



**KLAIPĖDOS NAFTA**  
A K C I N Ė B E N D R O V Ē



CORPORATE STRATEGY FOR 2016-2020

Summary

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This document is a shortened version of the complete AB “Klaipėdos nafta” strategy, developed taking into account the confidentiality requirements for public companies whose shares are listed in stock exchange. This document does not constitute an offer or invitation to purchase or subscribe for any shares and neither it nor any part of it shall form the basis of or be relied upon in connection with any contract or commitment whatsoever.

## A LETTER FROM CEO



Dear clients, partners, employees and shareholders,

2015 was very significant and meaningful for our Company – a year full of responsibilities that was concluded with strong results and ambitious plans for the future.

We achieved the best financial results in Company's history. We managed to do this by monitoring our processes and costs, ensuring effectiveness of regulated activities, along with maintaining the profitability of our commercial activities. We proved our ability to integrate new activities into the energy sector of Lithuania, react to changes in the global market, as well as, earn revenues and increase Company's value. We pushed our financial indicators and corporate standards another step closer to the results of modern European energy companies. Highly praised by leaders of the global gas market, AB "Klaipėdos nafta" has become one of the most advanced energy companies in Lithuania.

We strive for effectiveness not only within the Company but in client cooperation as well. We invest in innovation and effective use of technology in our terminals. All of these efforts are dedicated to satisfy the needs of the clients in a timely and transparent manner and thus build a top level supply-chain. Effectiveness and trust-

worthiness allow us to retain and expand the group of loyal clients both in Lithuania and internationally. The surrounding environment continues to change – we are changing together.

I am proud to present for the first time the long-term corporate strategy for AB "Klaipėdos nafta". It is the most important document for planning of our operations in 2016-2020, which states our objectives and future outlook. The Company will pursue its long-term goals by working in five strategic directions:

- We will increase the value of our Company by pursuing the target Return on Equity, paying dividends to our shareholders based on the clear dividend policy, ensuring high profitability of our commercial activities and investing into promising value-added projects.
- While maintaining the reputation of being a trustworthy oil import, export, and LNG terminal we will aim to ensure secure, reliable, and effective operations of oil and LNG terminals.
- Growth and diversification of activities will be ensured by expanding current activities and developing new ones.
- We base our way to success on continuous improvement of service quality and maintenance of operational efficiency. Our goal is to become one of the most effective energy companies in Europe. In order to achieve this, we plan to optimize the organizational structure of the Company, develop and install modern technologies, giving priority to solutions created in Lithuania, thus enabling ourselves to further improve internal processes of the Company.
- We emphasize development of competence. Company's activities will continue to be based on core values, employee commitment, science and business cooperation for a balanced expansion of activities.

I strongly believe that our achievements in 2015 are the solid foundation for building modern, open, progressive, trustworthy, transparent and socially responsible Company.

**Mantas Bartuška**  
CEO

## EXECUTIVE SUMMARY

Stock company „Klaipėdos nafta“ (hereafter – Company or KN) has prepared corporate strategy for 2016 - 2020, in which it has analyzed internal and external factors that affect the Company, set strategic goals for organization as a whole and separately for each activity, evaluated historical financial data and set targets for the strategy period.

The Company aims to achieve the following in its main activities:

**Oil terminal:** tranship oil products in a safe, reliable and competitive manner, increase the terminal's appeal and attract new clients;

**Liquefied natural gas (LNG) terminal:** be a strategically important company for Lithuania and the surrounding region, which secures LNG import to Lithuania and its neighboring countries;

**LNG small scale activities:** install a continental LNG distribution station and begin the small scale LNG activities;

**Subačius fuel storage facility (Subačius kuro bazė or SKB):** secure effective storage of national mandatory oil product reserve.

The strategy underlines aim to become one of the most efficient companies in Europe, organizational changes, diversification, new services and projects, which are

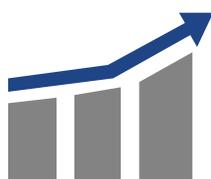
main factors for sustainable value growth of the Company. It is expected that achievements of the Company will be acknowledged and valued at the state level in Lithuania.

A unique opportunity to expand business geography of the Company was created by successful implementation of the LNG terminal project and gained experience that could be applied internationally. LNG small scale project is particularly important for the whole Baltic Sea region. While implementing corporate strategy the Company aims to grow its attractiveness to investors and offer competitive investment returns through dividend payout and increased company value driven by improving financial ratios of commercial activities.

KN's financial ratios will largely depend on the decision to buyout the LNG carrier - FSRU Independence, which currently is managed under the operational leasing contract. The acquisition of the LNG terminal would enable a decrease of natural gas price for the consumers, however at the same time the level of financial obligations of the Company would be significantly increased.

The strategy provides a strong emphasis on corporate social responsibility, employee competence development, environmental protection and cooperation with academic institutions of Lithuania.

### FORECASTED BUSINESS RESULTS



**NET INCOME MARGIN**  
10 - 15%  
2016-2020M.



**DIVIDEND PAYOUT RATIO**  
50%  
OF NET INCOME



**RETURN ON EQUITY**  
AT LEAST  
5 - 8%

# ABOUT THE COMPANY

## BRIEF HISTORY

The beginning of Company's activities can be traced back to the old oil terminal in Klaipėda. Oil export and transshipment base was operated in the current KN territory for over 50 years. Oil products (mostly mazut) were transported to Klaipėda from nearby oil refineries in Russia and other countries. After Lithuania regained its independence, a decision was made to continue the activities of the terminal which at that time required a substantial reconstruction. AB "Klaipėdos nafta" was founded in 1994. The Company was assigned to be the designated contractor to carry out the reconstruction and later became the operator of the new terminal. During the period between 1995-2002 the whole infrastructure was rebuilt. Nowadays the KN oil terminal is one of the most modern oil transshipment terminals in Europe.

On June 12, 2012 the Lithuanian Parliament passed the law on LNG terminal that regulates main principles and requirements for installation, activity and operation of the LNG terminal. AB "Klaipėdos nafta" was assigned to implement the project. After a two-year development process, the LNG terminal was launched on November 27, 2014 and the Company became the operator of the

terminal's infrastructure.

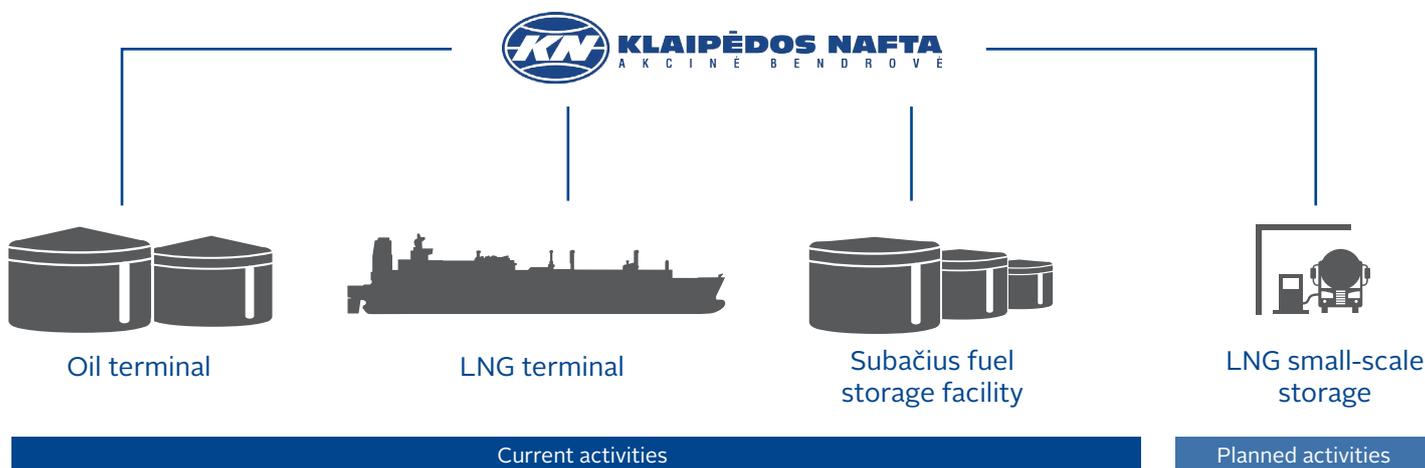
In 2012, as a result of decree approved by Government Of The Republic Of Lithuania, the management of SKB was transferred from Lithuanian Oil Products Agency to AB "Klaipėdos nafta". This order was made with purpose to improve the management of state owned assets. Long term oil product storage takes place in a container park with most of capacity being allocated to the national mandatory reserve of oil products.

