Public Company

Lithuanian Shipping Company

Financial statements for the year ended 31 December 2013

Content

Company details

Public Company Lithuanian Shipping Company

Telephone: +370 46 393105

Telefax: +370 46 393119

Company code: 110865039

Address: Malūnininkų St.3, Klaipėda

Supervisory Council

Tomas Karpavičius (Chairman)
Ona Barauskienė
Evaldas Zacharevičius
Laimutė Tinglum
Gytis Kaminskas

Board of Directors

Saulius Girdauskas
Andrius Šniuolis
Eglė Vyšniauskaitė
Mindaugas Utkevičius
Stepas Telešius

Management

Audronis Lubys, General Director
Arvydas Stropus, Chief Accountant

Auditor

KPMG Baltics, UAB

Banks

AB SEB Bankas
AB DNB Bankas
Danske bank A/S Lithuanian branch

Management's statement on the financial statements

The Management has today discussed and authorized for issue the annual financial statements and the annual report and has signed them on behalf of the Company.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by European Union. We consider that the accounting policies used are appropriate and that the annual financial statements give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union.

We recommend the annual financial statements to be approved by the Annual General Shareholders Meeting.

Klaipėda, 31 March 2014

On behalf of the Board:

Audronis Lubys
General Director

Arvydas Stropus
Chief Accountant

„KPMG Baltics", UAB
Naujoji Uosto st. 11
LT-92121 Klaipėda
Lithuania

Phone: +370 46 48 00 12
Fax: +370 46 48 00 13
E-mail: klaipeda@kpmg.lt
Website: www.kpmg.lt

Independent Auditor's Report

To the Shareholders of Public Company Lithuanian Shipping Company

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Company Lithuanian Shipping Company ("the Company"), which comprise the statement of financial position as at 31 December 2013, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 5–44.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Public Company Lithuanian Shipping Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Emphasis of Matter

Without qualifying our audit opinion, we draw attention to Note 26 of the accompanying financial statements, explaining that as at 31 December 2013 current liabilities reported by the Company in its financial statements exceeded current assets by 60 million LTL (as at 31 December 2012: current liabilities exceeded current assets by 34 million LTL). The Company has also incurred operating loss of 41 million LTL in 2013 (15 million LTL operating loss in 2012). In addition, the level of equity of the Company was not in compliance with the minimum of authorized share capital requirement specified by the Company Law as at 31 December 2013. These circumstances indicate significant uncertainty that may cast doubt regarding the Company's ability to continue as a going concern. The ability of the Company to meet its obligations in 2014 and to continue as a going concern depends on whether the Company will earn sufficient cash flows from its main activities, adequate cash inflows from planned disposal of certain vessels and negotiations with the bank on rescheduling repayments of the loan mentioned in Note 8.

Report on Other Legal and Regulatory Requirements

Furthermore, we have read the Annual Report of Public Company Lithuanian Shipping Company for the year ended as at 31 December 2013, set out on pages 45–72 of the financial statements, and have not identified any material inconsistencies between the financial information included in the Annual Report and the financial statements of Public Company Lithuanian Shipping Company for the year ended 31 December 2013.

On behalf of KPMG Baltics, UAB

Domantas Dabulis
Partner, pp
Certified Auditor

Klaipėda, the Republic of Lithuania
31 March 2014

(in thousand Litas, unless stated otherwise)

Statement of financial position

As at 31 December 2013

	Notes	31-12-2013	31-12-2012	01-01-2012
			(restated)	(restated)
Intangible assets	2	1	8	15
Property, plant and equipment	1	142.165	195.780	210.378
Total non-current assets		*142.166*	*195.788*	*210.393*
Inventories	3	4.101	5.135	2.437
Assets held for sale	4	10.327	-	-
Prepayments	3	833	867	1.431
Trade receivables	5	2.721	2.385	750
Other receivables	5	1.344	163	191
Cash and cash equivalents	6	1.602	369	1.793
Total current assets		*20.928*	*8.919*	*6.602*
Total assets		*163.094*	*204.707*	*216.995*
Share capital	7	200.901	200.901	200.901
Retained profit (loss)		(119.081)	(77.932)	(61.500)
Total equity	*17*	*81.820*	*122.969*	*139.401*
Non-current employee benefits	9	414	305	200
Financial liabilities to credit institutions	8	-	38.286	30.050
Total non-current liabilities		*414*	*38.591*	*30.250*
Financial liabilities to credit institutions	8	52.819	18.112	36.553
Trade payables	11	18.232	16.560	5.468
Advance payments received	11	3.043	4.019	2.446
Employment related liabilities	10	6.431	3.496	2.130
Income tax liabilities	18	66	66	66
Other payables	11	269	894	881
Total current liabilities		*80.860*	*43.147*	*47.544*
Total shareholders' equity and liabilities		*163.094*	*204.707*	*216.995*

The notes set out on pages 9-44 form an integral part of these financial statements

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

(in thousand Litas, unless stated otherwise)

