kn.lt and Nasdaq Vilnius platform according to the Investor calendar.

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 Council and the Board. More information regarding transactions with related Parties is presented in the Explanatory note to the Company's financial statements for 2020. In 2020 there were no changes in type of transactions with related parties, which could have made impact on the financial activity of the Group and the Company. 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:

- Klaipėda Chamber of Commerce, Industry and Crafts, http://www.kcci.lt/
- Association of Lithuanian Stevedoring Companies, www.ljkka.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
- Lithuanian Shipowners Association, www.llsa.lt

INFORMATION ABOUT THE AUDIT

30th August 2019. Extraordinary General Meeting of Shareholders of the Company adopted the following resolutions: UAB KPMG Baltics has been elected as an auditor for the Financial Statements and Regulated Activities Statements of the Company and assessment of its Annual Report for the years 2019 and 2020. The shareholders authorized the General Manager of the Company to conclude the Agreement for provision of 2 years auditing services (financial audit and regulatory activities audit) for total amount of EUR 94 thousand (excl. VAT). UAB Ernst & Young Baltic performed the audit for the years 2014-2018. UAB KPMG Baltics performed the audit for the years 2008-2013.

The proposal regarding approval of the audit company is provided by the Board of the Company to the General Meeting of Shareholders based on the public procurement procedures.

2020

AB KLAIPĖDOS NAFTA
REPORT ON REMUNERATION

REPORT ON REMUNERATION

Remuneration principles of the Company's governing and supervisory bodies are determined by the Remuneration policy approved in General shareholders meeting in April 2020. Full remuneration policy can be found here.

Remuneration for activities in the collegial bodies of the Company may be paid to the members of the collegial body of the Company who are independent or not, but who are not public servants or employees of a state representative institution.

Members of collegial governing and supervisory bodies of the Company are only eligible for receiving fixed monthly salary.

The remuneration to be paid must:

- promote the creation of long-term and sustainable value of the Company, to be fair and understandable.
- comply with the workload of the individual organs of the Company and their members.
- be competitive with the salary levels in the labour market of the respective field.
- ensure the indemnification of the liability assumed by the individual members of the Company bodies.
- promote the attraction of high-level professionals in their field to the management of the Company.

REMUNERATION OF THE SUPERVISORY COUNCIL IN 2020

TITLE	MONTHLY SALARY, EUR	TOTAL FOR 2020, EUR
Member 1	1,140.59	13,687.08
Member 2	856.92	5,998.44
Member 3	856.92	1,156.87
Member 4	0.00	0.00
TOTAL	**2,854.43**	**20,842.39**

In 2020 the total remuneration for the members of the Supervisory Council amounted to EUR 20.8 thousand (2019 – EUR 25.9 thousand). Members of the Supervisory Council were not granted with any loans, guarantees, assets, premiums, tantiemes, shares or salary for service at any other company of the Group for the year 2020. They are not eligible for any variable part of remuneration or for recovery of it.

REMUNERATION OF THE BOARD OF THE COMPANY IN 2020

TITLE	MONTHLY SALARY, EUR	TOTAL FOR 2020, EUR
Member 1	2,400.00	28,800.00
Member 2	2,095.00	25,140.00
Member 3	2,095.00	25,140.00
Member 4	2,095.00	25,140.00
Member 5	0.00	0.00
TOTAL	**8,685.00**	**104,220.00**

In 2020 the total remuneration for the members of the Board amounted to EUR 104.2 thousand (2019 - EUR 97.1 thousand). In 2020 members of the Board were not granted any shares, did not receive any loans, guarantees, assets, premiums, tantiemes or any other benefits for work as members of the Bord or salary for service at any other company of the Group. They are not eligible for any variable part of remuneration or for recovery of it.

REMUNERATION OF THE AUDIT COMMITTEE IN 2020

TITLE	MONTHLY SALARY	TOTAL FOR 2020
Member 1	1,140.59	7,984.13
Member 2	856.92	10,283.04
Member 3	968.36	11,620.31
Member 4	856.92	530.53
TOTAL	**3,822.79**	**30,418.01**

In 2020 the total remuneration for the independent members of the Audit Committee amounted to EUR 30.4 thousand (in 2019 – EUR 34.2 thousand). Members of the Audit Committee have not received any loans, guarantees or assets, unpaid bonuses, tantiemes and other benefits or salary for service at any other company of the Group, were not granted any shares of the Company. They are not eligible for any variable part of remuneration or for recovery of it.

REMUNERATION OF THE CEO OF THE COMPANY IN 2020

The CEO of the Company is rewarded according to provisions set in the Remuneration policy approved by the Board of the Company and the Company's Procedure for rewarding bonuses to AB Klaipėdos nafta top management employees.

The monthly salary of the CEO of the Company was set to EUR 9,200 in November of 2019 and has not been changed since then. Following the Remuneration policy, the CEO is also eligible for receiving annual bonus depending on the results of the Company and achievement of the annual goals. The maximum bonus in case all goals are achieved consists of 4 monthly salaries. In 2020 variable pay for the CEO, was EUR 2,101 (monthly equivalent of yearly bonus).

CHANGES IN THE COMPANY RESULTS AND AVERAGE MONTHLY SALARY OF ALL EMPLOYEES

	2020	2020 adj.**	2019	2019 adj.**	2018	2017	2016
Sales	77,474	77,474	104,138	104,138	99,998	106,484	103,839
Net profit	33,495	10,991	7,947	13,117	11,577	17,031	13,794
Average monthly salary (gross), EUR	2,574	-	2,282	-	2,313	2,297	2,213

* remuneration of Members of governing and supervisory bodies are not included.
** adj. - adjusted financial indicators/data are recalculated and presented by eliminating from net profit the following amounts: (1) the impact of unrealised foreign currency exchange rates (forex) arising from IFRS 16 requirements, (2) respective impact of deferred income tax arising from forex, and (3) impact of financial derivatives.

Average monthly salary of all employees of the Company has been gradually growing for last few years. Growth of average monthly salaries per employee category for 2019-2020 are provided below.

AVERAGE MONTHLY SALARIES OF THE EMPLOYEES OF THE GROUP AND THE COMPANY

EMPLOYEE CATEGORY	AVERAGE MONTHLY SALARY (GROSS), EUR					
	GROUP 2020	GROUP 2019	CHANGE, %	COMPANY 2020	COMPANY 2019	CHANGE, %
Managers 1)	5,507	4,701	17.2	5,719	4,744	20.5
Specialists	2,511	2,281	10.1	2,552	2,286	11.7
Workers	1,741	1,621	7.4	1,741	1,621	7.4
Total	**2,543**	**2,280**	**11.6**	**2,574**	**2,282**	**12.8**

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 Group's managers in 2020: EUR 3,137 thousand, in that amount taxes paid by the employer included EUR 103 thousand (when in 2019 were EUR 2,827 thousand from which EUR 48 thousand of taxes paid by the employer). The annual average salary of manager of the Group amounted to EUR 65.3 thousand in 2020 (in 2019 - EUR 65.7 thousand).
2) The average monthly salary is calculated according to the average monthly wage calculation procedure as stated in the State companies' employees' average monthly salary calculation procedure approved by the Government of Lithuania on 23 August 2002, resolution No. 1341 and its subsequent changes.

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AB KLAIPĖDOS NAFTA GOVERNANCE REPORT

CONTENT

AB KLAIPĖDOS NAFTA GOVERNANCE REPORT INFORMATION

AB Klaipėdos nafta aims to make its corporate management and internal processes in a way to ensure transparent, effective, and profitable activities and its activities retain the trust of our stakeholders. The internal control processes and management practices implemented within the Company are in line with the best management practice principles. This report provides main information and principles regarding management and related processes.

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

The Company's management structure and managing and supervisory bodies are described in detail in article "Management of the Company of the annual report". This paragraph also contains information regarding corporate management and organizational scheme, connection with the other bodies and short description of the functions of the each managing body. Also mentioned paragraph provides the information regarding remuneration for service in the collegial bodies and amount accounted for each member of the bodies.

In order for the management and supervision bodies of the Company to exactly and clearly understand the targets, directions and objectives the corporate strategy is being prepared with purpose to foreseen long term strategic goals and tasks. The Supervisory Council of the Company is responsible for the approval of the strategy. AB Klaipėdos nafta strategic goals are described in the paragraph "The Corporate Strategy". KN corporate strategy until 2030 is available at: 2030.kn.lt.

The Company, acting in compliance with Article 21(3) of the Law of the Republic of Lithuania on Securities and paragraph 24.5 of the Listing Rules of AB NASDAQ Vilnius, discloses how it complies with the Corporate Governance Code for the Companies listed on NASDAQ Vilnius as well as its specific provisions or recommendations in the paragraph "AB Klaipėdos nafta Compliance with the Corporate Governance Code".

Company's annual report of the year 2020 along with Company's governance report and explanatory notes of the year 2020 financial statements are published in AB Klaipėdos nafta official website (http://www.kn.lt) and in AB NASDAQ Vilnius (www.nasdaqomxbaltic.com) Stock Exchange.

RISK FACTORS AND RISK MANAGEMENT

The Company's Board has approved Risk Management Policy that regulates risk management, defines risk management principles and responsibilities, functions and responsibilities of the Chief Risk Officer as well as sets risk appetite and tolerance limits. The risk management system is developed in accordance with the ISO 31000 guidelines. The list of principal risks and the risk management plan are provided to and approved by the Company's Board each quarter. The Board actively participates in the principal risk management process by continuously monitoring the risk level changes and the risk management measures' action plans. The Company's high-level management is responsible for shaping the personnel's attitude towards risk management, setting the risk management goals in the managed area, implementation of the control measures, implementation and monitoring the efficiency of the risk management measures. The medium level managers are responsible for implementation of the risk management process and provision of the results, as well as for reliability, correctness, and impartiality of information.