In addition to running efficient and stable operations of the terminal, the Company aims to adapt to dynamic market conditions and continuously look for new development opportunities and value-adding projects.

## MAIN ACTIVITIES DURING THE STRATEGY PERIOD

KN operations can be divided into four separate activities: oil product transshipment (oil terminal), LNG terminal operations, LNG small scale activities and long term oil product storing (Subačius fuel storage facility). All of these activities are autonomous. The management assesses financial results of each activity and sets individual strategic objectives.

### MAIN ACTIVITIES OF THE COMPANY



## Oil terminal

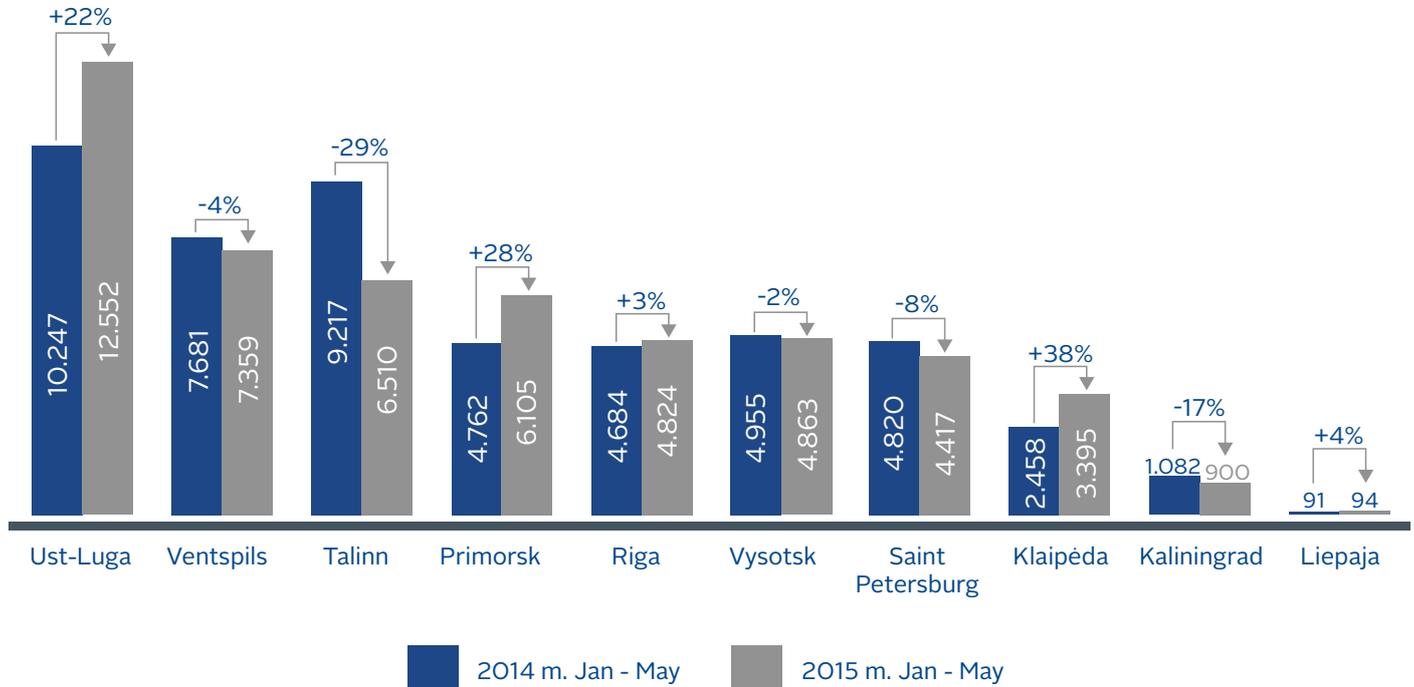
The main purpose of the oil terminal is to provide storage and transshipment (railway to tankers and vice versa) services for oil products that are transported from/to oil refineries in Russia, Belarus and other countries.

The most important goal for the oil terminal is to maximize the volume of oil product storage and transshipment. During the strategy period emphasis will lie on oil supply from the main oil refineries in the region, including Mažeikiai (SC ORLEN Lietuva), Mozyr and Navapolatsk. At the same time, the Company will search for new suppliers and opportunities to expand business.

While expanding oil product transshipment the focus will be on:

- Improving technical capabilities by increasing operational efficiency to tranship larger quantities of oil products;
- Improving the flexibility of the oil terminal by increasing diversity of oil product range for storage and transshipment, thus growing terminal's competitiveness.

**TRANSHIPMENT OF OIL (EXCL. CRUDE OIL) IN EASTERN EUROPE IN JANUARY-MAY OF 2014 AND 2015, 1000 T.**



**LNG Terminal**

AB “Klaipėdos nafta” acted as the main developer of the LNG project and currently is the operator of the terminal’s infrastructure. The main functions of the terminal:

- LNG storage, gasification and gas transmission to the natural gas transmission system.
- LNG transhipment.

This state regulated activity has the objective to secure uninterrupted gas import to Lithuania and create additional value to the country and gas users. Successful implementation of this objective will provide the following benefits for gas consumers in Lithuania and nearby countries:

- Ensured security of natural gas supply;
- Possibility to purchase natural gas in a global market and choose providers;
- Competition in a natural gas market;

- Price ceiling for natural gas in accordance with global LNG market conditions;
- Decrease in safety supplement to tariffs for natural gas.

**LNG small scale activities**

The completion of the LNG terminal has created favourable conditions for KN to develop additional LNG related activities such as:

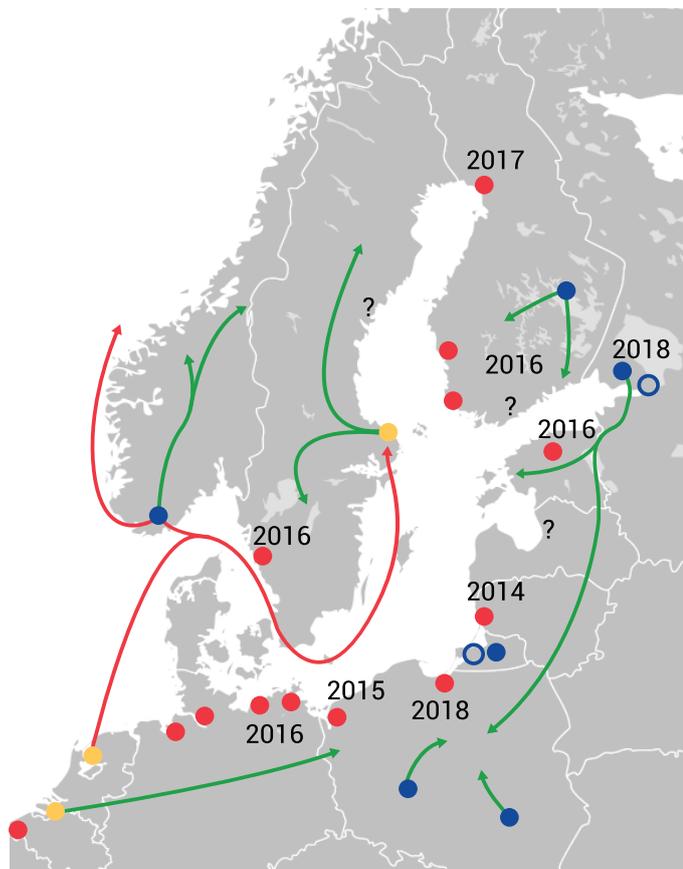
- LNG bunkering (for ship fuel);
- LNG reloading to tank trucks;
- LNG transportation to other LNG terminals and distribution stations in the Baltic Sea region.

