

APPROVED BY  
Order No 1-56 of the Minister of Energy of  
the Republic of Lithuania  
of 7 March 2023

**LETTER**  
**ON THE OBJECTIVES PURSUED AND EXPECTATIONS SET BY THE STATE FOR**  
**THE STOCK COMPANY “KLAIPĖDOS NAFTA”**

This letter on the objectives pursued and expectations set by the State (hereinafter referred to as the “Letter”) presents the expectations of the shareholder of the stock company “Klaipėdos Nafta” (hereinafter referred to as the “Company”) - the State (hereinafter referred to as the “Shareholder”), represented by the Ministry of Energy of the Republic of Lithuania, with regard to the directions, principles, objectives and priorities of the activities of the Company and its subsidiaries (hereinafter referred to as the “Group”).

The Letter sets out the Shareholder’s expectations for the short and medium term, and guidelines for expectations of the Company’s long-term development. It should serve as a basis for the preparation and review of the Company’s and individual Group companies’ strategies, as well as for the preparation of their annual business plans. The Letter should be considered in the context of the National Energy Independence Strategy and other legal acts shaping the state policy in the field of energy, as well as the legal acts of the Republic of Lithuania regulating the activities of state-owned companies. The provisions of the present Letter also apply to activities of the Group.

The Letter is not intended to limit or extend the rights or obligations of the Shareholder, the Company, the individual companies of the Group or their governing bodies. First and foremost, the Company and its governing bodies must comply with applicable law (whether or not referred to in the Letter), the Articles of Association of the Group companies, the decisions taken by the shareholders, good corporate governance practice and take responsibility for their decisions. In fulfilling the Shareholder’s expectations set out in the Letter, the Company, and its governing bodies must comply with the principles of reasonableness, transparency, efficiency, and rational asset management. The Company is responsible for the transparent management and coordination of the Group’s activities, increasing efficiency in order to provide competitive services to its customers and ensuring socially responsible increase of long-term value creation for the State.

**THE GROUP’S AREAS OF ACTIVITY AND FUNCTIONS**

The Company is an operator of oil products and liquefied natural gas (hereinafter referred to as “LNG”) terminals.

Activities of the Company that are of public interest:

- Management of terminals of oil and refined products (hereinafter referred to as “oil products”). The Company operates oil product handling and storage terminals in the Port of Klaipėda and in Subačius (Kupiškis district), and ensures the supply of oil products to Lithuanian market, as well as the storage thereof. At the Subačius terminal, the Company provides long-term storage services of oil products, and the terminal also stores the State’s accumulated stocks of oil products. At the Klaipėda terminal, the Company ensures the possibility of importing oil products into the Lithuanian market.
- Management LNG terminal in Klaipėda.

The Company is subject to the Law on the Protection of Objects of Importance to Ensuring National Security of the Republic of Lithuania, under which the Company is included in the list of Category II enterprises of importance to ensuring national security, while the oil product terminals in Klaipėda and Subačius operated by the Company are included in the list of facilities and property of importance to ensuring national security.

The Company also carries out commercial activities, such as provision of oil product and other liquid energy product handling, storage, blending and other related services, participates in LNG terminal and related infrastructure construction and management projects in other countries, by providing consultancy services, offering LNG terminal operator and/or related infrastructure management and maintenance services, and investing in these objects.

## **OBJECTIVES AND PERFORMANCE EXPECTATIONS OF THE GROUP**

### **Ensuring Lithuania's energy independence**

The Company must ensure that the floating LNG storage and regasification unit (FSRU) *Independence* is acquired by 31 December 2024, and also must ensure the long-term operation of the Klaipėda LNG terminal until 2044, as well as the smooth operation of the LNG terminal. It is the responsibility of the Company's governing bodies to ensure that the Company adequately prepares for the signing of the contract for the new operational service of the LNG FSRU *Independence* by identifying risk factors and establishing risk-managing terms and conditions.

The Company must make every effort to ensure the physical and cyber protection of the objects managed by the Company that are important for national security. The Company must assess potential hybrid and military threats and, in cooperation with the relevant government agencies and authorities, take the necessary measures to ensure the comprehensive protection of these objects.

The Klaipėda LNG terminal was built in implementation of the objectives and goals of the national energy policy as set out in the National Energy Independence Strategy. In allocating the long-term and short-term capacities of the LNG terminal, the Company must take into account the national needs for natural gas supply and national security.

The Company must ensure the smooth operation of the oil terminals and the good technical condition of the infrastructure. The Company must ensure the conditions for the long-term storage of the State's stocks of oil products.