The Company has established Audit Committee which is responsible for efficiency improvement when controlling Company's finances, contribution to the achievement of optimal and impartial decision making. The Audit Committee reviews financial reporting process as well as audit execution process and oversees internal control environment, risk management and internal audit framework.

Primary risk categories that the Group and the Company are exposed to while conducting business:

- **Business risk.** It is a risk category that is generally related with the environment where the Group and the Company operate and has an impact on financial results: competitiveness of the Group and the Company comparing with other players in the market of oil products transhipment, economic viability of the key customers of the Group and the Company, political and economic environment in Belarus, changes in legal regulation of the LNG related activities 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 decisions of the Group and the Company and behaviour of the 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 GROUP AND THE COMPANY ARE PROVIDED BELOW:

- **Business risk**

The Company works with several big clients in the area of oil products transhipment. The main client of the Company is AB ORLEN Lietuva. The Company has signed a long-term transhipment agreement with ORLEN Lietuva which is valid until 2024 and guarantees stable flows of oil products from ORLEN Lietuva. During 2020 one of the Company's main clients - AB ORLEN Lietuva for further transhipment via Company's terminal delivered approx. 1/3 of total oil products transhipped through KN, which is 30.7% less compared to 2019. The main reason for it was the drop of throughput and utilization at the refinery in order to minimize the negative effect of unfavourable market conditions. 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. In 2020, the Company approx. 8 times increased total transhipment of biofuels segment cargo, i. e. transhipped 26 kt of ethanol (vs 4 kt in 2019), 44 kt of FAME (vs 0 kt in 2019), 12 kt of HVO (vs 5 kt 2019).

Imports of light oil products for further supply to Lithuanian market via Company's trucks loading station in 2020 increased by 9% compared to 2019.

During 2020 political risk materialized, and one of the largest clients BNK (UK) Limited, which belongs to the largest exporters of Belarusian oil products - ZAT Belaruskaja neftenaja kampanija, announced a temporary suspension of transhipment. There are no further indications of when BNK could renew the transhipment contract. Prolonged uncertainty regarding the trading of oil products may have a negative impact on the Company's 2021 m. results.

The main competitors of the Company are the following terminals of Klaipėda and other Baltic Sea and Black Sea ports which are transhipping 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), Liwathon E.O.S (Estonia), Vesta (Estonia), St. 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 transhipment in winter conditions), investments into expansion of park of oil products' storage tanks, current market share, and benefits of ice-free port.

The Company is 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, provides completely new small-scale LNG services to clients.

The Law of the Liquefied Natural Gas terminal approved on 12 June 2012 by the Parliament of the Republic of Lithuania establishes development of the LNGT at the territory of the Republic of Lithuania, main principles and requirements for its operation and exploitation, also composes legal, financial and organizational facilities for the LNGT operation. On 1st March 2019 entered into force amendments in the Law on Liquefied Natural Gas Terminal that has obliged the Company to acquire ownership of FSRU not later than 31st December 2024.

On 19th September 2019 European Commission has approved state aid consent regarding LNG security supplement reduction.

On 24th October 2019 the Board of the Company has adopted a decision to acquire FSRU no later than by 31 December 2024 with the conditions that 1) loan to finance the purchase is arranged and 2) Parliament approves the State guarantee for the loan.

On 19th December 2019 Parliament has approved granting State guarantees for NIB loans for LNG security supplement reduction and purchase of FSRU.

On 20th December 2019, a loan agreement with NIB has been signed for the LNG security supplement reduction.

Starting January 2020 based on Regulator's decision LNG security supplement has been reduced by almost 40% and is applicable to all gas consumers.

On 9th of March 2020 loan agreement for FSRU acquisition has been signed with NIB.

On 11th November 2020, the European Commission approved the state aid to be provided in the form of state guarantee for the FSRU acquisition loan.

The inadequate change of laws and other already adopted laws regulating activity and exploitation of the LNGT could result in significant losses concerning the financial and/or legal liabilities that already have been taken. Therefore, Company's lawyers actively participate in different meetings with state institutions striving to emphasize the consequences the potential decisions.

- **Operational risk**

Operational risk is considered as risk directly related to the increase of losses, caused by the external factors (for example, natural disasters, illegal acts of the third parties, etc.) or internal factors (for example, ineffective activity and management, improper and inefficient utilization of funds, internal control deficiencies, ineffective procedures, human error, malfunctions of information systems, cyber security control gaps, unduly allocation of functions or responsibilities, etc.).

The 2020 year's most significant operational risk was COVID-19 situation management; Therefore, from a risk management perspective the company initiated separate top and middle-level managers' workgroup for COVID-19 risk assessment and management. As the result there was implemented various technical and organizational measures and there was no business operations interruption until this day. Situation is closely monitored.

To manage operational risk, the Company implemented required organizational measures and procedures as well as information systems to be used for support of business processes that collectively ensure proper functioning of internal control system and duly cooperation with the third parties concerned. The Company applies the following means of internal control: separation of decision making and controlling functions, control of transactions and accountancy, limitation of decision-making powers and control of their execution, collegial decision making in crucial issues, etc.

The Company strives to minimize legal compliance risk and assure that its operations are compliant with the applicable legal requirements and standards. Therefore, Company lawyers actively take part in decision making processes of the Company; participate while drafting internal legal acts and agreements. Infrastructure, as well as management and safety processes, cooperation with the third parties and control system has been positively evaluated by the representatives of potential clients of the terminals.

- **Reputational risk**

The Company cherishes its reputation and good name and employs risk mitigation means. Revised Company values stayed at the core of how we do business and behave in 2020, too. The Company is building culture guided by respect, cooperation, professionalism, and progress. In 2020 KN continued to achieve highest possible engagement level of Company's employees and it reached as high as 75% of engagement. During summertime when it was safe to meet in groups, the Company did not miss a chance and arranged number of interactive learning sessions – Values Dialogue for employees in groups of 10 people where everybody engaged in the discussions how one should behave in different situations according to our values. Number of initiatives like the latter and online KNowledge driven and learning sessions on emotional and psychological awareness helped to assure that behaviour of employees is in line with values and Company's code of ethics that has been updated in Jan 2021. The Company pays substantial attention for minimizing corruption risk and implements relevant internal processes.

- **Project risk**

Investment project management is an important part of the Company's business. The Company invests into the expansion of tanks for light oil product storage, development of the system of relevant connecting pipes and pumps, development of tanks for mixtures of oil and water, reconstruction of jetties, development of liquidated natural gas reloading station, etc. Also, the Company looks for opportunities in international LNG investment projects and has signed an Operation and Maintenance Services Agreement for the LNG terminal in Brazil on 3 February 2020. 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

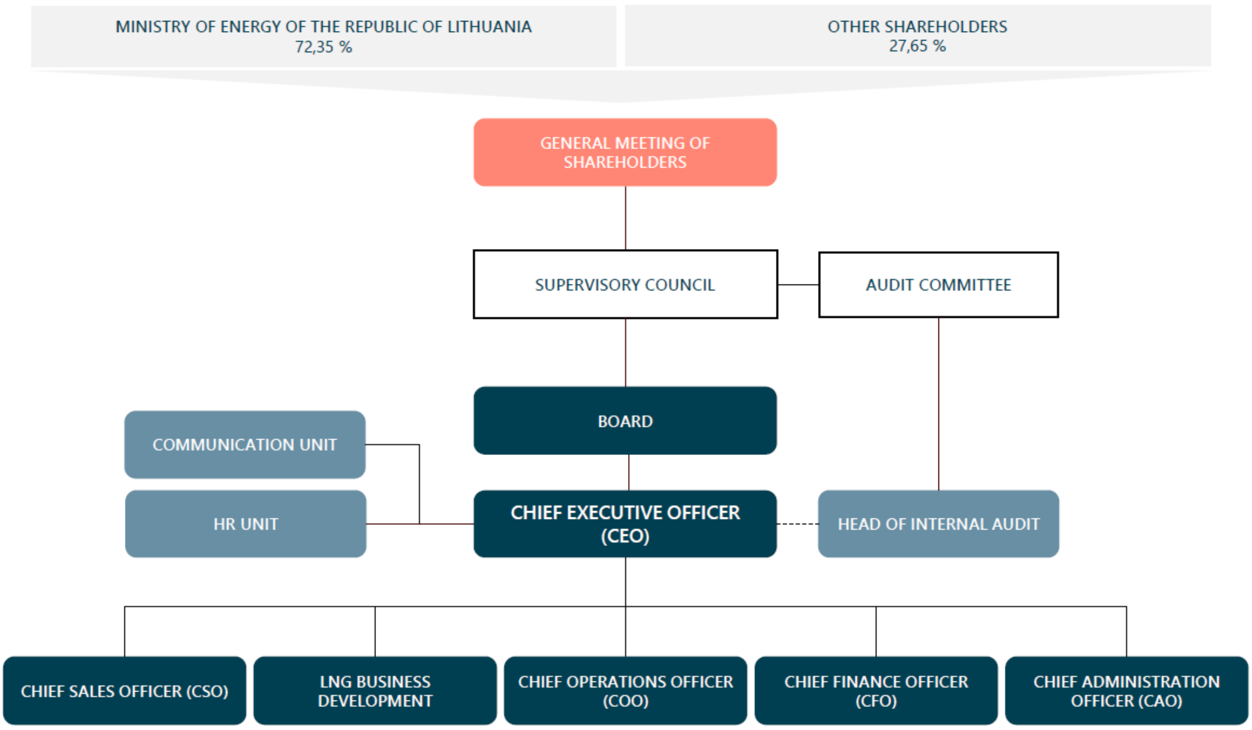
MANAGEMENT STRUCTURE

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 Council
- The Board
- Chief Executive Officer (CEO, General Manager)

ORGANIZATIONAL AND MANAGEMENT STRUCTURE OF THE COMPANY:



The General Meeting of Shareholders is the supreme management body of the Company. 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 Company's CEO or authorised Head of any other department of the Company always participates in the Shareholders Meetings while the member of the Supervisory Council and the CFO participate depending on the questions addressed.