The key investment for the initial development of small scale LNG activities is devoted to the construction of the small scale LNG distribution station in the harbour of Klaipėda. At the later stage the Company plans investments into other small scale LNG distribution stations in the Baltic Sea region.

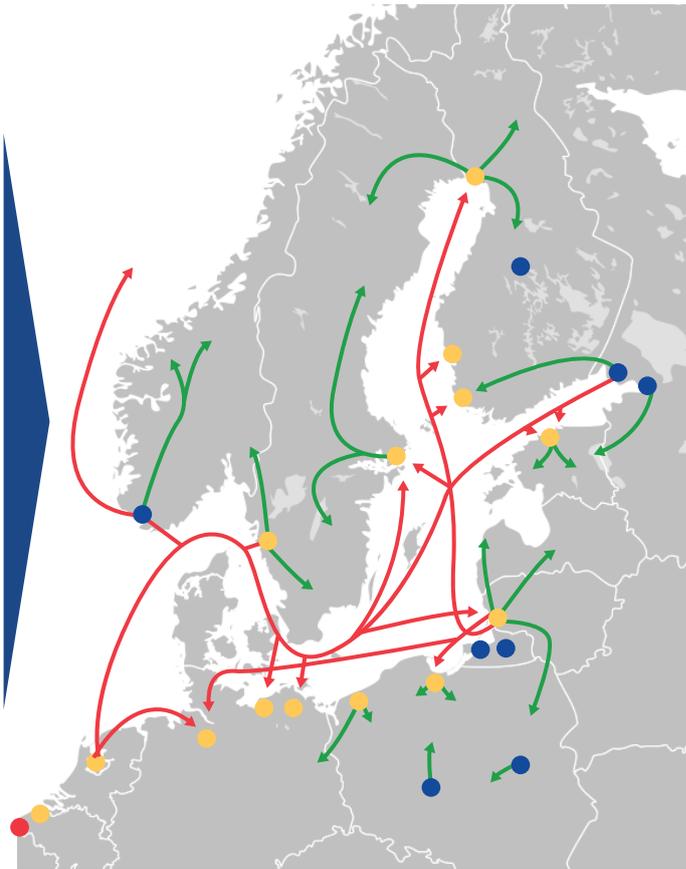


LNG MARKET FORECAST IN THE BALTIC SEA FOR 2020

LNG market in 2014



LNG potential in 2020



- Active LNG terminals/distribution stations
- Developing LNG terminals/distribution stations
- Active liquefaction plants

- Developing liquefaction plants
- Routes of carrier ships
- Routes of tank trucks

**Subačius fuel storage facility – long term storage of oil products**

Long term storage of oil products mainly is aimed for the maintenance of mandatory state fuel reserve in accordance with relevant legislation of the Republic of Lithuania. This activity is currently carried out at Subačius fuel storage facility owned by KN.

During the strategy period, the Company will continue to operate the infrastructure and store the national reserve of oil products. The Company aims to ensure operational profitability as well as implementation of national energy security objectives.

The growing consumption of oil products in Lithuania influences the need for oil storage services for other clients. Hence, the Company plans to expand its long term storage capacity in order to store larger quantity of oil products. Assessing changing energy production trends in Lithuania and availability of vacant capacities for oil product storage KN plans to evaluate investment opportunities in one of the oil storage terminals to adopt it for long term storage activities.

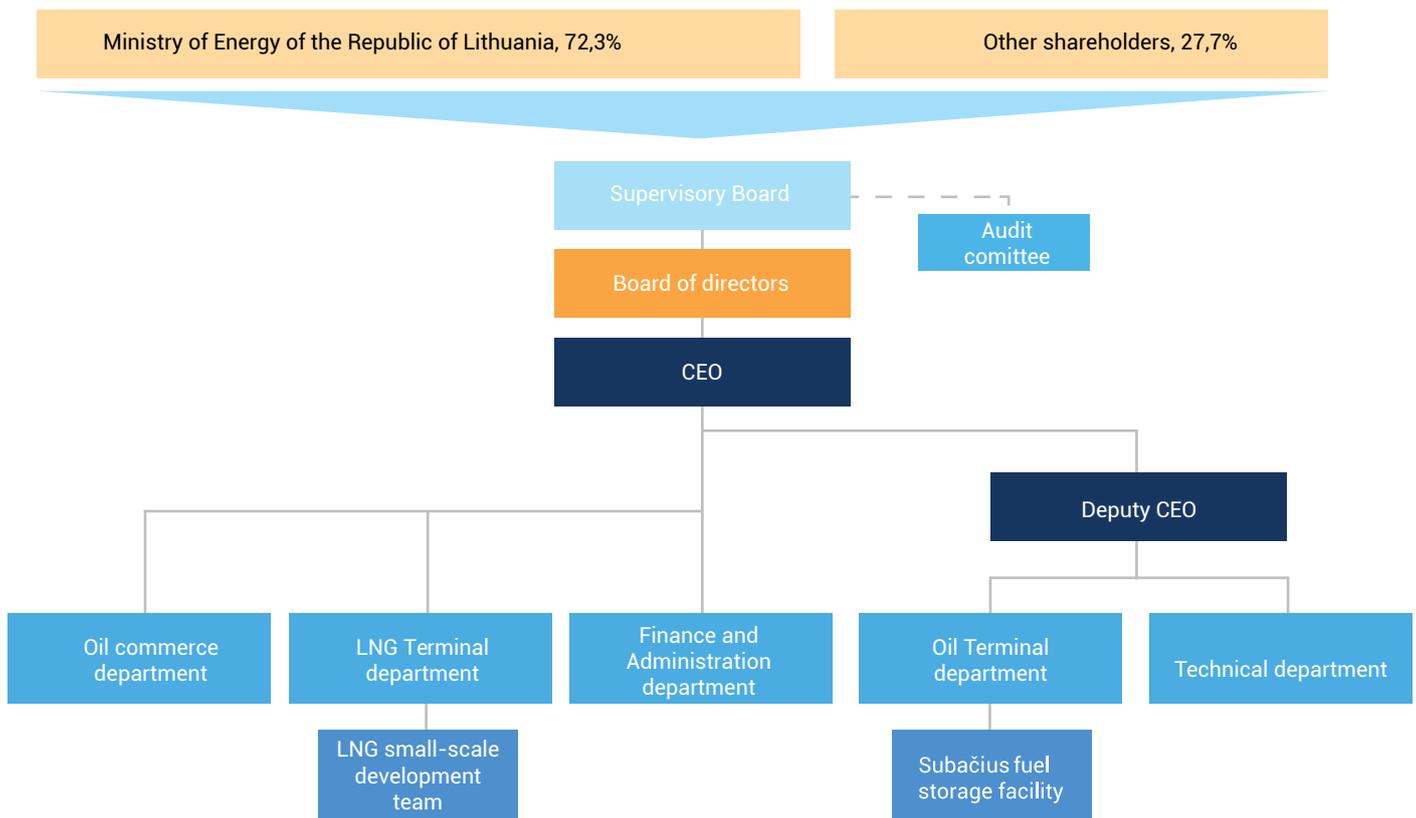


**ORGANIZATIONAL STRUCTURE**

72.32% of the stock company's „Klaipėdos nafta“ shares are state-owned and represented by the Ministry of Energy of the Republic of Lithuania, 10.24% are owned by The Concern Achema Group and the remaining

17.44% are owned by other minority shareholders. Since 1996 KN is listed on the Nasdaq OMX Baltic stock exchange. The board and the supervisory board of the Company include independent specialists and experts.

**ORGANIZATIONAL STRUCTURE OF THE COMPANY**



# ENVIRONMENTAL ANALYSIS

This section is to analyse and summarize the internal environment of AB "Klaipėdos nafta", as well as external factors that have the biggest influence on the Company's activities and development opportunities.

