



## **INFORMATION NOTICE OF AB "KLAIPĖDOS NAFTA" MANAGEMENT**

### **REGARDING THE APPROVAL ON THE DECISION TO CONCLUDE A CONTRACT WITH HOEGH LNG KLAIPĖDA FOR THE PROVISION OF THE SERVICE OF OPERATION AND MAINTENANCE (TECHNICAL OPERATOR) OF THE FSRU**


One of the AB "Klaipėdos nafta" (KN or the Company) long-term objectives (Article 2.1., of the Articles of Association of KN) is to ensure rational and safe operation of the liquefied natural gas (LNG) terminal ensuring alternative liquefied natural supply source for Lithuania and other countries as well as creating possibility to distribute LNG in the Baltic Sea region. Moreover, law on LNG Terminal tasked to ensure the long-term operations of the LNG terminal by a) acquiring Floating Storage and Regasification Unit (FSRU) on the most economically viable condition until the end of 2024 and b) ensuring operation of the LNG terminal until the end of 2044. In order to fulfil this obligation and in order to achieve the Company's objectives, KN shall carry out all the necessary preparatory work to ensure the smooth takeover of the FSRU and the safe and reliable operation of the terminal.

Following a public international tender, in early 2022 the Board of KN, with the approval of the shareholders, decided to acquire the FSRU Independence as the most economically advantageous solution. The FSRU Independence will be transferred to the ownership of KN in December 2024 and will be registered in the Lithuanian Maritime Register.

One of the most important issues that will arise when taking over FSRU Independence is ensuring its day-to-day operation, maintenance, and proper performance. The KN assessed the possibility of carrying out the operation and maintenance (O&M) of FSRU Independence itself and consulted international market experts. It was concluded that, given the complexity and strategic importance of this infrastructure in the region, and in order to manage the cost, technical and management/incident risks, it would make the most sense for the company to procure the O&M service of such a vessel, given that the company will have only one vessel and no experience in its technical management. A more experienced operator can make more cost-effective operation and maintenance decisions and has a safety management system that is proven in practice, often validated in several different flag state jurisdictions. An operator with more experience is better placed to leverage economies of scale in the procurement of spare parts in the event of a ship repair requirement. It also has the flexibility to react when additional crew members are needed and to build up the crew at a lower cost compared to a company such as the KN, which would have to ensure the interchangeability of the crew and the number of shifts to ensure proper work and rest balance.

#### **SUPPLIER SELECTION PROCESS**

The tender for the selection of the technical operator of the FSRU Independence was a multi-stage process that ensured maximum competitiveness by involving world-class companies with the appropriate competences to provide the O&M services. Prior to the initiation of the procurement process, the KN organised a market sounding in early 2022 to clarify the principles and responsibilities



of the operator to be hired. More than 10 market players participated in the market sounding. Based on the insights gained, the procurement documents of the service were developed. In the next phase, the KN implemented a public market consultation to inform market participants about the future procurement and to seek their comments and observations. In October 2022, an international public tender was launched for the procurement of O&M services for the FSRU<sup>1</sup>. Due to the complexity of the tender, and in order to maximise transparency and compliance with public procurement requirements, the procurement was monitored by representatives of the Public Procurement Service, with the participation of procurement experts from the KN, the Lithuanian Transport Safety Administration and the technical consultant DNV.

The companies participating in the tender had to have experience in FSRU management, an audited safety management system, and specialists had to have experience in FSRU technical management.

In order to select the most economically advantageous bid, two components of the bids were assessed: price and quality. The price evaluation considered the fixed contract costs: the annual maintenance fee, the crew cost, and pre-operational costs. The quality assessment took into account the experience of the assigned specialists, the competences of the vessel manager and the technical manager, the length of service, the experience in FSRU facilities, the crew formation and the interchangeability of the crew.

This purchase gives the technical operator more responsibility than usual in the shipping market. The KN's aim is for the operator to be responsible for all crew actions, uninterrupted terminal operations, etc. The contract will detail the operator's responsibilities and where these responsibilities are limited.