In the last ordinary general meeting of Shareholders of the Company the following representatives of the Company took part: Company's CEO, acting Chief Financial Officer, Head of the legal division.

The Supervisory Council is a collegial supervisory body which consists of 3 (three) members (at least 2 (two) being independent), elected for the period of four years in the General Meeting of Shareholders according to the procedure established by the Law on Stock Companies. The number of the terms of office a member may serve on the Supervisory Council 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 Council. The Supervisory Council 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 Council are detailed in the Rules of Procedure of the Supervisory Council.

The Supervisory Council by its decision has formed an **Audit Committee,** which consists of 3 (three) members elected for the office term of the Supervisory Council. The Rules of formation and conduct of the Audit Committee of AB Klaipėdos nafta, approved by the Company's

Supervisory Council, regulate functions, rights, and duties of the Audit Committee. The key responsibilities of the Committee are to assist the Supervisory Council in fulfilling its oversight responsibilities in relation to financial reporting, the effectiveness of the system of risk management and internal control, monitoring the independence of both the internal and external auditors and assessing their performance and effectiveness. By the decision of the Supervisory Council of the Company the members of Audit committee have been elected until the end of office of the current Supervisory Council.

The Board is a collegial management body of the Company consisting of 5 (five) members, who are elected by the Supervisory Council for the period of 4 (four) years with the requirement that at least 3 (three) members are independent. 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 Council of the Company or who under the legal acts may have no right to be elected, cannot serve as a member of the Board. The mandate of the Board members has been determined by the Law of Stock Companies and the Articles of Association of the Company. The tenure of all Board members of AB Klaipėdos nafta has been extended based on the 24 April 2019 decision of the Supervisory Council of AB Klaipėdos nafta which extended the tenure of the Board members of the Company until the respective separate decision of the Supervisory Council, on 2 July 2019 the Supervisory Council of the Company decided to further extend the tenure of all Board members of the Company for three years until 24 April 2022.

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 COUNCIL AS AT 31 DECEMBER 2020

Eimantas Kiudulas (independent member)

Chairman of the company's Supervisory Council. Elected to the Supervisory Council on the 27 April 2018 by the ordinary General Meeting of Shareholders for a four-year term. Also served as a member of the KN Supervisory Council in 2013–2017. Education: ISM University of Management and Economics, Management Accounting: Value Analysis module (2010); Vilnius University Faculty of Economics (1994). Participation in activities of other companies and organisations: Eimantas Kiudulas' company, owner UAB iValue, CEO, shareholder; Klaipėda Chamber of Commerce, Industry and Craft, Council Member; Lithuanian Association of Free Economic Zones, Board Member, Chairman of the Board UAB Biorro, Board Member; UAB Klaipėda Free Economic Zone Management Company, CEO, Board Member; UAB LEZ projektų valdymas, Board Member; UAB PO7, Board Member; UAB ProBioSanus, Board Member; UAB Flex Start One, CEO; Public Institution Klaipėda ID, Board Member, Chairman of the Board. Information about the shares of AB Klaipėdos nafta or shares of other companies, which Eimanas Kiudulas holds, and the total amount of which exceeds 5% of all shares of the company: UAB ProBioSanus – 23 %; UAB Biorro – 38 %.

Karolis Švaikauskas (member)

Member of the Supervisory Council of the Company. Elected as a member of the Supervisory Council on 10 April 2020 at the extraordinary general meeting of shareholders until the end of the term of office of the current Supervisory Council (appointed on 27 April 2018). Education: Vytautas Magnus University, Faculty of Political Science and Diplomacy, Master's Degree in Political Science, Baltic Region Studies (2011); Humboldt University of Berlin (Germany), Scandinavian and Northern European Studies (2010); Vytautas Magnus University, Faculty of Humanities, Bachelor's degree in Historical Sciences (2009). Employment – since November 2019, is holding the position of the Head of the Energy Competitiveness Group of the Ministry of Energy of the Republic of Lithuania (legal status - budget office, code 302308327, Gedimino pr. 38, Vilnius). Participation in activities of other companies and organisations: member of the Labour Council of the Ministry of Energy (representation of employees' interests); member of the Strategic Projects Supervision Commission of EPSO-G UAB; member of the Lithuanian-Polish Energy Working Group; member of the Regional Gas Market Coordination Group (RGMCG); member of the Energy Committee of Senior Officials of the Baltic Council of Ministers; member of the Energy Committee of the Connecting Europe Facility (CEF); member of the BEMIP regional working groups for the selection of EU projects of common interest. Karolis Švaikauskas does not hold shares of AB "Klaipėdos nafta" or other companies, when the total quantity of such shares exceeds 5%.

Žaneta Kovaliova (independent member)

Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 20 November 2020 at the extraordinary general shareholders' meeting until the end of the term of office of the current Supervisory Council. 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 University, MA in management and business administration (2002 m.); Vilnius University, BA in management and business administration (2000). Participation in activities of other companies and organisations: Independent member of the Board and Chairperson of the Board of UAB Būsto paskolų draudimas; Independent member of the Supervisory Council of AB Energijos Skirstymo Operatorius; CEO, shareholder of UP Consulting Group Ltd. Information about the shares of AB Klaipėdos nafta or shares of other companies, which Žaneta Kovaliova holds, and the total amount of which exceeds 5% of all shares of the company: UP Consulting Group Ltd – 100 %.

There were 12 meetings of Supervisory Council in 2020, which were attended by all Supervisory Council members.

NAME	POSITION IN THE COMPANY	THE INDEPENDENCE CRITERIA	CADENCE COMMENCEMENT DATE
Eimantas Kiudulas	Chairman of the Supervisory Council	Independent	From the 27 April 2018 until 27 April 2022
Karolis Švaikauskas	Member of the Supervisory Council	-	From the 10 April 2020 until 27 April 2022
Žaneta Kovaliova	Member of the Supervisory Council	Independent	From the 20 November 2020 until 27 April 2022

Andrius Varanavičius resigned from the Supervisory Council of the Company as of 31 July 2020. Žaneta Kovaliova was elected as a member of the Supervisory Council on 20 November 2020 and Karolis Švaikauskas on 10 April 2020 (replacing former member of the Supervisory Council, Tomas Lukoševičius, who resigned as of 3 September 2019) (both until the end of the term of office of the current Supervisory Council (27 April 2022)).

SUPERVISORY COUNCIL ACTIVITY IN 2020

During 2020 the Supervisory Council supervised the activities of the Board and the CEO of the Company, submitted its comments and proposals to the General Meeting of Shareholders on the set of annual financial statements, the draft of profit/loss distribution, and the annual report of the Company, approved the Company's 2030 strategy, annual internal audit plan and addressed other matters assigned within its powers.

In addition to its regular tasks, the Supervisory Council in 2020 was also actively involved in the discussions about the Company's corporate governance and internal control system functioning as well as risk management improvement. Members of Supervisory Council agreed with the new Remuneration Policy of the Company and proposed it for approval in the General Meeting of Shareholders of the Company.

During 2020, the Supervisory Council issued one approval for transactions with the related party. Information is available in the Notes to the annual financial statements of 2020**.**

MEMBERS OF THE AUDIT COMMITTEE AS AT 31 DECEMBER 2020

Žaneta Kovaliova (independent member)

Member of the Supervisory Council of the Company. Appointed a member of the Supervisory Council on 20 November 2020 at the extraordinary general shareholders' meeting until the end of the term of office of the current Supervisory Council. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company as of 8 December 2020 until the end of office of the current Supervisory Council. On January 13, 2021, during the meeting of the Audit Committee, Žaneta Kovaliova was elected the Chairperson of the Audit Committee. Education: Vilnius University, MA in management and business administration (2002 m.); Vilnius University, BA in management and business administration (2000). Participation in activities of other companies and organisations: Independent member of the Board and Chairperson of the Board of UAB Būsto paskolų draudimas; Independent member of the Supervisory Council of AB Energijos Skirstymo Operatorius; CEO, shareholder of UP Consulting Group Ltd. Information about the shares of AB Klaipėdos nafta or shares of other companies, which Žaneta Kovaliova holds, and the total amount of which exceeds 5% of all shares of the company: UP Consulting Group Ltd – 100%.