## INTERNAL FACTOR ANALYSIS

### Technology and infrastructure



#### Oil terminal

The technological characteristics of the terminal determine how quickly and effectively the Company is able to satisfy the needs of current and potential clients, while generating additional revenues. The oil terminal's infrastructure is designed to tranship oil products (provided by oil refineries) from railway tanks to ships.

Main facts about KN oil terminal's infrastructure:

- Optimal annual capacity is 7 million tonnes of oil products;
- Cargo batches are stored in coast storage tanks with total capacity of 450,000 m<sup>3</sup>;
- Transhipment to tankers is carried out through two jetties;
- The Company is capable of supplying Lithuania with imported oil products that are transported to the port of Klaipėda by tankers.

Klaipėda State Seaport Authority is planning to reconstruct the Port of Klaipėda and to deepen the canal to 17 m. This would allow the Company to improve its competitive advantage in comparison to other ports.

#### LNG terminal



LNG terminal's infrastructure is brand new. The construction was finished and the terminal was launched in late 2014.

FSRU is leased from a Norwegian company Hoegh LNG (10 year operational lease contract with a buyout option at maturity).

#### Subačius fuel storage facility



The infrastructure of Subačius fuel storage facility consists of:

- 338,000 m<sup>3</sup> park of tanks for light oil products storage;
- Railway trestle capable of simultaneously serving 14 loaded tank-wagons;
- Modern site for tank-car refuelling;
- The main quality parameters of oil products analysed by renovated laboratory;
- Vehicles, other buildings and equipment for support services.

### Human resources

Current organizational structure of AB "Klaipėdos nafta" was formed in 2015 after separating technical support, maintenance and administration from main commercial activities and logistics. In order to achieve effective management, separate activities are executed by different departments of the Company.

Human resource unit coordinates the search and selection of new employees, approves employee functions and responsibilities. Constant market salary analysis is performed in order to set fair and effective remuneration levels. The Company invests in employees' trainings and develops employees' knowledge and skills.

The results of an internal climate survey reveal that majority of employees are satisfied with the Company, working environment and corporate culture. The employees appreciate good relationship with their colleagues and management as well as good atmosphere in general. During the recent years a share of employees that are actively involved in Company's activities has been increasing significantly.

### Competencies and technology management

Until 2012 the Company specialized mainly in oil product transhipment. This activity was maintained by a team of highly-qualified and experienced professionals. Significant experience was gained in the market of heavy fuel oils. After the LNG project was started, the personnel was expanded with experienced engineers, project managers and other specialists. Professional and determined team was one of the key factors for successful implementation of the LNG project.

Upon the completion of the LNG terminal the project team members were appointed to operational, technical support, project management and administration departments. A separate Technical department was formed for the supervision and maintenance of both oil and LNG terminals. The administration functions were reformed to accommodate all of the Company's activities.

The experience gained during the LNG project allows the management to continue developing activities related to LNG supply, transportation and consumption as well as provide consulting services for LNG terminal implementation.

### Financial capabilities

The Company is in healthy and stable financial condition. It has a high level of Equity, allowing to pursue the initiatives planned in the strategy. The profitability of the oil terminal does not fall behind other comparable oil terminals in the region. Due to smaller-scale, the long term oil product storage activities generate smaller, but sustainable profit. The LNG terminal activities are regulated by the National Commission for Energy Control and Prices (NCC); hence profits are also stable and depend on the regulated base of assets.

## Operations and processes

Main operations and processes can be divided according to Company's core activities:



**Oil terminal** – the transshipment process consists of reception of oil products from railway tanks, temporary oil storage in terminal's containers, and transshipment of products into tanker ships.



**LNG terminal** – LNG transshipment and gasification services are provided. The process consists of LNG carrier's admission and mooring next to the LNG FSRU, LNG transshipment, gasification and supply into the natural gas transmission system.



**Subačius fuel storage facility** – a long term storage service is provided. The basis for operations include oil product transshipment, fire-prevention safety measures, and maintenance of equipment.

## EXTERNAL FACTOR ANALYSIS

The external analysis is performed by evaluating the Company's position in the market, followed by external factors, which influence the Company and the overall industry.

### Competitive environment

The competitive position of AB "Klaipėdos nafta" is evaluated based on other participants in the market such as suppliers, alternative service providers, current and potential clients.

### Suppliers

While performing its core activities, the Company leases FSRU and purchases railway tank - wagons delivery services. Natural gas and electricity are purchased in order to sustain the Company's activities. Other products and services compile an insignificant part of total Company's expenses.

### Buyers

The main clients of the oil terminal are SC ORLEN Lietuva (OL) and other owners of oil products in Belarus and Russia. The Company and OL concluded the long term (valid until 2024) transshipment contract with fixed tariffs.

The main client for the long term storage activities is the State enterprise Lithuanian Oil Products Agency. The storage quantity depends on the legislated national reserve storage rules. In 2015 the Company was able to attract an additional client for long term oil product storage (Gunvor); thus similar deals can be expected in the future.

The LNG terminal currently has only one client – the

designated LNG provider for Lithuania. However, there are many more potential clients such as industrial companies, regional gas consumers or gas operators, small scale LNG terminals in the Baltic Sea. If needed, the LNG terminal is capable of supplying all 3 Baltic countries with natural gas.

When it comes to LNG small scale activities, there is no buyer market in Lithuania at this point, as there is not enough awareness about the product and its characteristics. However, after implementing necessary measures, the market could be established. Moreover, similar market is already developed and actively working in Poland. KN sees potential for LNG activities in this country as well.

### Current competition

The main competitors for oil terminal's mazut transshipment are terminals in Venstpils, Tallinn and Ust-Luga. The main competitors for the transshipment of vacuum gas oil are ports of Riga, Tallinn and Saint Petersburg. For crude oil transshipment, the main competitor is UAB „Krovinių terminalas“, which is located in a territory right next to KN.

For the LNG terminal the main competitor is Russian company Gazprom, which supplies gas through pipelines to nearly entire Central and Eastern Europe region. In the long term storage activities there is virtually no competition, as the other proper infrastructure at the moment is not developed.

### Possibility of substitutes

The threat of potential substitutes is related to global changes in oil and gas consumption. However, no real threat from alternative services is observed for the strategy period.