Statement of comprehensive income

As at 31 December 2013

	Notes	31-12-2013	31-12-2012 (restated)
Sales	13	92.337	83.874
Cost of sales	14	(102.981)	(89.202)
Gross result		**(10.644)**	**(5.328)**
Administrative expenses	15	(4.668)	(4.657)
Impairment of vessels	15	(26.141)	(5.750)
Selling expenses	15	(11)	(8)
Other operating income	16	677	522
Other operating expenses	16	(238)	(3)
Operating result		**(41.025)**	**(15.224)**
Financial income	17	2.083	1.054
Financial expenses	17	(2.141)	(2.196)
Net financial expenses	**17**	**(58)**	**(1.142)**
Profit (loss) before tax		(41.086)	(16.366)
Income tax expenses	18	(66)	(66)
Profit (loss) for the year		**(41.149)**	**(16.432)**
Total comprehensive income		**(41.149)**	**(16.432)**
Basic and diluted earnings (loss) per share (in Litas)	19	(0,20)	(0,08)

The notes set out on pages 9-44 form an integral part of these financial statements

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

(in thousand Litas, unless stated otherwise)

Statement of changes in equity

As at 31 December 2013

	Authorized capital	Retained earnings (losses)	Total
Balance at 31-12-2011 (restated)	**200.901**	**(61.500)**	**139.401**
Net profit (loss) for 2012 (restated) (restated)		(16.432)	(16.432)
Balance at 31-12-2012 (restated)	**200.901**	**(77.932)**	**122.969**
Net profit (loss) for 2013		(41.149)	(41.149)
Balance at 31-12-2013	**200.901**	**(119.081)**	**81.820**

The notes set out on pages 9-44 form an integral part of these financial statements.

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

(in thousand Litas, unless stated otherwise)

Statement of cash flows

As at 31 December 2013

Items	Notes	31-12-2013	31-12-2012 (restated)
Cash flows from operating activity			
Net loss for the period		(41.149)	(16.432)
Adjustments for:			
Depreciation and amortization	1,2	18.472	19.648
Effects of exchange rate changes on loan	8	(2.022)	(1.374)
Gain (loss) on disposal and write down of non-current assets		160	-
Impairment losses on vessels	15	22.100	5.750
Impairment of assets held for sale	4, 15	3.936	
Interest income/expenses, net	17	2.141	2.196
Income tax expense	18	66	66
Operating cash flows before changes in working capital		**3.704**	**9.854**
Decrease (increase) in receivables	5	(1.432)	(1.043)
Increase (decrease) in payables	9, 10, 11	3.115	9.852
Decrease (increase) in inventories	3	1.034	(2.698)
Cash flows generated from operating activities		**6.421**	**15.965**
Income tax paid	18	(66)	(66)
Net cash flows from operating activities		***6.355***	***15.899***
Cash flows from investing activities			
Acquisitions of non-current assets	1,2	(5.248)	(6.296)
Disposals of non-current assets	1,2	3.824	-
Received dividends and interest		-	-
Net cash flows from investing activities		**(1.424)**	**(6.296)**
Cash flows from financing activities			
Interest paid	17	(1.947)	(2.196)
Dividends paid to shareholders		-	-
Repayments of loan	8	(1.690)	(8.829)
Net cash flow from financing activities		*(3.637)*	*(11.025)*
Change in cash and cash equivalents		*1.294*	*(1.422)*
Cash and cash equivalents at 1 January		*369*	*1.793*
Effect of movements in exchange rates on cash held		*(61)*	*(2)*
Cash and cash equivalents at 31 December	6	*1.602*	*369*

The notes set out on pages 9-44 form an integral part of these financial statements

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

(in thousand Litas, unless stated otherwise)

Notes to financial statements as at 31 December 2013

I. Reporting entity

Public Company Lithuanian Shipping Company (LSC) is a joint-stock company registered in the Registry of Legal Entities, certificate No. 027245, on 27 June 2001 and was assigned with the company code 110865039. LSC is located at: Malūnininkų St. 3, Klaipėda. Main activities of the Company are sea freight of timber, bulk and general cargo and lease of vessels under voyage charter or time charter agreements.

Management bodies of the Company are: the General Meeting of Shareholders, the Supervisory Board, the Board of Directors and the Chief Executive Officer.

As at 31 December 2013 there were 340 employees in the Company, 28 of them worked in management divisions and 312 in the fleet. As at 31 December 2012 there were 341 employees, 30 of them worked in management divisions and 311 in the fleet.

The shareholder structure as at 31 December 2013 was as follows:

	31-12-2013		31-12-2012	
	Number of shares	Ownership percent	Number of shares	Ownership percent
Ministry of Transport and Communications of the Republic of Lithuania	113.833.000	56,66	113.833.000	56,66
Swedbank AS (Estonia)	701.917	0,35	11.275.992	5,61
DFDS TOR LINE A/S	11.108.420	5,53	11.108.420	5,53
Other minor shareholders	75.257.959	37,46	64.683.884	32,20
Total:	**200.901.296**		**200.901.296**	

Ordinary shares of the Company are quoted at NASDAQ OMX Vilnius.

Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Correction of errors is disclosed in the note 24 of these financial statements.

These financial statements were approved by the management on 31 March 2014. The shareholders of the Company have the right to reject these financial statements and request for the new ones to be issued.

Basis of preparation

The financial statements are prepared on the historical cost basis, except for the assets held for sale, which is accounted at the lower of its recoverable amount and the carrying amount less selling costs.

Functional and presentation currency

The financial statements are presented in the national currency Litas, which is the Company’s functional currency. All the figures presented in the financial statements are rounded to the nearest thousand, unless stated otherwise.

Basis of preparation (cont‘d)

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS as adopted by the EU, requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by their nature, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

- Impairment losses on vessels

The carrying amounts of the Company's vessels are reviewed at each reporting date in order to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Fair value is defined 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.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. Impairment losses are recognised only when the carrying amount of an asset or cash generating unit significantly exceeds the estimated recoverable amount (note 1 *Property, plant and equipment*). Further information about the assumptions made in determination of impairment indications is included in note 1 *Property, plant and equipment*.

- Useful lives of vessels

Useful lives are assessed annually and changed when necessary to reflect current thinking on their remaining lives in light of technological change, prospective economic utilization and physical condition of the assets concerned.

As of 1 January 2013, the Company reviewed estimations of property, plant and equipment and when calculating the depreciation charge the new residual values and extended depreciation periods of all vessels were applied prospectively. The effect of and assumptions for the changes in the accounting estimates is disclosed in note 1 *Property, plant and equipment*.

- Assets held for sale

On initial classification as held-for-sale or held-for-distribution, disposal groups and non-current assets are measured at the lower of their:

• carrying amount; and

• fair value less costs to sell (or costs to distribute, as applicable).

Basis of preparation (cont'd)

Use of judgements and estimates (cont'd)

- Assets held for sale (cont'd)

Only incremental, directly attributable costs, excluding finance costs and income tax expense, are included in costs to sell or to distribute. Impairment losses on initial classification of a non-current asset as held-for-sale are included in profit or loss even if the asset is measured at a revalued amount. The same applies to gains and losses on subsequent remeasurement.

Subsequent to initial classification as held-for-sale, non-current assets that are measured at their fair value less costs to sell are subject to a limit on the amount of any gain that can be recognised as a result of an increase in fair value less costs to sell before disposal. The maximum increase (and therefore gain) that can be recognised is the cumulative amount of impairment losses recognised in accordance with IFRS 5 and previously in accordance with IAS 36. Gains and losses on subsequent remeasurement to fair value less costs to sell are included in profit or loss regardless of whether the asset was previously measured based on revalued amounts.

Any gain or loss not recognised before the date of sale is recognised on the derecognition of the non-current asset.

Non-current assets and disposal groups are reclassified from held-for-sale or from held-for-distribution to held-for-use if they no longer meet the criteria to be classified as held-for-sale or held-for-distribution. On reclassification as held-for-use, a non-current asset is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognised had the asset never been classified as held-for-sale or heldfor-distribution. The calculation of this carrying amount should include any depreciation that would have been recognised had the asset not been classified as held-for-sale or held-for-distribution.

- Determination of fair value less costs to sell

The fair value element of fair value less costs of disposal is measured in accordance with IFRS 13. Costs of disposal are incremental costs directly attributable to the disposal of an asset. These costs include, for example, legal costs necessary to affect the sale, transaction taxes and other costs to prepare the asset or CGU for its sale. Finance costs and income tax expense are excluded, as are costs recognised already as a liability.

- Going concern assumption

The current liabilities, reflected in the Company's financial statements as at 31 December 2013, exceed the current assets by 60 million LTL (as at 31 December 2012: current liabilities exceeded current assets by 34 million LTL). The Company has also incurred operating loss of 41 million LTL in 2013 (15 million LTL operating loss in 2012). According to loan agreement with the bank, the Company must comply with financial ratios – debt service cover ratio, the level of trade payable amounts, equity ratio and cash sweep. The Company did not meet the level of trade payable amounts and has overdue at least one installment as at 31 December 2013. If the covenants are breached, the bank has the right to request full repayment of the loan. In addition, the level of equity of the Company was not in compliance with the minimum of authorized share capital requirement specified by the Company Law as at 31 December 2013. These circumstances indicate significant uncertainty regarding the Company's ability to continue as a going concern.

For preparation of the financial statements as at 31 December 2013, management has nevertheless concluded that it is appropriate to continue to prepare the financial statements based on the going concern principle. Judgments and estimates are presented in note 26.

Basis of preparation (cont‘d)

Use of judgements and estimates (cont‘d)

- Decision on selection of functional currency

Considering the structure of revenue, costs and equity instruments, the functional currency of the Company is decided to be Litas. Despite the fact that borrowings and revenue are denominated in the USD, the major part of the cost comprise the non-dollar expenditure, such as salaries, social security, taxes, daily allowances, major technical supplies for vessels, dock repairs and other costs.