Žana Kraučenkienė (independent member)

Member of the Audit Committee. By the decision of the Supervisory Council, elected as a member of the Audit Committee of the Company as of 3 December 2018 until the end of office of the current Supervisory Council. Education: Vilnius University, Master's degree in Mathematics (study programme of Finance and Insurance Mathematics), 2000, Vilnius University, Bachelor's degree in Applied Mathematics (study programme of Finance and Insurance Mathematics), 1998. Place of work and position: Since March 2016 – Director of Effectum LT, owner of the company. Since January 2016 – Head of the Internal Audit Department of the Lithuanian Children and Youth Centre. In the period from 2000 to 2018 occupied various positions in the insurance company Lamantinas and was a member of the company board. Since 2015 – Board member of the Association of Risk Management Professionals. Since 2017 – Board member of the Institute of Internal Auditors. Member of the Institute of Internal Auditors. Member of the Risk Management Committee of the Actuarial Association of Europe. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Laura Garbenčiūtė-Bakienė (independent member)

By the decision of the Supervisory Council, elected as a member of the Audit Committee of the company until the end of office of the current Supervisory Council. Education: Vilnius Gediminas Technical University, Master degree in Finance (1999); Kaunas University of Technology, Bachelor degree in business administration (1996). Employer and positions: Since 2016 – financial advisor with portfolio of small and middle-sized Lithuanian and foreign companies; 2015-2016 – Director of Internal audit at Lithuanian Energy; 2013-2015 – Director of the Digital Operations at Western Union Processing; 1997-2012 – various positions at PricewaterhouseCoopers. Participation in the management of other companies: Since 2018 Laura Garbenčiūtė-Bakienė is an independent member of the Supervisory Council at Investment and business guarantees. Since 2016 – the independent Chair of the Audit and Risk Committee at the State Enterprise Ignalina nuclear power plant. Since 2019 – independent member of the Audit Committee at the Lithuanian Airports, and independent member of the Board at Plunges vandenys. Has no direct interest in the share capital of the Company no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During the year 2020, 24 Audit Committee meetings have been arranged where all Audit Committee members have participated.

NAME	POSITION IN THE COMPANY	THE INDEPENDENCE CRITERIA	CADENCE COMMENCEMENT DATE
Žaneta Kovaliova	Chairperson of Audit Committee	Independent	From the 8 December 2020 until 27April 2022
Laura Garbenčiūtė-Bakienė	Member of Audit Committee	Independent	From the 21 August 2018 until 27 April 2022
Žana Kraučenkienė	Member of Audit Committee	Independent	From the 3 December 2018 until 27 April 2022

Andrius Varanavičius a member of Supervisory Council of AB Klaipėdos nafta resigned from members of Supervisory Council and Audit Committee of the Company as of 31 July 2020. By the decision of the Supervisory Council, Žaneta Kovaliova was elected as a member of the Audit Committee of the Company from 8 December 2020 until the end of office of the current Supervisory Council. On 13 January 2021 Žaneta Kovaliova was elected the Chairwoman of the Audit Committee.

AUDIT COMMITTEE ACTIVITY IN 2020

During the year, the Committee monitored the financial reporting process and audit of consolidated financial statements of the Group. The Committee assessed whether appropriate accounting policies had been adopted throughout the accounting period and whether management had made appropriate estimates and judgements over the recognition, measurement, and presentation of the financial results. The Committee also monitored internal control and risk management system and made a number of recommendations to improve its effectiveness. Among other things the Committee recommended to launch an enhanced Group-wide whistleblowing programme ('Speak UP'), prepare corporate governance policy and develop comprehensive internal control system improvement plan. The Committee also considered external and internal audit plans for 2020, initiated review of internal audit methodology, monitored the independence of the external auditor and recommended to prepare the non-audit services guidelines to set out the principles regarding pre-approval of such services.

During 2020, the Audit Committee members considered and issued one opinion for the Supervisory Council as regards transactions with the related parties.

MEMBERS OF THE BOARD AS AT 31 DECEMBER 2020

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 Energy Security Policy Group 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 and member of Koturna association (legal status - association, code 301684878, Mykolo Marcinkevičiaus street 23-13, Vilnius), member of the Board of EPSO-Gand member of the Board of 599th Apartment Owners Partnership (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 Council 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 Lithuanian Confederation of Industrialists (legal status – association, code 110058241, A. Vienuolio street 8, Vilnius). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Giedrius Dusevičius (independent member)

(born 1971) – Independent member of the Board since 30 December 2016, elected till the end of the Board of Company cadence. Education: Vilnius University, Faculty of Economics, (1989); Vilnius University, Institute of International Relations and Political Science (1994); INSEAD, Management Programme (AMP, 2006). Participation in activities of other companies – member of the Supervisory Council of UAB Valstybės investicijų valdymo agentūra (legal status – Private Limited Liability Company, code 305612545. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Bjarke Pålsson (independent member)

(born 1968) – Independent member of Board since 24 January 2017, elected till the end of the Board of Company cadence. Education: University of St. Gallen (HSG) in Switzerland, CEMS Master's Study Programme of Quantitative Economics and Finance. Copenhagen Business School in Denmark, Master's in Finance (excl. thesis) (1992). Copenhagen Business School in Denmark, Bachelor's in Economics. Employed: 50% owner and Co-CEO of Mark & Wedell (Oldenvej 5, 3490 Kvistgaard, Denmark). Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

Ian Jonathan Bradshaw (independent member)

(born 1959) - Independent member of Board since 2 January 2019, elected till the end of the Board of Company cadence. Education: Columbia Business School, US: Senior Executive Program (2008); Durham University, UK: BSc(Hons), Engineering Science, (1980). Employed and Participation in activities of other companies and organisations: Contiguous Consulting Ltd., owner. Has no direct interest in the share capital of the Company; no shareholding (above 5 per cent) in the related companies of AB Klaipėdos nafta.

During 2020 the composition of the Board remained the same.

All members of the Board of the Company attended all 17 Board meetings held during the year 2020.

BOARD ACTIVITY

The Board reviewed the strategic, operational, financial, reputational, and safety issues throughout the year on a regular basis. In addition, The Board monitored the Company's financial and strategic goals against the annual plan for 2020 quarterly and considered the yearly plan for 2021 after taking into account management's assumptions.

The Board's work was very intensive in 2020, and it held 17 meetings, 8 of which were held in writing. The 113 items were presented for the Board, 44 of them – for the adoption of a decision.

During 2020 the Board reviewed the long-term strategy of the Company and participated in numerous discussions with the management. The Board analysed and provided its agreement to the updated Company's corporate strategy for 2020-2030.

The Board oversaw the Company's risks and reviewed management judgments about specific ones. During the year, three Risk reports were approved.

The Board actively participated in the discussions as regards Company's LNG long-term supply project and global LNG projects. The Board advised on numerous corporate governance issues such as draft Company's Remuneration Policy, draft of Corporate Governance Policy, Company's internal control system improvement plan and others.

The Board was also highly involved in significant transactions of the Company. The Board engaged by approving the main terms and conditions or by supporting the management with the strategic advice. The major transactions are as follows:

- Agreement regarding taking a loan from the Nordic Investment Bank (entering into the Loan Agreement for Stage II) and using it for the acquisition of the floating liquefied natural gas storage unit.
- Amendment of conditions of agreement with BNK (UK) Limited, by including crude oil quantities in Minimum mandatory Cargo quantity that BNK obliges to deliver to AB Klaipėdos nafta Oil Terminal per reference period from 01-10-2019 till 30-09-2020.
- Amendment of conditions of the above-mentioned agreement with BNK (UK) Limited per reference period from 01-10-2020 till 30-09-2021.
- Amendment conditions of agreement with Vitol A.S. by including fixed fee for the dedicated capacities and transhipment fee for tanker batch throughput.

NAME	POSITION IN THE COMPANY	THE INDEPENDENCE CRITERIA	BOARD MEMBER FROM THE DATE
Giedrius Dusevičius	Chairman of the Board	Independent	From the 30 December 2016
Dainius Bražiūnas	Member of the Board	-	From the 25 July 2014
Mantas Bartuška	Member of the Board	-	From the 25 September 2014
Bjarke Pålsson	Member of the Board	Independent	From the 24 January 2017
Ian Bradshaw	Member of the Board	Independent	From the 2 January 2019

THE DIRECTORS OF THE COMPANY AS AT 31 DECEMBER 2020

Darius Šilenskis

(born 1981) – Chief Executive Officer. Works at the Company since 28 September 2015. Education: Baltic Management Institute, Master of executives international business management (EMBA), (2013), Vytautas Magnus University, Master of business administration (2013), Mykolas Riomeris university, Master of law (2006, Law and management studies), Bachelor of law (2004, International law if the Sea studies). Participation in activities of other companies and organisations: member of the board of directors of the Association of Lithuanian Stevedoring Companies, member of the board of Lithuanian Maritime Cluster, chairman of the Lithuanian LNG Platform, VŠĮ "Vilniaus teisės institutas" founder and venturer (owns 50% rights of venture), UAB "Afinta" shareholder (owns 50% of the shares). The share of AB Klaipėdos nafta held by Darius Šilenskis is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

Jonas Lenkšas

(born 1979) – Chief Financial Officer. Works at the Company since 4 June 2018. Education: Vilnius University, MA in Economics (2003); Vilnius University, BA in Economics (2001). No participation in management of other companies. The share of AB Klaipėdos nafta held by Jonas Lenkšas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

Linas Kilda

(born 1972) – LNG Business Development Director. Appointed as LNG Business Development Director from 3 August 2020. Education: Institute of Geology and Geography, PhD (Physical Sciences) (2002); University of Aberdeen, Master of Petroleum Geology (1998); Vilnius University, Engineering geologist and hydrogeologist (1995). No participation in other companies' management. The share of AB Klaipėdos nafta held by Linas Kilda is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

Dainius Čiuta

(born 1975) – Chief Operations Officer. Appointed as Chief Operations Officer from 5 November 2020. Education: Baltic Management Institute (BMI), International Executive Master of Business Administration (EMBA) (2013); Kaunas University of Technology, Master of Chemical Technology Engineering (1999); Klaipeda University, Bachelor of Chemical Technology (1997). Participation in the activities of other companies, institutions and organizations: member of the board of children's football club "FK Atmosfera"; member of the Energy Committee of Lithuanian Confederation of Industrialists. Dainius Čiuta does not own shares in AB Klaipėdos nafta or other companies when the number of shares held exceeds 5% of all shares in the company.