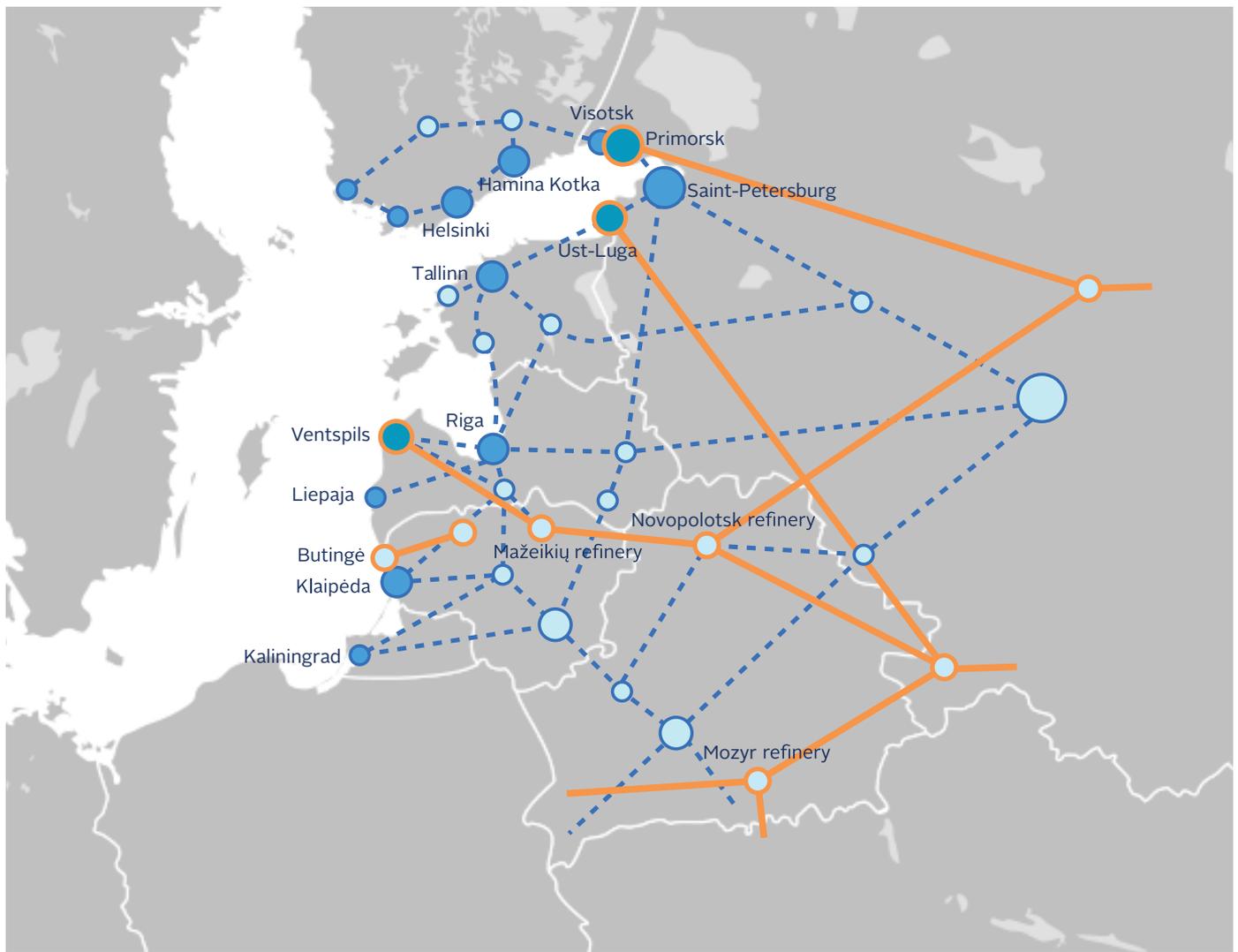
### New competitors

The biggest threat to the oil terminal is the increasing infrastructure of Russian ports. In the last few years the capabilities of Russian terminals have grown significantly in the Baltic and Black Sea regions.

As previously mentioned, there are LNG transshipment projects in the region that are currently under development. However, they are not viewed as direct competition to the KN LNG terminal due to geographical distance and focus on different markets.

For long term oil storage activities new competition could arise only after 2022, when the national reserve storage contract expires. There are no competitors expected in the commercial storage of products, since this activity requires large investment.

COMPETITIVE ENVIRONMENT OF KN OIL TERMINAL



- Port
- City
- Logistical nod

- Pipelines
- - - Roads and railways

**PESTEL ANALYSIS**

**Political factors**

Political decisions of Lithuania and its neighbouring countries could have a great impact on the operational scope of KN and implementation of strategic decisions.

**Economic factors**

Global economic development could have indirect effect on the demand of KN's services. The following factors have been identified to have the highest influence:

- Consumption of oil and LNG products in Lithuania and worldwide;
- Changes in global gas prices;
- Changes in oil prices and oil refinery margins;
- Renovations taking place in Russian and Belarussian oil refineries, which increase the extraction of light oil products;
- Increasing cargo batch sizes in standard tankers.

**Social factors**

Social factors impact consumer behaviour related to gas consumption and possibility to choose a cheaper fuel. This will have an indirect impact on LNG terminal and LNG small scale activities.

**Technological factors**

In order to improve terminal's effectiveness, additional technological investment is needed.

Oil terminal's technology is oriented towards large heavy oil streams, but the market of light oil products is currently growing and leaning towards smaller batch sizes.

**Environmental factors**

Environmental factors influencing the Company's activities strictly constrain operational capacity and development opportunities. On the other hand, they create opportunities to develop clean fuel alternatives. KN's activities are influenced by the EU Environmental policy – additional investment may be needed if the requirements become more strict.

As a consumer of natural gas the Company has to find opportunities to decrease gas consumption and pollution; this could cause potential loss of revenues and additional need for investment.

Since January 1st, 2015 environmental requirements for ships became more strict, which enables development of LNG bunkering.

**LEGAL FACTORS**

The LNG terminal activities are heavily influenced by the legal environment since the activities are state-regulated according to The law of LNG terminal of the Republic of Lithuania. All of the amendments to this law or LNG regulation in general as well as the Lithuanian government decisions regarding required minimal LNG volume have direct effect on LNG terminal activities and financial results.

**ENVIRONMENTAL ANALYSIS SUMMARY – SWOT ANALYSIS**

After concluding the analysis of internal and external factors, KN's internal strengths and weaknesses were identified along with external opportunities and threats.

The summarized SWOT analysis is presented in the table below.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Significant competencies and experience is gained from oil product transshipment activity and implementation of the LNG terminal project;</li> <li>• Technological LNG capabilities and versatility, which allows to develop additional LNG activities and services;</li> <li>• Technology of the oil terminal and experience in heavy oil transshipment, which allows to attract additional cargo during the winter period;</li> <li>• Existing KN infrastructure is prepared for dangerous cargo shipments (allows for the construction of continental LNG distribution station);</li> <li>• Approved detailed territory plan, which enables smooth preparation for the construction of the continental LNG distribution station and further development of the oil terminal;</li> <li>• Financial strength and borrowing capacity enables a development of large scale investment projects.</li> </ul>	<ul style="list-style-type: none"> <li>• Relatively small depth and number of jetties limiting the terminal's competitiveness;</li> <li>• Lack of flexibility in transshipping different types of oil products;</li> <li>• Insufficient technical capabilities to retain and increase changing streams of oil products;</li> <li>• Technical and commercial limitations of the LNG terminal: strict conditions for LNG supply, technological minimum for regasification, limited opportunities to store gas in the LNG terminal due to constant evaporation;</li> <li>• Limited opportunities to balance natural gas in Lithuania;</li> <li>• No companies actively engaged in LNG trading or transportation;</li> <li>• Limited use of LNG in industry;</li> <li>• Depreciated infrastructure in the Subačius fuel storage facility;</li> <li>• Unfavourable geographical position of the Subačius fuel storage facility.</li> </ul>
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Favourable geographical location of oil and LNG terminals in relation to main competitors;</li> <li>• Secure transshipment of oil products from AB ORLEN Lietuva;</li> <li>• Modernization of oil refineries, which can lead to increased volume growth of oil products;</li> <li>• Attraction of alternative products (e.g. petro chemistry, chemical products, etc.) upon successful completion of infrastructural changes;</li> <li>• Attraction of larger quantity of heavy oil products after deepening the Klaipėda port jetties;</li> <li>• Development of the natural gas market, also including Latvia and Estonia and other countries;</li> <li>• Development of LNG bunkering and gas station network;</li> <li>• Developed Polish small scale LNG market is located nearby;</li> <li>• Increasing consumption of oil products in Lithuania;</li> <li>• Attraction of long-term oil product reserve storage from Latvia or other countries.</li> </ul>	<ul style="list-style-type: none"> <li>• Russian cargo rerouting towards ports in St. Petersburg, Ust-Luga and Primorsk;</li> <li>• External political decisions;</li> <li>• Geopolitical situation in Ukraine, which limits the activities of local oil refineries and influences Belorussian and partly AB ORLEN Lietuva's oil exports to Ukraine;</li> <li>• Relatively lower transit railway tariffs in neighbouring countries, e.g. Latvia and Estonia;</li> <li>• Uncertain outlook on SC ORLEN Lietuva's activities;</li> <li>• Gazprom's ability to offer cheaper LNG solutions;</li> <li>• High LNG prices caused by low levels of competition in the LNG terminal;</li> <li>• LNG as a product is currently non-existent in the Lithuanian legal base;</li> <li>• Unpredictable changes in legislation for the LNG terminal activities and assignment of the LNG distribution station activity to state regulated activities.</li> </ul>

# BUSINESS STRATEGY

## MISSION, VISION AND VALUES

**AB “Klaipėdos nafta” mission** is to ensure reliable and effective supply of LNG and transshipment of oil products.

**Vision of the Company** – reliable operator of oil and LNG terminals that adds value through implemented projects and balanced expansion.