The major part of sea freight income for the convenience of trade and consistency in pricing is historically and globally denominated in USD. The shipment prices are denominated in USD mainly due to stability and global prevalence of this currency. The exchange rate of USD against Litas does not have a direct impact on shipment prices. The sea freight market is affected by the balance between the demand and the supply of the services on international level. The US economy does not have a significant influence on the mentioned market prices either.

Most of the Company’s costs are influenced by competitive forces, acting in Lithuania and in the Euro-zone countries that are not directly related to the US economy. The major part of the cost comprises the non-dollar expenditure such as salaries, social security, taxes, daily allowances, and the main technical supply for vessels, dock repair and other expenses. The management uses Litas to perform forecasts and to measure performance of the business.

The equity of the company is formed in LTL as well as its equity instruments are traded on the Nasdaq OMX Vilnius securities market.

The management of the Company has not identified changes in the relevant underlying transactions, events and circumstances; therefore functional currency is not changed.

Significant accounting principles

Foreign currency

Transactions in foreign currencies are translated into Litas at official exchange rates set by the Bank of Lithuania. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign exchange differences arising on translation of foreign currencies into LTL or re-translation of item denominated in foreign currencies are recognised as financial income or financial costs for the period in which they were incurred.

Financial instruments

Impairment

Financial assets

Financial assets not carried at fair value through profit or loss are reviewed for impairment at each statement of financial position date. A financial asset is impaired if objective evidence indicates that a loss event has occured after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial assets carried at amortised cost, whenever it is probable that the Company will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement.

Significant accounting principles (cont‘d)

Financial instruments (cont’d)

Impairment (cont’d)

Financial assets (cont’d)

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is accounted in the income statement. However, the impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined; if no impairment loss has been recognized.

In relation to trade and other receivables impairment loss is recognized when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

Calculation of recoverable amount

The recoverable amount of the Company’s receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows for each vessel separately (cash-generating unit) 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. The recoverable amount of the assets not generating independent cash flows is estimated by attributing them to cash generating asset group, with which they can be reasonably connected.

Recovery of impairment losses

An impairment loss in respect of receivables carried at amortized cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized.

Non-financial assets

Non-financial assets, except for inventories and deferred tax assets, are reviewed for posible indicators of impairment at each statement of financial position date or whenever events or changes in circumstances indicate posible impairment. If any such indication exists, then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”).

Significant accounting principles (cont'd)

Financial instruments (cont'd)

Impairment (cont'd)

Non-financial assets (cont'd)

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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 income statement as the impairment loss.

(a) Non-derivative financial assets

Loans and receivables as well as deposits are initially stated at the date of their origination. All other financial assets are initially stated at the date of transaction, when the Company becomes a party under the contractual terms of a financial instrument.

Financial assets are derecognised upon expiry of the rights to receive cash flows from the asset or upon transfer of the rights to receive cash flows from the asset when all the risks and rewards of the asset are transferred. Any benefit retained or created by the Company, related to the transferred financial asset, is recognised as a separate asset or liability.

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when the Company has a legal right to make such a set off and intends either to settle on a net basis or to dispose that asset and settle the liability simultaneously.

Financial assets are classified as loans and receivables. All purchases and sales of financial assets are recognized on the trade date. Non-derivative financial instruments are initially stated at fair value, including (except for financial instruments at fair value through profit or loss), all directly attributable transaction costs.

Loans and receivables

Receivables of the Company are not traded in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognized at fair value, plus transaction costs that are directly attributable to the acquisition. Subsequently, receivables are measured at amortized cost using the effective interest method, less impairment, if any. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset. Short-term receivables are not discounted.

Cash and cash equivalents

Cash includes cash on hand and cash at banks. 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.

In the statement of cash flows cash and cash equivalents include cash on hand, cash at banks. Unrealised gain and losses, arising from currency exchange differences, are not cash flows. However, an effect of the currency exchange differences on cash and cash equivalents, held or payable in foreign currency, is presented in the statement of cash flows in order to compare cash and cash flows in the beginning and at the end of the period. The amount is presented separately from the cash flows from ordinary, investing and

Significant accounting principles (cont'd)

(a) Non-derivative financial assets (cont'd)

Cash and cash equivalents (cont'd)

financing activities, and includes currency exchange differences, if any, recorded on these cash flows at the end of the period.

(b) Non-derivative financial liabilities

Financial liabilities are initially recognised as at the date of transaction when the Company becomes a party the under contractual terms of the instrument.

Subsequently, liabilities are measured at amortized cost using the effective interest rate method. Trade payables are initially stated at fair value and subsequently – at amortised cost. Short-term liabilities are not discounted.

Financial liabilities are derecognised after they are fulfilled, cancelled or expired.

The Company has the following non-derivative financial instruments: financial liabilities to credit institutions and trade and other payables. Such financial liabilities are initially stated at fair value, plus any directly attributable transaction costs. After initial recognition these financial liabilities are measured at amortised cost applying an effective interest rate method.

Borrowing costs

Borrowing costs are either recognised as costs when incurred, or are capitalised depending on the purpose of borrowing. The Company capitalises its borrowing costs, which are directly attributable to acquisition, construction or production of qualifying assets, as part of cost of such assets.