Mindaugas Navikas

(born 1979) – Chief Sales Officer. Appointed as a Chief Sales Officer from 8 September 2020. Education: Stockholm School of Economics in Riga (SSE), Master of Business Management (EMBA) (2018); Vilnius University, International Business School, Master of International Business Management (2006); Vilnius University, Bachelor of Business Management (2002). No participation in other companies' management. The share of AB Klaipėdos nafta held by Mindaugas Navikas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

Rytis Valūnas

(born 1985) - Chief Administrative Officer and General Counsel. Works at the Company since 15 September 2012. Education: Baltic Institute of Corporate Governance, Professional Board Member Certificate (2015); The Fletcher School of Law and Diplomacy/Harvard Law School, LL.M. (2011); Mykolas Romeris University/Ghent University, MA in International Law (2009); Mykolas Romeris University, BA in Law (2007). The share of AB Klaipėdos nafta held by Rytis Valūnas is less than 0.05%; no in the related companies of AB Klaipėdos nafta.

No members of the Company's management have been convicted of crimes against property, business or finances. Information about managers' salary for the year 2020 is stated in chapter "Information about the employees of the Group" in the Annual Report.

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

1 transaction with related parties as provided for in art. 37(2) of the Law on Companies of the Republic of Lithuania was concluded in 2020. More information about the transaction with the related party can be found here.

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

9th July 2020. Amended Articles of Association AB Klaipėdos nafta were registered in the Register of Legal Entities of the Republic of Lithuania after the increase of authorised capital of the Company. Following the increase of the authorised capital of the Company, such capital is equal to EUR 110,505,193.97 and is divided into 381,052,393 units of shares. Nominal value per share – EUR 0.29.

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 COUNCILS

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 Councils, 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 Councils 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 Council 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.

INFORMATION ON COMPLIANCE WITH TRANSPARENCY GUIDELINES

AB Klaipėdos nafta complies with the 2010 July 14 Government Resolution No. 1052 "On the Approval of the Description of the Guidelines for Ensuring the Transparency of the Activities of State-Owned Enterprises" (hereinafter - the Transparency Guidelines). The Transparency Guidelines are mandatory for the Company, as the Company is a state-owned enterprise (hereinafter - SOE).

The implementation of the transparency guidelines in the Company is mainly ensured through the information disclosed in the annual report and the disclosure of information on the Company's websites by disclosing and providing information in a format that is accessible and understandable to stakeholders.

Article 3 of the Transparency Guidelines states that SOEs which are listed on AB Nasdaq Vilnius comply with the provisions of the Corporate Governance Code related to public disclosure of information. Information on the Company's compliance with the provisions of this Code is disclosed in the Company's management report.

BELOW IS THE STRUCTURED INFORMATION ON THE IMPLEMENTATION OF THE TRANSPARENCY GUIDELINES:

INFORMATION / OTHER REQUIREMENTS MUST BE PUBLISHED ON THE COMPANY'S WEBSITE (WWW.KN.LT):

✓ COMPLYING ✓ PARTIALLY COMPLYING ✓ NOT COMPLYING

✓ Name, code and register of the Company, where data about the Company is collected and stored, registered office (address)	✓ Legal status, if the Company is reorganized (the method of reorganization is indicated), liquidated, is about to go bankrupt, or already bankrupt
✓ Information about the institution representing the state	✓ Activity plans, vision, and mission
✓ Organizational structure	✓ Details about the manager of the company *
✓ Details about the chairman of the Board and its members *	✓ Details about the chairman of the Supervisory Council and its members *
✓ Names of the committees, details about their chairs and members *	
✓ Amount of nominal values of state-owned shares (in euros to the nearest euro cent) and share (in percent) in the authorized capital of the Company	✓ Information on social responsibility initiatives and measures, important ongoing or planned investment projects
✓ Special obligations are fulfilled, which are determined in accordance with the recommendations approved by the Ministry of Economy and Innovation of the Republic of Lithuania: the purpose of special obligations, state budget appropriations and legal acts allocating them to the special obligation and regulated pricing	✓ If the Company is a participant in other legal entities (does not apply to subsidiaries) name, code and register of such legal entities, where the data on the Company is collected and stored, registered office (address), website addresses
✓ The set of the Company's annual financial statements, the Company's annual report, as well as the report of the auditor of the Company's annual reports must be published on the Company's website within 10 working days from the approval of the set of annual financial statements.	✓ Sets of the Company's interim financial statements, the Company's interim reports must be published on the website no later than within 2 months after the end of the reporting period

* The following data is published: name, surname, date of commencement of current positions, other current management positions in other legal entities, education, qualification, professional experience; it shall be indicated whether a member of the collegial body has been elected or appointed as an independent member.

TAKING INTO ACCOUNT THAT THE COMPANY IS THE PARENT COMPANY, THE FOLLOWING INFORMATION MUST BE PUBLISHED ON THE COMPANY'S WEBSITE (WWW.KN.LT):	
✓ The structure of the Group of companies	
Subsidiaries and subsequent subsidiaries of the Company:	
✓ Name, code and register of the Company, where data about the Company are collected and stored, registered office (address)	✓ Share held by the Company (percentage) in the authorized capital of subsidiary companies
✓ Website addresses	✓ Annual consolidated financial statements and consolidated annual reports
THE FOLLOWING DOCUMENTS / OTHER REQUIREMENTS MUST BE PUBLISHED ON THE COMPANY'S WEBSITE (WWW.KN.LT):	
✓ Articles of Association	✓ Letter from the Ministry of Energy on the establishment of the Company's goals and expectations for the Company
✓ Business strategy or a summary thereof in cases where the business strategy contains confidential information or information which is considered a commercial (industrial) secret	✓ Remuneration policy, which includes the determination of the remuneration of the head of the Company and the remuneration of the members of the collegial bodies and committees formed by the Company
✓ Company's annual and interim reports	✓ Sets of annual and interim financial statements for a period of at least 5 years and the auditor's report of the annual financial statements
✓ The above documents are published in PDF format and it is technically possible to print them	
OTHER REQUIREMENTS MUST BE PUBLISHED / FULFILLED IN THE SETS OF FINANCIAL STATEMENTS AND NOTICES:	
✓ The Company maintains its accounting records in a manner that ensures that financial statements are prepared in accordance with International Accounting Standards	✓ The Company prepares a set of 6-month interim financial statements
✓ In addition to the annual report, the Company prepares an additional 6-month interim report	
IN ADDITION TO THE CONTENT REQUIREMENTS ESTABLISHED IN THE LAW ON FINANCIAL REPORTING OF COMPANIES OF THE REPUBLIC OF LITHUANIA, THE COMPANY'S ANNUAL REPORT MUST ADDITIONALLY PROVIDE:	
✓ Brief description of the Company's business model	✓ Results of the implementation of the objectives set in the operational strategy
✓ Information on significant events that occurred during and after the financial year (prior to the preparation of the annual report) and that were material to the Company's operations	✓ For state-owned enterprises that are not required to prepare a CSR report, it is recommended that information on environmental, social and personnel, human rights, anti-corruption, and anti-bribery issues be provided in the annual report or annual activity report, as appropriate.
✓ Profitability, liquidity, asset turnover, debt ratios	✓ Implementation of the company's risk management policy
✓ Implementation of investment policy, ongoing and planned investment projects, and investments during the reporting year	✓ Total annual salary fund, average monthly salary by current position and / or division
✓ Implementation of dividend policy	✓ Implementation of remuneration policy
✓ The consolidated annual report contains the structure of the group of companies, as well as the name, code and register of each subsidiary, which collects and stores data about the Company, registered office (address), shares (percentage) in the subsidiary's share capital, financial and non-financial results for the financial year.	✓ The Company's interim report provides a brief description of the Company's business model, analysis of financial results for the reporting period, information on significant events during the reporting period, as well as profitability, liquidity, asset turnover, debt ratios and their changes compared to the corresponding period last year.