### Values of the Company:

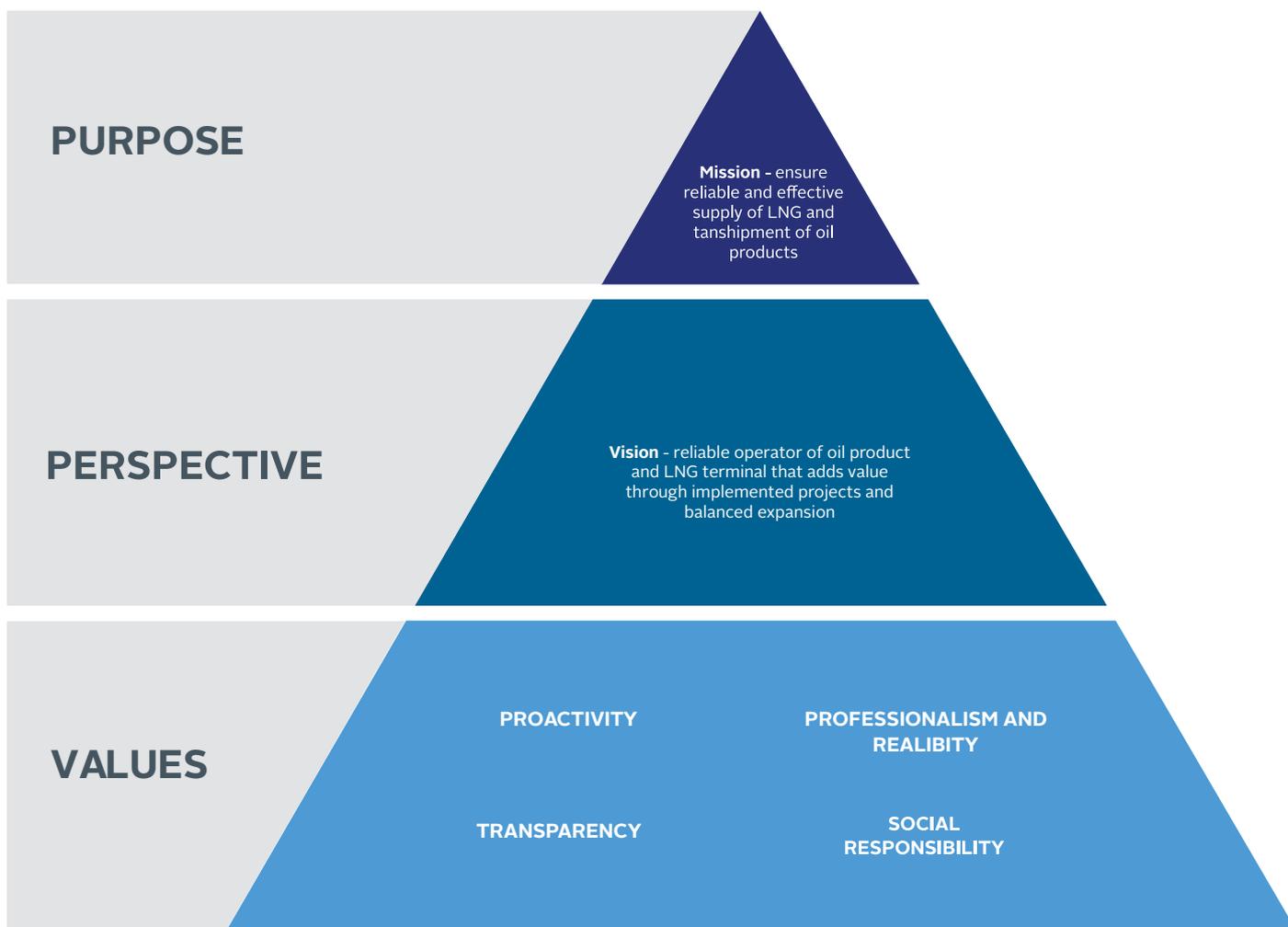
- **Proactivity.** The Company seeks to identify market needs and business enlargement opportunities by adapting: creating new or modifying provided services accordingly.
- **Professionalism and reliability.** AB “Klaipėdos nafta” operates oil and LNG terminals according to the highest professional standards, fast and efficiently. Internal pro-

cesses and procedures for oil transshipment and LNG regasification are constantly enhanced, the quality of cargo is accurately monitored.

- **Transparency.** The Company seeks to comply with regulations for listed enterprises issued by NASDAQ OMX Baltics, it is managed by the best corporate governance principles and provides important Company information to the society and investors comprehensively and timely.

- **Social responsibility.** The Company is governed by sustainable business growth principles that include corporate social responsibility and environmental protection initiatives. Therefore the Company invests in additional activities employing technologies that are increasing economic benefits to investors and are environment-friendly. The Company participates in various social projects.

## MISSION, VISION AND MAIN VALUES OF THE COMPANY



**STRATEGY OBJECTIVES**

Every major activity of the Company has its strategic objectives, the Company also has its general strategic objectives that are applied company-wide and to be achieved by the entire organization as a whole. General strategic objectives of AB “Klaipėdos nafta” and also strategic objectives of separate activities of the Company for 2016-2020 are provided in this section.

**GENERAL STRATEGIC OBJECTIVE OF AB “KLAIPĖDOS NAFTA”**



As an active participant of the market that is constantly reacting to the market dynamics, AB “Klaipėdos nafta” has established objectives to implement its vision:

**• Increasing value of the Company**

The shareholders value will be raised by increasing return on equity allocated to non-regulated activities, dividend payments, creating a higher yield through investments into promising and profitable commercial projects.

**• Secure, reliable and efficient operation of oil and LNG terminals**

The Company implements its mission to be a trustworthy operator of terminals for import/export of oil and import of LNG. It guarantees reliable and uninterrupted functioning of terminals. In order to achieve desirable level of business volumes the Company builds impeccable reputation and increases attractiveness of services to the customers.

**• Growth and diversification of activities**

The shareholders value will be increased through diversification of current activities: an extension of the range of services, growing volumes and starting new activities.

**• Improvement of internal processes**

By implementing this strategic objective the Company aims to be seen as one of the most efficient company in Europe. It is expected that achievements of the Company will be acknowledged and valued at the state level in Lithuania. The Company systematically assesses internal processes and procedures in order to assure timely enhancement and efficiency of operations. Separate corporate units are being integrated into the common organisational structure with well defined functions and responsibilities to improve efficiency and integrity of the Company. The management of new investment projects requires implementation of new corporate functions with competent staff and modern tools for the project management. The Company applies modern technologies and innovations, the priority is given to the technologies developed in Lithuania.

**• Development of competences**

To achieve sustainable growth the Company actively cooperates with academic and technology institutions. A level of education is raised and gained competences are applied in the Company. The business of the Company is based on corporate values that are essential for a consistent competence development and internal en-

vironment, which increases employees commitment to the work.

**STRATEGIC OBJECTIVES OF OIL TERMINAL**



The following objectives are defined for the oil terminal in Klaipėda:

**• Increase awareness and attractiveness to the owners of oil products in order to maintain and grow transshipment business volumes**

In order to secure long term transshipment of oil products, to improve logistic services and to increase competitiveness of the terminal, the Company actively cooperates with oil traders and main oil refineries in the region. The Company tracks business needs of customers and proposes optimal logistic solutions.

**• Improve flexibility and capacity of oil transshipment**

The limited quantity of oil storage tanks currently impacts the possibility to increase a number of clients and opportunity to accept more oil products. Some of storage tank capacity is reserved to customers for their specific products, therefore the Company can not utilise them for an additional cargo. In order to grow transshipment volumes and flexibility it is projected to increase capacity of tanks and improve technical parameters of transshipment.