Ordinary shares

Ordinary shares are classified as equity. Additional costs, directly attributable to issue of ordinary shares and share options, are stated as deduction from equity net of any tax effects.

Fair value determination

A number of the Company's accounting policies and disclosures require determination of fair value, for both financial and non-financial assets and liabilities. Fair value is defined 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. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The base for determination of fair values of financial assets and liabilities, traded in the active markets, are the market prices and prices determined by brokers. Fair value of all other financial instruments is determined using other valuation methods.

Fair value is determined in accordance with the fair value hierarchy, which reflects the value of the variables used:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in thousand Litas, unless stated otherwise)

Significant accounting principles (cont'd)

Fair value determination (cont'd)

If the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognised transfers between the fair value hierarchy from the end of the reporting period in which the change occurred.

Property, plant and equipment

In the financial statements all economic resources held by the Company are recognised as assets provided the Company expects to benefit from the use of these resources and they have the value that can be reliably measured.

Items of property, plant and equipment are stated at actual acquisition cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour costs and an appropriate proportion of production overheads.

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired under a finance lease is presented at a present value of minimum lease payments at inception, less accumulated depreciation and impairment losses. Other leases are operating leases and the assets leased are not recognised in the Company's statement of financial position.

Costs incurred during regular dock surveys of ships are accounted as separate component of property, plant and equipment. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company. Otherwise subsequent expenditure is recognised as costs at the time in which they are performed.

Depreciation is started when the asset is available for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated ufesul lives, and is generally recognised in profit or loss. Docking costs are capitalized and depreciated until the next docking, which usually takes place in 2,5 years. The vessels do not have the fast depreciated component part. Residual values of the vessels are defined as the value of vessel's net weight at the scrap price.

Property groups	**Useful lives (in years) after change of estimation**	**Useful lives (in years) before change of estimation**
Vessels	30 years since construction	20 - 27 years since construction
Machines and equipment	7 – 16	7 – 16
Dock surveys	2 – 3	2 – 3
Buildings and plant	15	15
Other vehicles	6 – 10	6 – 10
Other non-current assets	4	4

The Company capitalises borrowing costs directly related to acquisition, construction or production of a related asset under cost of the asset. Company incurred no borrowing costs related to the acquisition, construction or development of an property, plant and equipment in 2013 and2012.

Significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

The management establishes useful lives, residual values and depreciation methods of property, plant and equipment at the time of acquisition, and later reviews them on annual basis. A useful lifetime is determined based on past experience and anticipated future events that can have influence on the time of useful service. It can be changed if there is reason to believe that the remaining useful life time does not reflect the physical condition and the economic usage of the asset. The Company reviews useful lives, residual values and depreciation methods on annual basis.

Intangible assets

Computer software and other intangible assets with the definite period of usage are stated at cost less accumulated amortization and impairment losses. Amortization is provided on a stright-line basis over the useful life of an asset. Non-current intangible assets are amortised within the period of 3 years.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities), that are expected to be recovered primarily through sale rather than through continuing use, are classified as non-current assets held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are measured in accordance with applicable IFRSs. Thereafter generally the assets, or parts of disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell.

Impairment losses are continued to be calculated in accordance with the accounting policies of the Company. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Reversal income of impairment losses are not recognized in excess of any cumulative impairment loss.

Inventories

Inventories are recognized at the lower of the acquisition cost or net realizable value. Cost of inventories is calculated based on the FIFO method. Net realizable value is estimated as expected selling price less selling expenses.

When inventories are purchased from other parties, their acquisition cost is their purchase price combined with all purchase-related taxes (customs duties, etc.), transportation, preparation for use and other costs directly attributable to acquisition, less received discounts and rebates. When the amounts of inventory transportation and preparation for usage are insignificant or constant for several reporting periods, they are written off to operating expenses rather than included into the cost of purchase.

Dividends

Dividends are stated as a liability for the period in which they are declared.

Provisions

Provisions on obligations are accounted only when the Company has legal obligation or irrevocable commitment as a result of the past events; and it is probable that an outflow of resources embodying economic benefits will be required to settle it; and the amount of obligation can be measured reliably. Provisions are reviewed at each balance sheet date and adjusted to reflect the most accurate current estimates. When the time effect on the value of money is significant the amount or provision is equal to the current value of outflows which are expected to be required for the settlement of obligation. When the discounting is used, an increase in provision reflecting the past period is recognised as interest expenses.

Significant accounting principles (cont'd)

Employee benefits

Short-term employee benefits are recognized as a current expense in the period when employees render the services. These include salaries and wages, social security contributions, vacation payouts, compensation for the first two days of illness, bonuses, allowances, severance payments, vacation accruals, which are recognized as costs when an employee has fulfilled his duties in exchange to the received allowance.

Pursuant to the Labour Code of the Republic of Lithuania, each employee leaving the Company at the age of retirement is paid a single two-month-average salary.