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 1: General meeting of shareholders, equitable treatment of shareholders, and shareholders' rights **The corporate governance framework should ensure the equitable treatment of all shareholders. The corporate governance framework should protect the rights of shareholders.**		
1.1. All shareholders should be provided with access to the information and/or documents established in the legal acts on equal terms. All shareholders should be furnished with equal opportunity to participate in the decision-making process where significant corporate matters are discussed.	Yes	
1.2. 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 of their holders.	Yes	
1.3. 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	
1.4. Exclusive transactions that are particularly important to the company, such as transfer of all or almost all assets of the company which in principle would mean the transfer of the company, should be subject to approval of the general meeting of shareholders.	Yes	
1.5. Procedures for convening and conducting a general meeting of shareholders should provide shareholders with equal opportunities to participate in the general meeting of shareholders and should not prejudice the rights and interests of shareholders. The chosen venue, date and time of the general meeting of shareholders should not prevent active participation of shareholders at the general meeting. In the notice of the general meeting of shareholders being convened, the company should specify the last day on which the proposed draft decisions should be submitted at the latest.	Yes	
1.6. With a view to ensure the right of shareholders living abroad to access the information, it is recommended, where possible, that documents prepared for the general meeting of shareholders in advance should be announced publicly not only in Lithuanian language but also in English and/or other foreign languages in advance. It is recommended that the minutes of the general meeting of shareholders after the signing thereof and/or adopted decisions should be made available publicly not only in Lithuanian language	Yes	

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
but also in English and/or other foreign languages. It is recommended that this information should be placed on the website of the company. Such documents may be published to the extent that their public disclosure is not detrimental to the company or the company's commercial secrets are not revealed.		
1.7. Shareholders who are entitled to vote should be furnished with the opportunity to vote at the general meeting of shareholders both in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	
1.8. With a view to increasing the shareholders' opportunities to participate effectively at general meetings of shareholders, it is recommended that companies should apply modern technologies on a wider scale and thus provide shareholders with the conditions to participate and vote in general meetings of shareholders via electronic means of communication. In such cases the security of transmitted information must be ensured, and it must be possible to identify the participating and voting person.	No	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.
1.9. It is recommended that the notice on the draft decisions of the general meeting of shareholders being convened should specify new candidatures of members of the collegial body, their proposed remuneration and the proposed audit company if these issues are included into the agenda of the general meeting of shareholders. Where it is proposed to elect a new member of the collegial body, it is recommended that the information about his/her educational background, work experience and other managerial positions held (or proposed) should be provided.	Yes	
1.10. Members of the company's collegial management body, heads of the administration[2] or other competent persons related to the company who can provide information related to the agenda of the general meeting of shareholders should take part in the general meeting of shareholders. Proposed candidates to member of the collegial body should also participate in the general meeting of shareholders in case the election of new members is included into the agenda of the general meeting of shareholders.	Yes	

[2] For the purposes of this Code, heads of the administration are the employees of the company who hold top level management positions.

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
Principle 2: Supervisory board **2.1. Functions and liability of the supervisory board** **The supervisory board of the company should ensure representation of the interests of the company and its shareholders, accountability of this body to the shareholders and objective monitoring of the company's operations and its management bodies as well as constantly provide recommendations to the management bodies of the company.** **The supervisory board should ensure the integrity and transparency of the company's financial accounting and control system.**		
2.1.1. Members of the supervisory board should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders and represent their interests, having regard to the interests of employees and public welfare.	Yes	
2.1.2. Where decisions of the supervisory board may have a different effect on the interests of the company's shareholders, the supervisory board should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed about the company's strategy, risk management and control, and resolution of conflicts of interest.	Yes	
2.1.3. The supervisory board should be impartial in passing decisions that are significant for the company's operations and strategy. Members of the supervisory board should act and pass decisions without an external influence from the persons who elected them.	Yes	
2.1.4. Members of the supervisory board should clearly voice their objections in case they believe that a decision of the supervisory board is against the interests of the company. Independent[3] members of the supervisory board should: a) maintain independence of their analysis and decision-making; b) not seek or accept any unjustified privileges that might compromise their independence.	Yes	

[3] For the purposes of this Code, the criteria of independence of members of the supervisory board are interpreted as the criteria of unrelated parties defined in Article 31(7) and (8) of the Law on Companies of the Republic of Lithuania.

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
2.1.5. The supervisory board should oversee that the company's tax planning strategies are designed and implemented in accordance with the legal acts in order to avoid faulty practice that is not related to the long-term interests of the company and its shareholders, which may give rise to reputational, legal or other risks.	Yes	
2.1.6. The company should ensure that the supervisory board is provided with sufficient resources (including financial ones) to discharge their duties, including the right to obtain all the necessary information or to seek independent professional advice from external legal, accounting or other experts on matters pertaining to the competence of the supervisory board and its committees.	Yes	
2.2. Formation of the supervisory board **The procedure of the formation of the supervisory board should ensure proper resolution of conflicts of interest and effective and fair corporate governance.**		
2.2.1. The members of the supervisory board elected by the general meeting of shareholders should collectively ensure the diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance between the qualifications of the members of the supervisory board, it should be ensured that members of the supervisory board, as a whole, should have diverse knowledge, opinions and experience to duly perform their tasks.	Yes	
2.2.2. Members of the supervisory board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience.	Yes	
2.2.3. Chair of the supervisory board should be a person whose current or past positions constituted no obstacle to carry out impartial activities. A former manager or management board member of the company should not be immediately appointed as chair of the supervisory board either. Where the company decides to depart from these recommendations, it should provide information on the measures taken to ensure impartiality of the supervision.	Yes	
2.2.4. Each member should devote sufficient time and attention to perform his duties as a member of the supervisory board. Each member of the supervisory board should undertake to limit his other professional obligations (particularly the managing positions in other companies) so that they would not interfere with the proper performance of the duties of a member of the supervisory board. Should a member of the supervisory board attend less than a half of the meetings of the supervisory board throughout the financial year of the company, the shareholders of the company should be notified thereof.	Yes	

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
2.2.5. When it is proposed to appoint a member of the supervisory board, it should be announced which members of the supervisory board are deemed to be independent. The supervisory board may decide that, despite the fact that a particular member meets all the criteria of independence, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	
2.2.6. The amount of remuneration to members of the supervisory board for their activity and participation in meetings of the supervisory board should be approved by the general meeting of shareholders.	Yes	
2.2.7. Every year the supervisory board should carry out an assessment of its activities. It should include evaluation of the structure of the supervisory board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the supervisory board, and evaluation whether the supervisory board has achieved its objectives. The supervisory board should, at least once a year, make public respective information about its internal structure and working procedures.	Yes	
Principle 3: Management Board **3.1. Functions and liability of the management board** **The management board should ensure the implementation of the company's strategy and good corporate governance with due regard to the interests of its shareholders, employees and other interest groups.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
3.1.1. The management board should ensure the implementation of the company's strategy approved by the supervisory board if the latter has been formed at the company. In such cases where the supervisory board is not formed, the management board is also responsible for the approval of the company's strategy.	Yes	
3.1.2. As a collegial management body of the company, the management board performs the functions assigned to it by the Law and in the articles of association of the company, and in such cases where the supervisory board is not formed in the company, it performs inter alia the supervisory functions established in the Law. By performing the functions assigned to it, the management board should take into account the needs of the company's shareholders, employees and other interest groups by respectively striving to achieve sustainable business development.	Yes	
3.1.3. The management board should ensure compliance with the laws and the internal policy of the company applicable to the company or a group of companies to which this company belongs. It should also establish the respective risk management and control measures aimed at ensuring regular and direct liability of managers.	Yes	
3.1.4. Moreover, the management board should ensure that the measures included into the OECD Good Practice Guidance[4] on Internal Controls, Ethics and Compliance are applied at the company in order to ensure adherence to the applicable laws, rules and standards.	Yes	
3.1.5. When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence	Yes	
3.2. Formation of the management board		
3.2.1. The members of the management board elected by the supervisory board or, if the supervisory board is not formed, by the general meeting of shareholders should collectively ensure the required diversity of qualifications, professional experience and competences and seek for gender equality. With a view to maintain a proper balance in terms of the current qualifications possessed by the members of the management board, it should be ensured that the members of the management board would have, as a whole, diverse knowledge, opinions and experience to duly perform their tasks.	Yes	

[4] Link to the OECD Good Practice Guidance on Internal Controls, Ethics and Compliance: https://www.oecd.org/daf/anti-bribery/44884389.pdf

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
3.2.2. Names and surnames of the candidates to become members of the management board, information on their educational background, qualifications, professional experience, current positions, other important professional obligations and potential conflicts of interest should be disclosed without violating the requirements of the legal acts regulating the handling of personal data at the meeting of the supervisory board in which the management board or individual members of the management board are elected. In the event that the supervisory board is not formed, the information specified in this paragraph should be submitted to the general meeting of shareholders. The management board should, on yearly basis, collect data provided in this paragraph on its members and disclose it in the company's annual report.	Yes	
3.2.3. All new members of the management board should be familiarized with their duties and the structure and operations of the company.	Yes	
3.2.4. Members of the management board should be appointed for a specific term, subject to individual re-election for a new term in office in order to ensure necessary development of professional experience and sufficiently frequent reconfirmation of their status.	Yes	
3.2.5. Chair of the management board should be a person whose current or past positions constitute no obstacle to carry out impartial activity. Where the supervisory board is not formed, the former manager of the company should not be immediately appointed as chair of the management board. When a company decides to depart from these recommendations, it should furnish information on the measures it has taken to ensure the impartiality of supervision.	Yes	
3.2.6. Each member should devote sufficient time and attention to perform his duties as a member of the management board. Should a member of the management board attend less than a half of the meetings of the management board throughout the financial year of the company, the supervisory board of the company or, if the supervisory board is not formed at the company, the general meeting of shareholders should be notified thereof	Yes	
3.2.7. In the event that the management board is elected in the cases established by the Law where the supervisory board is not formed at the company, and some of its members will be independent , it should be announced which members of the management board are deemed as independent. The management board may decide that, despite the fact that a particular member meets all the criteria of independence established by the Law, he/she cannot be considered independent due to special personal or company-related circumstances.	Yes	