**• Enlarge the scope of activities and services provided in the oil terminal**

To improve the diversity of activities and grow the Company's value, it is forecasted not only to start new activities, but also to enlarge already provided services. Operational targets of the oil terminal are linked to the growth of transshipment volumes and expansion of related services. Added services would enlarge number of customers and increase transshipment business for existing customers. Employees of Klaipėdos Nafta gained a big experience of work with oil products that allows to use it while developing other services, including oil trade, oil bunkering, oil short-term storage and other.

**• Ensure a safe operation of the oil terminal**

Security is one of the main principles for activities of the Company. The secure operation of the oil terminal is connected to work safety and implementation of the environmental protection measures. To comply with environmental protection standards the Company makes renewal of existing infrastructure and acquires new infrastructure.

**STRATEGIC OBJECTIVES OF LNG TERMINAL**



LNG terminal is a unique project for Lithuania because it provides access to an alternative source of fuel and strengthens energy independence of the Republic. The strategic objectives are based on the value creation to the state and to gas consumers:

**• Provide an alternative source for the supply of natural gas to Lithuania**

The LNG terminal resolved the historic dependence

of Lithuania from the single external gas supplier from Russia (till the end of 2014 gas delivery was made by the single gas arterial pipeline going through Belarus). The Company will operate the terminal as an alternative channel for gas transportation to Lithuania and it will provide following benefits:

- Guaranteed secure supply of gas;
- The possibility to purchase natural gas in a global LNG market and to choose a supplier;
- Background for competition in the natural gas market;
- The ceiling of price for natural gas set according to global market conditions.

Those 4 benefits are assured by safe and uninterrupted operation of the terminal. The security supplement to the tariff for natural gas transportation includes required costs of the LNG terminal and is allocated to consumers according to the quantity of natural gas transmitted. The Company has a long term goal to reduce the tariff and sets related strategic measures and initiatives:

- Ensure that the operations of the LNG terminal incurs only necessary expenditures at an acceptable price, effectively execute public procurement, strictly control costs, efficiently use human resources and assets of the Company;
- Decide about the FSRU acquisition after the minimum lease period of 10 years and apply financial leasing accounting principles for the lease agreement. In such a way a lease costs would be substituted by the depreciation costs that would be expensed during the longer period of time and annually would be lower compared to the current rent costs. It is forecasted that the part of acquisition financing will be done by own funds that will bear regulated investment return;
- Asses a possibility of obtaining the EU support for the acquisition of the FSRU as well as a possibility for allocation of the LNG terminal costs to the gas tariff of neighbouring countries applying Cross- Border Cost Allocation principle. Implementing this initiative the Company will work together with the Ministry of Energy and other institutions.

An income from LNG reloading business will partly compensate the operating expenses of LNG infrastructure and will reduce the cost allocated to consumers. In cooperation with international partners the Company develops the LNG terrestrial distribution project that will enable transportation of gas from FSRU to the LNG distribution station on land.

To promote consumption of regasification gas in Lithuania and neighbouring countries, initially in Latvia and Estonia. Also, to intensify transshipment activity at LNG terminal, actively participate in creation of gas market in Lithuania and Baltic region.

**• Efficiently operate LNG terminal to assure minimal exploitation expense for consumers of natural gas**

According to the present laws the necessary costs of

the LNG terminal are compensated by users of Lithuanian natural gas system through the security supplement allocation to a price of natural gas. Therefore the costs of LNG terminal have a particular attention from the public and controlling institutions. In order to achieve efficiency and inexpensive operation the terminal should run with minimal costs ensuring adequate security and execution of allocated functions.

**• To develop services related to activities of LNG terminal**

To employ present experience gained during the implementation of LNG terminal project and to grow revenues of the Company. KN searches for new activities related to LNG terminal projects and their realisation.

**STRATEGIC OBJECTIVES OF SMALL SCALE LNG ACTIVITIES**



The LNG is a new product in Lithuanian market therefore while forecasting product demand the Company is in “a chicken and egg” situation, when it is difficult to say whether demand or supply of LNG should increase in the market first.

Despite this, KN discovers the potential of LNG consumption in Lithuania and neighbouring countries and plans proactively promote development of the LNG market and will seek for the leader’s position in gas and oil market in Klaipėda region and Lithuania.

The Company sets following objectives in order to be the leader in LNG market:

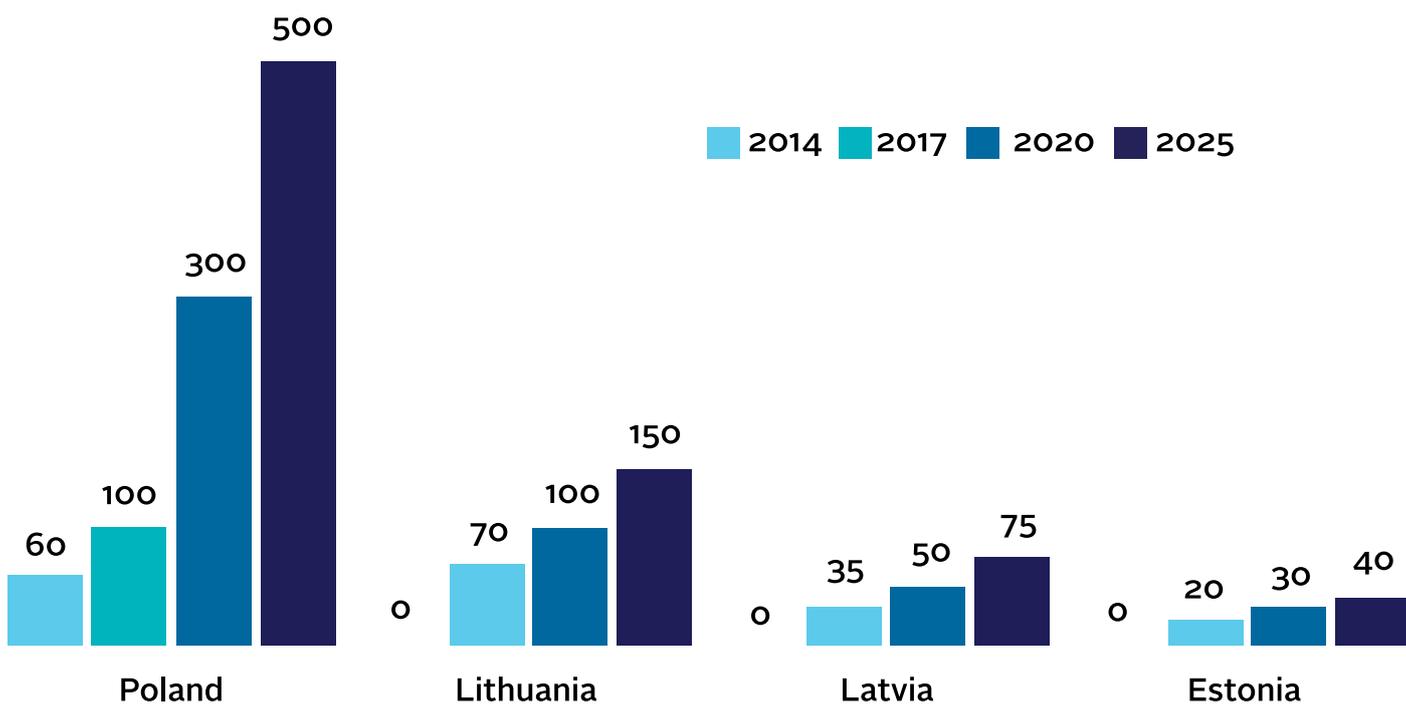
**• Create small scale LNG infrastructure**

An additional small scale LNG activity would diversify income sources of Klaipėdos Nafta and reduce the dependence on transshipment of oil. New activities require investments, Lithuanian LNG market is not developed, therefore the purpose of the Company is to be the first and start small scale LNG activity generating a stable cash flow.