Cost of the current part of employee benefits is immediately recognised as costs in the statement of comprehensive income. The past service costs are immediately recognised as an expense in profit or loss. Gains or losses resulting from changes in benefit terms (reduction or increase) are recognised immediately in other comprehensive income.

The employee benefit liability is recognised in the statement of financial position and reflects the present value of the benefits as at the date of the statement of financial position.

Transactions with related parties

The related parties of the Company are members of the management, the general director, fleet management director, technical director, finance director, chief accountant, divisional managers and their family members. There were no related legal entities as at 31 December 2013 and 2012.

The Company had no collectively significant transactions with the government-related entities and the state institutions during 2013 and 2012 as provided for in IAS 24.

Segment reporting

Operating segments are segments that meet the criteria set for operating segments on which the Company receives financial information, regularly reviewed by the management who makes decisions on evaluation of operating results on the basis of such information. Operating segments have separate assets and segment liabilities, estimations of specific income and costs items, gross profit (loss) that are reconciled with the Company's financial statements. The Company identifies segments based on vessel tonnage. There are three segments: „ Asta" type vessels („Asta", „Audre", „Akvilė", „Daina", with the deadweight up to 6.000 tons), „Alka" type vessels („Alka", „Skalva" with the deadweight up to 10.000 tons), and „Raguva" type vessels („Raguva", „Deltuva", „Romuva", „Voruta", „Venta" with the deadweight up to 25.000 tons).

Sales

The income earning moment is the moment of supplying services when it is probable that the Company will receive economic benefits from the transaction, and the revenue amount can be reliably estimated. Income from sale of goods and services is recognized at the fair value of the consideration received, taking into account the value of returned goods and any trade discounts. Prepayments for services are recorded as increase in liabilities to customers. In this case income is recognized only after the services have been rendered or as the revenue is earned.

The Company is involved in the lease of vessels includes voyage-charters and time-charters of vessels.

Income earned from Voyage charters is based on the vessel rent for particular trip (voyage) from point A to B. Voyage charter agreements usually are short-term (in most cases up to 1-3 months).

Time charter agreements are based on the vessel's rent for a particular period of time from date A till B. Time charter agreements may last for up to 3-4 years (but usually do not exceed 2 years). All time charter agrements valid as at 31 December 2013 mature within 1 year.

Significant accounting principles (cont'd)

Sales (cont'd)

Income from voyage-charter contracts is recognised based on percentage of completion method: the percentage of completion is calculated based on proportion of an actual time to the total estimated voyage duration.

Income from time-charter contracts is recognised on a straight-line basis over the lease period.

Cost of sales

Costs are stated based on accrual principle. Costs are recognized in the period in which they were incurred.

Cost of sales includes depreciation of cash generating units, salaries and other costs incurred to earn the income.

Vessel repair and maintenance costs, incurred not during regular dock surverys, are recognised as costs for the year in which they were incurred.

Selling and administrative costs

Selling and administrative costs include costs related to administrative staff, management, office expenses, depreciation, amortisation and etc.

Costs are stated based on accrual principle and recognized in the period in which they were incurred.

Costs are usually measured at a paid or payable amount, excluding VAT. In the event of a long settlement period, costs are estimated by discounting the amount at the market interest rate.

Other operating income and costs

Other operating income and costs includes gain and losses from disposal of vessels and other property, plant and equipment, lease of premises and other income and losses not directly related to the primary activities of the Company.

Financial income and costs

Financial income and expenses comprise receivable and payable interest, gain and loss of realized and unrealized currency exchange regarding debtors and creditors denominated in foreign currencies.

Interest income is recognized in profit or loss using the effective interest rate method. The interest expense component of financial liabilities payments is recognized in the profit or loss using the effective interest method.

Income tax

Calculation of income tax is based on the annual profit and is made in accordance with the requirements of tax legislation of the Republic of Lithuania. Since the year 2007, Lithuanian shipping companies are allowed to apply fixed income tax rate (tonnage tax) if:

- the Company operates own or rented vessels for the international freights and which are registered in the Lithuanian ships' register;
- the Company owns at least 25% of operated fleet's payload capacity units;
- the Company performs strategic, commercial, technical management services to the fleet;
- the operated vessels meet class requirements according to the Lithuanian and European legislation..

Significant accounting principles (cont'd)

Income tax (cont'd)

Following the amendment and supplement to the Law on Income Tax of the Republic of Lithuania, dated 3 May 2007, the Company has chosen that its taxable income for the taxable periods started in 2007 or later is taxed by a fixed income tax rate. Fixed income tax base is calculated for each of 100 vessel's payload capacity units (PC), applying a fixed daily rate and multiplying it by an amount of actual operation days in the taxable period. The fixed income tax is applicable on shipping activities. Other activities of the Company, not related to shipping, are subject to normal income tax rate. The distinction between shipping and other activities (such as rent of premises) of the Company are determined by the Company based on the Tax Authorities guidance. Profit earned not from sea freight services is taxed in accordance with the Law on Income Tax.

Deferred tax is calculated on the basis of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their tax bases. An amount of deferred tax depends on expected manner of realisation of assets and future settlements of liabilities and expected tax rates of the corresponding periods.