### **Transformation and international development**

The Company must have a long-term strategy to ensure the Company's consistent growth and competitiveness in a low-carbon economy, in line with the European Union's Green Deal economic transformation. The aforementioned strategy should plan the period up to 2030 in detail and the period 2030–2050 in terms of priorities, business development goals and indicators sought by the Company. In considering the directions of Company's development and growth, the strategy must pay particular attention to:

- diversification of activities and reduction of dependence on individual customers;
- exploring business development opportunities in the value chains of wind parks, hydrogen, as well as an energy island, producing hydrogen from offshore wind electricity, and in the value chains of synthetic methane, synthetic methanol, ammonium and other energy carriers, sustainable and high value-added petrochemicals, decarbonisation of the energy sector and industry (e.g. CO<sub>2</sub> capture, utilisation, and storage);
- international expansion of LNG terminal operations and maintenance services, maximising the return generated from the international expansion to shareholders;

- expansion of the Klaipėda LNG terminal capacity and the development of the commercial (non-regulated) activities of the LNG terminal and the increase of the return from non-regulated activities;
- analysis of which activity(ies) would generate the highest return from the use of the exclusive value area in Port of Klaipėda managed by the Company;
- development of non-regulated activities and maximisation of returns from non-regulated activities;
- competitiveness, operational efficiency, digitalisation, increasing occupational and technical safety culture;
- environmental protection, reduction of greenhouse gas emissions, and cost-benefit analysis-based energy supply from the Company's own renewable energy generation sources.

The name of the Company no longer reflects the expanded activities of the Company. The development and presentation of a long-term strategy must become an important part of the process of rebranding the Company.

The Company needs to participate in the transformation of Lithuania's energy sector as Lithuania moves towards green energy and seeks to position itself in clean energy value chains. In order to achieve this goal, the Company needs to both leverage its existing competences in logistics, infrastructure operation, infrastructure project implementation, and consistently and purposefully grow the Company's competences in the field of climate neutral energy.

The Company must continue to strive to exploit its potential - the unique experience and knowledge gained in the installation and operation of the Klaipėda LNG terminal - and to expand the Company's activities by participating in LNG terminal liquid energy product (oil, high value-added petrochemicals and biofuel) projects being developed in other countries, whether as an investor, infrastructure operator, consultant or in other forms, and by identifying new potential business niches. These activities are expected to represent a significant part of the Company's revenues in the long term. The Company needs to maximise the returns generated to shareholders by international development.

### **Financial expectations**

The Company's operating profitability must not be less than the target set by the Government. The Company should focus on the level of best commercial practices when consulting the Governance Coordination Centre of State-Owned Enterprises on the level of the Company's performance indicators.

The Company must maintain a consistent dividend policy and the level of dividends paid by the Company must not be lower than the level set by the Government. The Company should plan for an annual dividend level of at least EUR 5 million in the medium term, during the international development phase, starting from 2026, and in the long term, as part of the implementation of the Company's long-term strategy, for an annual dividend level of at least EUR 12 million from 2030.

The Company must ensure maximum value for shareholders when entering into oil product handling contracts with Klaipėda Oil Terminal customers. The LNG reloading station operated by the Company must be profitable.

The Company must ensure the consistent and sustainable development of the Company's non-regulated activities through the development of existing and new revenue-generating activities and the acquisition of the necessary competences. The Company's investments must be based on cost-benefit analyses, solutions that enhance the Company's competitiveness, and the implementation of the national energy strategic objectives within the Company's area of activity. The Company's investments must be made in a financially disciplined manner, with project returns in line with the

risks assumed and project debt levels in line with market practice. Investments outside Lithuania should be subject to a proper assessment of the country's market risk and an appropriate return on capital. The Company's governing bodies should ensure that the Company's capital structure is optimal.

The Shareholder expects that the strategic business plan of the Company will include financial key performance indicators KPIs and specialised indicators, as well as non-financial specialised indicators, and that the achievement of these indicators will be ensured.

## **THE GROUP'S OPERATING PRINCIPLES**

### **Group's corporate governance**

The Group must conduct its business to the highest standards of transparency, governance, ethics and social responsibility. The Company must ensure the effective operation of the Group and the effective management and control of the Group's entities. The Company must ensure that the strategic projects of the Group companies are implemented in a timely and appropriate manner.

The long-term objectives set for the management of the Company and the Group companies must be in line with the Company's long-term objectives and best international practices. These objectives should include ensuring operational safety and reliability, implementing the Company's transformation, improving efficiency, enhancing shareholders return and return on capital, reducing greenhouse gas emissions and protecting the environment, ensuring occupational safety and improving corporate social responsibility and good corporate governance practices. The governing bodies of the Company must set both financial and non-financial expectations for Group companies that the Company would seek to achieve in its subsidiaries

It is necessary to ensure that the Board of the Company approves and takes responsibility for key decisions and the implementation of the Company's strategy. In order to ensure the effectiveness of the Group companies, the Company must ensure that the Group companies have clear, ambitious, and meaningful objectives, that indicators for their evaluation have been formulated and that effective monitoring of their implementation is ensured. The Group must have an effective and competitive reward system in place to provide a framework for achieving its objectives.

The Company must have the highest level of corporate governance maturity (A+), as attested by the Governance Coordination Centre and the Corporate Governance Level Index awarded. The Company must continue to follow the OECD good governance recommendations, the NASDAQ requirements, and best practices in international corporate governance, thus setting a good example for other state-owned enterprises.

The Company's corporate governance model must be designed to ensure transparent, efficient, coordinated, high-quality and effective operations. The shareholder expects that, in order to achieve efficiency and follow the need to flatten the corporate governance model, the Company will revise its corporate governance model and after the end of the term of office of the current composition of the Company's Board all core competences will be concentrated in a single body - the Company's Board.