**• Develop regional LNG market**

KN seeks to be the main LNG hub in Baltic countries and northern Poland, therefore the Company promotes potential clients to buy the LNG from Klaipėdos Nafta terminal. In order to achieve that and create basis for LNG distribution on ground it is important to start project development for the LNG reloading to trucks. The active cooperation with Lithuanian authorities, state institutions of neighbouring countries and European Commission is vital in order to unify the regulation of LNG environment in different European countries.

ANNUAL LNG CONSUMPTION POTENTIAL, LNG 000S M3 / YEAR



STRATEGIC OBJECTIVES OF LONG TERM FUEL STORAGE ACTIVITY

- Proper storage of national reserve of oil products

The main goal of SKB is to provide a possibility for the storage of required national reserve of oil products. For this purpose the Company commits a number of storage tanks and guarantees that this storage capacity is in compliance with security and environmental protection requirements.

- An increase of long term storage capacity and volume of the activity

According to the market research this activity is not fully exploited and there are possibilities to expand it by increasing the diversification and size of activity that would consequently lead to the growth of revenues.

STRATEGIC OBJECTIVES OF AB “KLAIPĖDOS NAFTA”

GENERAL STRATEGIC OBJECTIVES

Increasing value of the company	Secure, reliable and efficient operation of oil and LNG terminals	Growth and diversification of activities	Improvement of internal processes	Development of competence
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STRATEGIC OBJECTIVES OF MAJOR ACTIVITIES

Oil terminal	LNG terminal	LNG small scale	Long term fuel storage facilities
Increase awareness and attractiveness to the owners of oil products	Provide an alternative source for the supply of natural gas of Lithuania	Create small scale LNG infrastructure	Proper storage of national reserve of oil products
Improve flexibility and capacity of oil transshipment	Assure minimal exploitation expense for the consumers of natural gas	Develop regional LNG market	Increase long term storage capacity and volume of the activity
Enlarge the scope of activities and services provided			
Ensure safe operation of the oil terminal	Develop services related to the activities of LNG terminal		

**PROJECTED FINANCIAL RESULTS**

It is estimated that the implementation of strategic objectives will contribute to significant improvement of financial ratios of the Company.

The below table presents main strategic financial targets to be achieved by the Company:

**COMPANY'S FINANCIAL TARGETS PROJECTED IN THE STRATEGY**

	2014	2020
REVENUE	40 M EUR	91 M EUR
EBITDA	17 M EUR	62 M EUR
EQUITY	175 M EUR	220 M EUR
	2010 - 2015	2016 - 2020
TOTAL INVESTMENT	90 M EUR	200 M EUR
	2014	2016 - 2020
DIVIDENDS	1 % OF NET INCOME	50 % OF NET INCOME

**DIVIDEND PAYMENT STRATEGY**

During the period of the development of LNG terminal all profits earned by the Company were used for the financing of this project, therefore in 2014 the Company distributed only 1 % of it's net income as dividends to shareholders.

During 2016-2020 the Company has the goal to increase the shareholders value and pay stable dividends. The main objectives for a newly created dividend policy are:

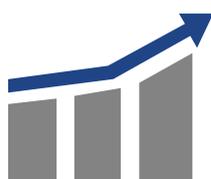
- To create transparent dividend calculation procedure;
- To ensure attractiveness of investment into the Company;
- To balance short-term and long-term interests of shareholders, that is to find a balance between short term profit distribution and long term Company development, value growth.

**PROPOSED DIVIDEND PAYMENT STRATEGY**

The strategy for 2016 – 2020 estimates that the management of the Company would propose to shareholders meeting to approve the distribution as dividends 50 % of it's net income, if such distribution will not disturb the implementation of strategic projects and ensure acceptable financial ratios.

The amount of dividends proposed may be adjusted if:

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



**NET INCOME MARGIN**  
10 - 15%  
2016-2020M.



**DIVIDEND PAYOUT RATIO**  
50%  
OF NET INCOME



**RETURN ON EQUITY**  
AT LEAST  
5 - 8%

# BUSINESS CONDUCT PRINCIPLES

AB “Klaipėdos nafta” cares about the society, employees and environment therefore besides strategic objectives and initiatives the Company sets high standards for business conduct in daily operations.

## CORPORATE SOCIAL RESPONSIBILITY

The business of the Company is conducted according to the highest ethical standards and principles of social corporate responsibility.

The Company seeks to maintain the status of a reliable social partner in Lithuanian harbour city not only by helping to solve social problems of the society. The social corporate responsibility consist of several areas provided in a figure below:



## PRINCIPLES OF HUMAN RESOURCE MANAGEMENT

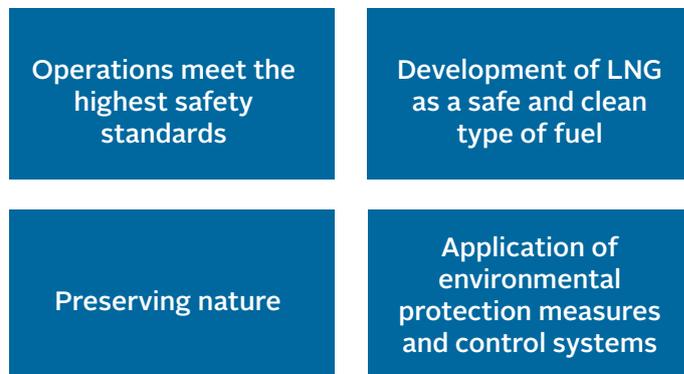
Employees are the main asset of the Company and the core to achieve objectives of the Company. The human resource policy promotes a team work, optimal usage of labour resources, development of competent staff, corporate culture that creates higher value to the Company. In 2011 the Company approved the Code of Ethics that describes principles of employee work and behaviour in order to create friendly working environment, cooperation and responsibility for the society.

The safe working environment is very important to the Company. Working places are being modernised, additional financial resources are devoted to personal safety means that are committed according to the collective labour agreement. The Company organises trainings for safety at work, implements prevention of accidents and control of work. The Company aims to create a safe and healthy working environment.

## ENVIRONMENTAL PROTECTION PRINCIPLES

Environmental protection is one of the main priorities of the Company. It allocates funds for the implementation of environmental protection means, closely cooperates with Lithuanian and international companies in order to comply with all environmental requirements for oil and gas terminals.

All of the Company's operations are organized in accordance with its main environmental protection principles:



The Company makes sure that its activities meet the necessary environmental protection, fire safety, work safety and health requirements and legal regulations. These actions are supposed to prevent environment from a negative impact and ensure that the equipment used by the Company meets their operational requirements.

## STRATEGY IMPLEMENTATION, MONITORING AND PERFORMANCE ASSESSMENT

In order to implement the main strategic objectives, reach the anticipated goals and fulfil the mission and vision of the Company, AB “Klaipėdos nafta” consistently monitors the progress of strategy implementation. Necessary information is collected and analysed to identify the main problematic areas, which require additional attention. If there are any relevant changes in the company's political, economic and social environment or new external factors are identified, the corporate strategy can become a subject for review and target values of the objectives can be updated.

The strategy monitoring process is performed periodically and systematically. The results of monitoring analysis are used to support the Company's management and provided to other interested parties. This process ensures availability of all relevant information needed for strategic decisions and encourages transparency, which is one of the main values of the Company.

# APPENDIX

## ABBREVIATIONS USED IN THE DOCUMENT

<b>EBITDA</b>	Earnings before interest, tax, depreciation, and amortisation
<b>JSC</b>	Joint stock company
<b>KN</b>	AB "Klaipėdos nafta"
<b>LNG</b>	Liquefied natural gas
<b>NCC</b>	National Commission for Energy Control and Prices
<b>NG</b>	Natural gas
<b>NPV</b>	Net Present Value
<b>OL</b>	SC „ORLEN Lietuva“ – Mažeikiai oil refinery
<b>ROE</b>	Return on Equity
<b>SC</b>	Stock Company
<b>SKB</b>	Subačius fuel storage facility – Subačiaus kuro bazė
<b>SWOT</b>	Strengths, weaknesses, opportunities and threats analysis