The deferred tax assets and liabilities for current and previous years are recognised by an amount which is expected to be recovered from or paid to tax authorities according to the applicable income tax rates. Income tax is calculated using the rates enacted at the date of statement of financial position.

Since in 2007 the Company chose to pay the tonnage tax, the base of which does not depend on the Company's profit. All temporary differences between the tax and financial reporting relate to the shipping activities. Due to this, the deferred tax is not recognized in the Company.

Basic and diluted earnings (loss) per share

Basic earnings per share is calculated by dividing net profit attributable to ordinary equity holders by the weighted average number of ordinary shares. In the cases of a change in the number of shares without affect the economic resources; the weighted average of ordinary shares issued is adjusted in proportion to the change in the number of shares as if this change has occurred in the beginning of the previous period. As there are no instruments that dilute the equity, the basic and diluted earnings per share do not differ.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed except for the cases when probability, that the recourses providing economic benefit will be transferred, is remote.

Contingent assets are not recognized in the financial statements. They are disclosed in the financial statements when it is probable that income or economic benefit will be received.

Subsequent events

Events that provide additional information on the status of the Company on the day of the conclusion of the financial statement (the adjusting events) are reflected in the final statements. Other subsequent events are not adjusting events and are described in the notes if it is important.

Significant accounting principles (cont‘d)

Effect of application of new standards, amendments to published standards and interpretations on financial statements

Except for the changes below, the Company has consistently applied the accounting policies to all the periods presented in these financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of the fair value 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. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

As a result, the Company has included additional disclosures in this regard (see Note 4 (Non-current assets held for sale), Note 28 (Fair value of financial instruments)).

In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

(ii) Presentation of items of other comprehensive income

The amendments are not relevant to the entity's financial statements, since the entity does not have any other comprehensive income.

(iii) Other amendments to standards

The following amendments to standards with effective date of 1 January 2013 did not have any impact on these financial statements:

- Amendment to IFRS 7 – Offsetting of Financial Assets and Liabilities;
- Amendment to IAS 19 (2011) – Employee Benefits;
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets.

- Amendments to IFRS 7 Disclosures - *Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013). The Amendments contain new disclosure requirements for financial assets and liabilities that are:
    - offset in the statement of financial position; or
    - subject to master netting arrangements or similar agreements.

New standards and interpretations not yet effective

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. Those which may be relevant to the Company as well as management's judgments regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Company does not plan to adopt these amendments, standards and interpretations early.

(i) IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities (2011)

Significant accounting principles (cont‘d)

New standards and interpretations not yet effective (cont’d)

These standards are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted, but not relevant for the Company as it has no subsidiaries, joing ventures or associates.

(ii) IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the presentation of consolidated financial statements, which have been incorporated into IFRS 10, *Consolidated Financial Statements*. The Company does not expect IAS 27 (2011) to have a material impact on the financial statements, since it does not result in a change in the entity’s accounting policy.

(iii) IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

There are limited amendments to IAS 28 (2008) which are related to associates and joint ventures held for sale and changes in interest held in associates and joint ventures. The Company does not expect the amendments to Standard to have material impact on the financial statements since it does not have any significant investments in associates or joint ventures that will be impacted by the amendments.

(iv) *Amendments to IAS 32 on Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)*

Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively) clarify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and has not entered into master netting arrangements.

(v) *Amendments to IAS 36 on Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014)*

The Amendments clarify that recoverable amount should be disclosed only for individual assets (including goodwill) or cash-generated units for which an impairment loss was recognised or reversed during the period. The Amendments also require additional disclosures related to fair value hierarchy when impairment for individual assets (including goodwill) or cash-generated units has been recognised or reversed in the period and recoverable amount is based on fair value less costs of disposal. The Company does not expect the new Standard will have a material impact on the financial statements.

Financial risk management

In its activities, the Company is exposed to various financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The Board of Directors is responsible for creation and control of overall risk management policy in the Company. Risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls. Risk management policies and systems are reviewed on a regular basis to reflect changes in the market conditions and the Company‘s activities. The Company, through its training and management standards and procedures, aims at developing a disciplined and constructive control environment in which all employees understand their roles and obligations. Greatest attention is being dedicated to unpredictability of the financial markets and reduction of its effect on the Company‘s financial results. From time to time the Company may use derivative financial instruments in order to hedge against certain risks.

(in thousand Litas, unless stated otherwise)

Significant accounting principles (cont'd)

Financial risk management (cont'd)

Credit risk

Credit risk is the risk of Company's financial loss if customer or partner fails to comply with contractual obligations. Credit risk is controlled by applying credit limits and monitoring procedures. The carrying amount of financial assets represents the maximum credit exposure, which was as follows as at the date of statement of financial position:

thousand LTL	**31-12-2013**	**31-12-2012**	**31-12-2011**
Trade receivables	2.721	2.385	**750**
Cash and cash equivalents	1.602	369	**1.793**
Other receivables	1.228	163	**191**
Total:	**5.551**	**2.917**	**2.734**

The major part of receivables consists of amounts due from Euro zone countries. Ageing of receivables is presented in note 5.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its current obligations when they fall due. The Company's cash management policy is to regularly monitor its current and expected liquidity positions to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that the Company can meet its short-term and long-term funding requirements.