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
3.2.8. The general meeting of shareholders of the company should approve the amount of remuneration to the members of the management board for their activity and participation in the meetings of the management board.	Yes	Independent members of the Board are paid based on the Remuneration Policy of the Company approved by the General Meeting of Shareholders on 28 April 2020 (KN website: https://www.kn.lt/apie-mus/darbo-uzmokestis/1975) and agreement concluded with the Company that is approved by the Supervisory Council.
3.2.9. The members of the management board should act in good faith, with care and responsibility for the benefit and the interests of the company and its shareholders with due regard to other stakeholders. When adopting decisions, they should not act in their personal interest; they should be subject to no-compete agreements and they should not use the business information or opportunities related to the company's operations in violation of the company's interests.	Yes	
3.2.10. Every year the management board should carry out an assessment of its activities. It should include evaluation of the structure of the management board, its work organization and ability to act as a group, evaluation of the competence and work efficiency of each member of the management board, and evaluation whether the management board has achieved its objectives. The management board should, at least once a year, make public respective information about its internal structure and working procedures in observance of the legal acts regulating the processing of personal data.	Yes	
Principle 4: Rules of procedure of the supervisory board and the management board of the company **The rules of procedure of the supervisory board, if it is formed at the company, and of the management board should ensure efficient operation and decision-making of these bodies and promote active cooperation between the company's management bodies.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
4.1. The management board and the supervisory board, if the latter is formed at the company, should act in close cooperation in order to attain benefit for the company and its shareholders. Good corporate governance requires an open discussion between the management board and the supervisory board. The management board should regularly and, where necessary, immediately inform the supervisory board about any matters significant for the company that are related to planning, business development, risk management and control, and compliance with the obligations at the company. The management board should inform he supervisory board about any derogations in its business development from the previously formulated plans and objectives by specifying the reasons for this.	Yes	
4.2. It is recommended that meetings of the company's collegial bodies should be held at the respective intervals, according to the pre-approved schedule. Each company is free to decide how often meetings of the collegial bodies should be convened but it is recommended that these meetings should be convened at such intervals that uninterruptable resolution of essential corporate governance issues would be ensured. Meetings of the company's collegial bodies should be convened at least once per quarter.	Yes	
4.3. Members of a collegial body should be notified of the meeting being convened in advance so that they would have sufficient time for proper preparation for the issues to be considered at the meeting and a fruitful discussion could be held and appropriate decisions could be adopted. Along with the notice of the meeting being convened all materials 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 present at the meeting agree with such change or supplement to the agenda, or certain issues that are important to the company require immediate resolution.	Yes	
4.4. In order to coordinate the activities of the company's collegial bodies and ensure effective decision-making process, the chairs of the company's collegial supervision and management bodies should mutually agree on the dates and agendas of the meetings and close cooperate in resolving other matters related to corporate governance. Meetings of the company's supervisory board should be open to members of the management board, particularly in such cases where issues concerning the removal of the management board members, their responsibility or remuneration are discussed.	Yes	
Principle 5: Nomination, remuneration and audit committees		
5.1. Purpose and formation of committees **The committees formed at the company should increase the work efficiency of the supervisory board or, where the supervisory board is not formed, of the management board which performs the supervisory functions by ensuring that decisions are based on due consideration and help organise its work in such a way that the decisions it takes would be free of material conflicts of interest.** **Committees should exercise independent judgment and integrity when performing their functions and provide the collegial body with recommendations concerning the decisions of the collegial body. However, the final decision should be adopted by the collegial body.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
5.1.1. Taking due account of the company-related circumstances and the chosen corporate governance structure, the supervisory board of the company or, in cases where the supervisory board is not formed, the management board which performs the supervisory functions, establishes committees. It is recommended that the collegial body should form the nomination, remuneration and audit committees[5].	Yes	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. Other specialized committees are not established within the Company, however collegial management body, i.e. the Company's Board, is responsible for the issues related to the appointment of the Company's directors and determination of the remuneration for the Company's directors. The Board appoints and dismisses the Company's Chief Executive Officer, regularly evaluates skills, knowledge and experience of other Company's directors; discusses general application policy of remuneration (including stimulation) systems; determines remuneration of all Company's management personnel as it is defined in the Description of the Company's the highest Management Structure (or in the list of staff positions) approved by the Board and its bonus procedure. 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.

[5] The legal acts may provide for the obligation to form a respective committee. For example, the Law on the Audit of Financial Statements of the Republic of Lithuania provides that public-interest entities (including but not limited to public limited

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
5.1.2. Companies may decide to set up less than three committees. In such case companies should explain in detail why they have chosen the alternative approach, and how the chosen approach corresponds with the objectives set for the three different committees.	Yes	Refer to the comment submitted regarding the item 5.1.2. above.
5.1.3. In the cases established by the legal acts the functions assigned to the committees formed at companies may be performed by the collegial body itself. In such case the provisions of this Code pertaining to the committees (particularly those related to their role, operation and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	Refer to the comment submitted regarding the item 5.1.2. above.
5.1.4. Committees established by the collegial body should normally be composed of at least three members. Subject to the requirements of the legal acts, committees could be comprised only of two members as well. Members of each committee should be selected on the basis of their competences by giving priority to independent members of the collegial body. The chair of the management board should not serve as the chair of committees.	Yes	The advisory body, the Audit Committee, formed by the Supervisory Council, comprises of three members. All of the acting members of Audit Committee were independent.
5.1.5. The authority of each committee formed should be determined by the collegial body itself. Committees should perform their duties according to the authority delegated to them and regularly inform the collegial body about their activities and performance on a regular basis. The authority of each committee defining its role and specifying its rights and duties should be made public at least once a year (as part of the information disclosed by the company on its governance structure and practice on an annual basis). In compliance with the legal acts regulating the processing of personal data, companies should also include in their annual reports the statements of the existing committees on their composition, the number of meetings and attendance over the year as well as the main directions of their activities and performance.	Yes	
5.1.6. With a view to ensure the independence and impartiality of the committees, the members of the collegial body who are not members of the committees should normally have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or request that certain employees of the company or experts would participate in the meeting. Chair of each committee should have the possibility to maintain direct communication with the shareholders. Cases where such practice is to be applied should be specified in the rules regulating the activities of the committee.	Yes	

liability companies whose securities are traded on a regulated market of the Republic of Lithuania and/or of any other Member State) are under the obligation to set up an audit committee (the legal acts provide for the exemptions where the functions of the audit committee may be carried out by the collegial body performing the supervisory functions).

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
5.2. Nomination committee		
5.2.1. The key functions of the nomination committee should be the following: 1) to select candidates to fill vacancies in the membership of supervisory and management bodies and the administration and recommend the collegial body to approve them. The nomination committee should evaluate the balance of skills, knowledge and experience in the management body, prepare a description of the functions and capabilities required to assume a particular position and assess the time commitment expected; 2) assess, on a regular basis, the structure, size and composition of the supervisory and management bodies as well as the skills, knowledge and activity of its members, and provide the collegial body with recommendations on how the required changes should be sought; 3) devote the attention necessary to ensure succession planning.	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 Council. Nomination committee functions were determined by Nominated committee work regulations confirmed of Supervisory Council. Members and experts of Nomination committee select Supervisory Council. By the Supervisory Council 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 Council.
5.2.2. When dealing with issues related to members of the collegial body who have employment relationships with the company and the heads of the administration, the manager of the company should be consulted by granting him/her the right to submit proposals to the Nomination Committee.	Yes	
5.3. Remuneration committee		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
5.3.1. The main functions of the remuneration committee should be as follows: 1) submit to the collegial body proposals on the remuneration policy applied to members of the supervisory and management bodies and the heads of the administration for approval. Such policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as conditions which would allow the company to recover the amounts or suspend the payments by specifying the circumstances under which it would be expedient to do so; 2) submit to the collegial body proposals regarding individual remuneration for members of the collegial bodies and the heads of the administration in order to ensure that they would be consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned; 3) review, on a regular basis, the remuneration policy and its implementation.	No	Refer to the comment submitted regarding the item 5.1.2. above.
5.4. Audit committee		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
5.4.1. The key functions of the audit committee are defined in the legal acts regulating the activities of the audit committee[6].	Yes	
5.4.2. All members of the committee should be provided with detailed information on specific issues of the company's accounting system, finances and operations. The heads of the company's administration should inform the audit committee about the methods of accounting for significant and unusual transactions where the accounting may be subject to different approaches.	Yes	
5.4.3. The audit committee should decide whether the participation of the chair of the management board, the manager of the company, the chief finance officer (or senior employees responsible for finance and accounting), the internal and external auditors in its meetings is required (and, if required, when). The committee should be entitled, when needed, to meet the relevant persons without members of the management bodies present.	Yes	
5.4.4. The audit committee should be informed about the internal auditor's work program and should be furnished with internal audit reports or periodic summaries. The audit committee should also be informed about the work program of external auditors and should receive from the audit firm a report describing all relationships between the independent audit firm and the company and its group.	Yes	
5.4.5. The audit committee should examine whether the company complies with the applicable provisions regulating the possibility of lodging a complaint or reporting anonymously his/her suspicions of potential violations committed at the company and should also ensure that there is a procedure in place for proportionate and independent investigation of such issues and appropriate follow-up actions.	Yes	
5.4.6. The audit committee should submit to the supervisory board or, where the supervisory board is not formed, to the management board its activity report at least once in every six months, at the time that annual and half-yearly reports are approved.	Yes	
Principle 6: Prevention and disclosure of conflicts of interest **The corporate governance framework should encourage members of the company's supervisory and management bodies to avoid conflicts of interest and ensure a transparent and effective mechanism of disclosure of conflicts of interest related to members of the supervisory and management bodies.**		

[6] Issues related to the activities of audit committees are regulated by Regulation No. 537/2014 of the European Parliament and the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, the Law on the Audit of Financial Statements of the Republic of Lithuania, and the Rules Regulating the Activities of Audit Committees approved by the Bank of Lithuania.