3 bidders were competing at the final stage of the tender, all strong international shipping companies. It is worth noting that all the bids received were competitive, reflecting the quality of service requested. The winner was awarded Hoegh LNG Klaipėda, acting in a joint operation with Hoegh LNG Fleet Management, which best met the tender criteria and submitted the most advantageous offer.

The contract with the technical operator is for a period of 5 years with an option to extend it for another 5 years. Services will start in December 2024.

## THE PRICING

The tender foresees that the selected contractor will plan and organise the daily operation, maintenance and repair, as well as the timely procurement of the necessary equipment, spare parts and services, within the scope of operation and maintenance services.


The pricing type chosen, which is typical in the shipping market, is to fix the annual management fee and crew costs, excluding Lithuanian taxes on seafarers' remuneration, while all other variable costs, such as the vessel's running costs, the cost of repairs, maintenance, spare parts necessary for the maintenance and repair, and the cost of the emission allowances, would be planned in advance and reimbursed in accordance with the actual cost.

The annual fixed operating costs of the FSRU - vessel management fee and crew costs (excluding taxes paid in Lithuania) - will amount to EUR 4,85 million per year.

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<sup>1</sup> [Services - 567187-2022 - TED Tenders Electronic Daily \(europa.eu\)](#)





The management fee includes the administration of the technical operator service, the organisation of day-to-day operations and maintenance, ensuring compliance with prescribed standards and the operator's bonus. Crew costs include seafarers' remuneration and crew formation and supporting costs.

Fixed costs are estimated to account for about one third of the total operating costs of the vessel, while the rest 2/3 of operating costs are variable costs which will depend annually on the repair needs of the FSRU, the level of terminal's utilisation and the corresponding quantity of emission allowances required, market prices and other factors and will be calculated on an actual basis. Operating costs will be planned on an annual basis and reimbursed on an actual basis. The overall operating costs of the FSRU are expected to remain at a similar level as today.

#### BENEFIT

- The buyout of the FSRU will bring financial benefits. It is estimated that once the FSRU becomes the property of Lithuania, total terminal operating costs will be about one third lower than if the lease of the vessel were renewed under the current terms of the time charter party agreement.
- As the owner of the LNG terminal, we will be able to take the necessary management decisions more quickly and easily and to fully dispose of the vessel.
- The benefits of the FSRU buyout have been felt by consumers as of 2020 - due to the decisions taken at the state level to ensure the operation of the LNG terminal in Lithuania until 2044, KN has been able to restructure the lease payments for the vessel and take a loan from the Nordic Investment Bank (NIB) to optimise the LNG terminal costs. The NIB loan covers about EUR 26.8 million of payments annually from 2020 to 2024 (inclusive), enabling KN to reduce the terminal's costs for gas consumers already from 2020. The financing secured by KN has helped to ensure similar tariffs throughout the lifetime of the terminal, both before and after the vessel acquisition.
- The efficient operation of the terminal also generates economic benefits: as of spring 2022, with the terminal operating at almost its maximum capacity and with the allocation of capacity for a period of 10 years, the share of the LNG terminal's operation in the security component paid by Lithuanian gas consumers is zero. Moreover, in the first half of 2023, more than half of the revenues were generated by the LNG terminal's customers outside Lithuania.
- An additional benefit is that the FSRU Independence will be registered in the Lithuanian Maritime Register and will fly the Lithuanian flag. This will lead to a growing prestige, visibility, and credibility of the Lithuanian flag in the maritime industry. The plan is to provide the cadets with the opportunity for practical training at FSRU Independence with the possibility to be employed in a KN and/or technical operator company.

#### RISK MITIGATION

By selecting Hoegh LNG Klaipėda as the FSRU O&M service provider, KN minimised operational, technical and safety risks. In this case, the change will not affect the operation itself, and the regasification regime will be ensured according to the demand of the terminal users even during the FSRU transfer to KN. The decision to use the FSRU O&M service provider is in line with the shareholder's expectation to ensure a rational and safe operation of the LNG terminal.