The Shareholder expects that the Company will proactively promote energy and energy engineering professions in Lithuania (scholarships from energy companies, paid internships in local companies, participation in study or career fairs, communication).

**Transparency.** The Company must apply the highest standards of transparency and the principles of depoliticised operations in its activities. The Company needs to improve the content of its annual report, strengthen its sustainability and reporting practices, and ensure effective corruption prevention, which means zero tolerance for corruption in all group companies. The Company must continuously assess the risks of nepotism and cronyism and ensure an effective system for managing

conflicts of interest. Group companies must comply with the legal requirements regarding the disclosure of data on Company websites.

**Operational efficiency.** The Company needs to improve operational efficiency by optimising the allocation of available resources, identifying and managing risks, making effective decisions, improving the quality of services provided, ensuring quality management of processes and projects, and improving productivity.

The Company must regularly benchmark its *operational excellence* and compare the Company's asset management performance with other best managed oil and LNG terminals in Europe in order to objectively assess the Company's strengths and opportunities for improvement.

The Company must ensure the most cost-effective pricing and capacity ordering model for Klaipėda LNG terminal services. The Company must ensure efficient management of the LNG terminal costs and utilisation of the LNG terminal capacity. The performance of the LNG terminal must be assessed not only in terms of the return it generates for the Company and its shareholders but also in terms of the overall socio-economic return for the State, citizens, and the impact on the natural gas sector.

The Company, following the latest market developments and seeking to make optimal use of the available infrastructure, must expand the range of services and products that it handles and increase the volumes and returns of terminals' activities. The efficient operation of oil and oil product terminals must maximise the opportunities for importing oil and oil products through Lithuania and exporting them to other countries. The profitability of this activity must be at least equal to that of competing terminals or other similar companies.

The Company must play an active role in the implementation of energy efficiency targets in Lithuania in line with the European Union's 2030 targets. The Company must promote a responsible approach to energy efficiency and implement energy efficiency measures in its day-to-day operations. The shareholder expects the Company to increase digitisation and transform itself towards a data-driven organisation that will use and evaluate data to make timely business decisions, and use digitisation solutions to improve the Company's operational efficiency and productivity.

**Sustainable development.** The environmental, social, and governance (ESG) policies must be approved by the governing bodies of the Company and must be incorporated into the long-term performance objectives of the Group companies. The Company must consistently implement and monitor its commitment to zero net carbon emissions by 2050 and contribute to the achievement of the Sustainable Development Goals (SDGs), which are most affected by the activities of the Group companies. The Group's corporate activities must be based on principles that pursue economic, social, and environmental objectives, taking into account the interests of all stakeholders (consumers, employees, the public, public authorities, etc.) in accordance with the principles of sustainable development. Group companies, acting in accordance with the principles of social responsibility, must comply with legislation, international norms, and ethical standards, as well as with respect for people, society, and nature.

**Innovation.** The Company must strive for synergy and efficiency in its activities, introduce innovations in its activities and seek innovative cross-sectoral solutions in the electricity, transport, and other sectors by utilising the Company's existing infrastructure and developing new infrastructure. The Company must contribute to the promotion of energy innovation in the Lithuanian energy sector.

**Responsible and value-based activities.** The Company's activities must be guided by the Company's Corporate Social Responsibility (CSR) policy (as a part of ESG policy or as a separate document), which shall be approved by the Company's governing bodies. This policy must be based on the highest standards of transparency, governance, ethics, social responsibility and best practices in the area of sustainable development, and must be incorporated into the Group's long-term corporate objectives. The Company should strengthen its employer branding, introduce and develop systems

for employee values, interchangeability of competences and motivation, and ensure the safety and physical and emotional health of employees. The Company must pay greater attention to attracting and retaining talent, as well as to promote the diversity in employee competences and to seek gender equality in management positions and remuneration. The Company should protect and constantly enhance its reputation, ensure effective communication with stakeholders and use external and internal communication effectively in its operations.

**Development of health and safety culture.** The Company must ensure constant and sustainable development of safety culture within the entire Group. The company must regularly assess its safety culture in the context of comparable best-managed terminals worldwide. The company must strive to create and maintain an environment that is free from injuries resulting from operational incidents (zero tolerance for occupational safety violations).

## **ACCOUNTABILITY**

In accordance with good governance practices, the Chairmen of the Company's collegial bodies and the CEO during periodic meetings between the Shareholder, , should discuss the following matters: key events that occurred during the reporting period, the progress in achieving expectations and implementing strategic objectives, as well as other matters of substantial importance to the continuity of Company's operations.

Reports on the progress of the implementation of strategic projects in the areas under control of the Shareholder as institution, and on the commitments undertaken in relation to regional cooperation and other related relevant information must be provided to the Shareholder's representatives on a periodic basis or as requested, ensuring the confidentiality.

The Shareholder expects that the Company's collegial bodies will continue good corporate governance practices and will carry out an annual assessment of their own performance, and will also agree on further actions to improve the functioning of these bodies.