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
When appointing the manager of the company, the management board should take into account the appropriate balance between the candidate's qualifications, experience and competence. 6.1. Any member of the company's supervisory and management body should avoid a situation where his/her personal interests are or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory or management body should, within a reasonable period of time, notify other members of the same body or the body of the company which elected him/her or the company's shareholders of such situation of a conflict of interest, indicate the nature of interests and, where possible, their value.	Yes	The members of the Company's supervisory and management bodies oblige to act in such a manner so as to avoid conflict of interests with the Company. This is determined in the Articles of Association of the Company and in other documents of operation of the Company. For this purpose, the member of the Company's supervisory and management bodies submit to the Company's body that elected them and the Company the declarations about the absence of the conflict of interests and oblige to immediately inform about any change of the circumstances revealed in these declarations. In case of a conflict of interests between a member of the Company's supervisory and management bodies and the Company during discussion of issues, such a member of the supervisory or management bodies shall immediately notify Company's body that elected them and not participate in voting regarding specific items in view of which such conflict arose. A member of the supervisory and management bodies shall not be entitled to vote when the meeting of the supervisory and management bodies discusses the issue related to his work on the supervisory and management bodies or the issue of his responsibility.
Principle 7: Remuneration policy of the company **The remuneration policy and the procedure for review and disclosure of such policy established at the company should prevent potential conflicts of interest and abuse in determining remuneration of members of the collegial bodies and heads of the administration, in addition it should ensure the publicity and transparency of the company's remuneration policy and its long-term strategy.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
7.1. The company should approve and post the remuneration policy on the website of the company; such policy should be reviewed on a regular basis and be consistent with the company's long-term strategy.	Yes	
7.2. The remuneration policy should include all forms of remuneration, including the fixed-rate remuneration, performance-based remuneration, financial incentive schemes, pension arrangements and termination payments as well as the conditions specifying the cases where the company can recover the disbursed amounts or suspend the payments.	Yes	
7.3. With a view to avoid potential conflicts of interest, the remuneration policy should provide that members of the collegial bodies which perform the supervisory functions should not receive remuneration based on the company's performance.	Yes	
7.4. The remuneration policy should provide sufficient information on the policy regarding termination payments. Termination payments should not exceed a fixed amount or a fixed number of annual wages and in general should not be higher than the non-variable component of remuneration for two years or the equivalent thereof. Termination payments should not be paid if the contract is terminated due to inadequate performance.	Not applicable	Termination payments are not foreseen in the Remuneration Policy of the Company (https://www.kn.lt/apie-mus/darbo-uzmokestis/1975).
7.5. In the event that the financial incentive scheme is applied at the company, the remuneration policy should contain sufficient information about the retention of shares after the award thereof. Where remuneration is based on the award of shares, shares should not be vested at least for three years after the award thereof. After vesting, members of the collegial bodies and heads of the administration should retain a certain number of shares until the end of their term in office, subject to the need to compensate for any costs related to the acquisition of shares.	Not applicable	During the year under review the Company has not applied any schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements. This has not been provided for neither by the existing Management personnel remuneration procedure nor employment contracts with directors and other employees of the Company.
7.6. The company should publish information about the implementation of the remuneration policy on its website, with a key focus on the remuneration policy in respect of the collegial bodies and managers in the next and, where relevant, subsequent financial years. It should also contain a review of how the remuneration policy was implemented during the previous financial year. The information of such nature should not include any details having a commercial value. Particular attention should be paid on the major changes in the company's remuneration policy, compared to the previous financial year.	Yes	The Company's Remuneration Report for 2020 will be published on the website www.kn.lt.

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
7.7. It is recommended that the remuneration policy or any major change of the policy should be included on the agenda of the general meeting of shareholders. The schemes under which members and employees of a collegial body receive remuneration in shares or share options should be approved by the general meeting of shareholders.	Yes	
Principle 8: Role of stakeholders in corporate governance **The corporate governance framework should recognize the rights of stakeholders entrenched in the laws or mutual agreements and encourage active cooperation between companies and stakeholders in creating the company value, jobs and financial sustainability. In the context of this principle the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interests in the company concerned.**		
8.1. The corporate governance framework should ensure that the rights and lawful interests of stakeholders are protected.	Yes	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. 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. 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.
8.2. The corporate governance framework should create conditions for stakeholders to participate in corporate governance in the manner prescribed by law. Examples of participation by stakeholders in corporate governance include the participation of employees or their representatives in the adoption of decisions that are important for the company, consultations with employees or their representatives on corporate governance and other important matters, participation of employees in the company's authorized capital, involvement of creditors in corporate governance in the cases of the company's insolvency, etc.	Yes	
8.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.	Yes	
8.4. Stakeholders should be provided with the possibility of reporting confidentially any illegal or unethical practices to the collegial body performing the supervisory function.	Yes	
Principle 9: Disclosure of information **The corporate governance framework should ensure the timely and accurate disclosure of all material corporate issues, including the financial situation, operations and governance of the company.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
9.1. In accordance with the company's procedure on confidential information and commercial secrets and the legal acts regulating the processing of personal data, the information publicly disclosed by the company should include but not be limited to the following:	Yes	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. The Company is not limited only by disclosure of minimum necessary public information and also publishes other important information about the Company's activity. The documents that contain certain information are published in Lithuanian and English on the publicly accessible website of the SC Nasdaq Vilnius Stock Exchange.
9.1.1. operating and financial results of the company;	Yes	
9.1.2. objectives and non-financial information of the company;	Yes	
9.1.3. persons holding a stake in the company or controlling it directly and/or indirectly and/or together with related persons as well as the structure of the group of companies and their relationships by specifying the final beneficiary;	Yes	
9.1.4. members of the company's supervisory and management bodies who are deemed independent, the manager of the company, the shares or votes held by them at the company, participation in corporate governance of other companies, their competence and remuneration;	Yes	
9.1.5. reports of the existing committees on their composition, number of meetings and attendance of members during the last year as well as the main directions and results of their activities;	Yes	
9.1.6. potential key risk factors, the company's risk management and supervision policy;	Yes	
9.1.7. the company's transactions with related parties;	Yes	
9.1.8. main issues related to employees and other stakeholders (for instance, human resource policy, participation of employees in corporate governance, award of the company's shares or share options as incentives, relationships with creditors, suppliers, local community, etc.);	Yes	
9.1.9. structure and strategy of corporate governance;	Yes	
9.1.10. initiatives and measures of social responsibility policy and anti-corruption fight, significant current or planned investment projects. This list is deemed minimum, and companies are encouraged not to restrict themselves to the disclosure of information included into this list. This principle of the Code does not exempt companies from their obligation to disclose information as provided for in the applicable legal acts.	Yes	

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
9.2. When disclosing the information specified in paragraph 9.1.1 of recommendation 9.1, it is recommended that the company which is a parent company in respect of other companies should disclose information about the consolidated results of the whole group of companies.	Yes	Refer to the comment submitted regarding the item 9.1. above.
9.3. When disclosing the information specified in paragraph 9.1.4 of recommendation 9.1, it is recommended that the information on the professional experience and qualifications of members of the company's supervisory and management bodies and the manager of the company as well as potential conflicts of interest which could affect their decisions should be provided. It is further recommended that the remuneration or other income of members of the company's supervisory and management bodies and the manager of the company should be disclosed, as provided for in greater detail in Principle 7.	Yes	Refer to the comment submitted regarding the item 9.1. above.
9.4. Information should be disclosed in such manner that no shareholders or investors are discriminated in terms of the method of receipt and scope of information. Information should be disclosed to all parties concerned at the same time.	Yes	Refer to the comment submitted regarding the item 9.1. above.
Principle 10: Selection of the company's audit firm **The company's audit firm selection mechanism should ensure the independence of the report and opinion of the audit firm.**		

PRINCIPLES / RECOMMENDATIONS	YES AND NO NOT APPLICABLE	COMMENTARY
10.1. With a view to obtain an objective opinion on the company's financial condition and financial results, the company's annual financial statements and the financial information provided in its annual report should be audited by an independent audit firm.	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.
10.2. It is recommended that the audit firm would be proposed to the general meeting of shareholders by the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company.	Yes	The Company's Board (a collegial body) proposes a candidate firm of auditors to the General Meeting of Shareholders taking into account the results of publicly carried out procurement of acquiring audit services. According to the practice established in the Company, the Company's Supervisory Council is informed about the offered choice of the firm of auditors before the General Meeting of Shareholders adopts a decision concerning election of the firm of auditors for execution of the audit of the annual financial reports and determination of conditions of payment for the audit services. The Supervisory Council 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.
10.3. In the event that the audit firm has received remuneration from the company for the non-audit services provided, the company should disclose this publicly. This information should also be available to the supervisory board or, if the supervisory board is not formed at the company, by the management board of the company when considering which audit firm should be proposed to the general meeting of shareholders.	Yes	The information about the payments to the audit company is presented to the Company's Audit committee which share that information with the Supervisory Councils as much as they consider it to be important.