As at 31 December 2013, the Company is in the process of negotiation with the bank for the breach of loan covenants. Management does not expect that the breach has any significant impact to the Company or the bank will request for early or partial repayments, as required.

For the year ended 31 December 2013, the Company's operating loss and loss for the year ended 31 December 2012 amounted to 41 million Litas and 15 million Litas respectively.

The Management of the Company has reviewed the prevailing environment and believed that based on the Company's plans and assumptions disclosed in Note 26, the Company will have sufficient financial resources to satisfy its working capital requirements and payments of liabilities and its forthcoming future capital commitments.

The Company has received waiver from the bank regarding non-application of sanctions due to breached loan contract. The table below analyses the Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The following are the contractual maturities of financial liabilities, including the estimated interest payments as at 31 December 2013:

Thousand LTL	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
Loan from bank	52.819	(55.112)	(12.558)	(1.496)	(41.058)	-	-
Payable to suppliers	18.232	(18.232)	(18.232)	-	-	-	-
Other payables	269	(269)	(269)	-	-	-	-
	71.320	(73.613)	(31.059)	(1.496)	(41.058)	-	-

(in thousand Litas, unless stated otherwise)

Significant accounting principles (cont‘d)

Financial risk management (cont‘d)

Liquidity risk (cont‘d)

According to loan agreement with bank, the Company must comply with certain financial ratios. The Company failed to meet the level of trade payable amounts and has overdue at least one installment as at 31 December 2013 and, subsequently, the bank has the right to request full repayment of the loan. Therefore all financial liabilities are classified as current liabilities in the statement of financial position as at 31 December 2013.

The following are the contractual maturities of financial liabilities, including the estimated interest payments as at 31 December 2012:

Thousand LTL	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Financial liabilities							
Loan from bank	56.398	(59.105)	(4.731)	(15.091)	(22.045)	(17.238)	
Payable to suppliers	16.560	(16.560)	(16.560)	-	-	-	-
Other payables	894	(894)	(894)	-	-	-	-
	73.852	(76.559)	(22.185)	(15.091)	(22.350)	(17.238)	-

Currency risk

Currency risk relates to sales, purchases and borrowings denominated in currencies other than Litas and euro.

The Company’s currency exchange risk was concentrated in the following items of the statement of financial position:

Thousand LTL	**31-12-2013**	**31-12-2012**
Trade receivables	2.723	2.392
Other receivables	1.232	47
Cash and cash equivalents	1.589	1.702
Trade payables	(9.866)	(8.730)
Financial liabilities	(52.819)	(56.399)
Net exposure	**(57.141)**	**(60.988)**

There are no other material monetary items denominated in foreign currencies other than USD.

(in thousand Litas, unless stated otherwise)

Significant accounting principles (cont'd)

Financial risk management (cont'd)

Currency risk (cont'd)

The following table demonstrates the sensitivity of profit and loss where USD/LTL exchange rate changes by the specified percentage:

thousand LTL	31-12-2013	31-12-2012
Increase in exchange rate	10%	10%
Profit (loss)	5.714	6.085
Decrease of exchange rate	(10%)	(10%)
Profit (loss)	(5.714)	(6.085)

This analysis is based on the fluctuations of foreign currencies exchange rate (USD) which are reasonably possible at the end of each period. This analysis assumes that all other variables, in particular the interest rate, remain constant.

Interest rate risk

Borrowings of the Company are denominated in USD and bear a variable interest rate related to LIBOR, determined every three months. In 2013 the effective interest rate varied from 3.308% to 4.2419% (in 2012 – 3.31% to 3.39%).

If the average annual interest rate, applicable on the Company's borrowings with variable interest rate, increases (decreases) by 1%, then the Company's interest expenses and profit as at 31 December 2013 and 2012 would change as indicated in table:

2013	Increase/ (-) decrease, %	Effect on net result
USD	1 %	(210)
USD	-1 %	210

2012	Increase/ (-) decrease, %	Effect on net result
USD	1 %	(216)
USD	-1 %	216

Capital management

The Board's policy is to keep the shareholders' equity over borrowings at the level to maintain the confidence of investors, creditors and the market and to fund business development opportunities in the future in order to comply with external capital requirements. The Board monitors capital return ratios and proposes dividends to the shareholders according to the Company's financial performance and strategic goals. Capital comprises equity owned by the shareholders.

The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security afforded by a sound capital position.

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. No changes were made in the objectives, policies or processes during the years ended 31 December 2013 and 31 December 2012.

Significant accounting principles (cont‘d)

Financial risk management (cont‘d)

Capital management (cont’d)

According to the Law on Companies of the Republic of Lithuania, the Company’s equity must make not less than 50% of the share capital. The Company did not comply with the requirement of the Law as at 31 December 2013.

(in thousand Litas, unless stated otherwise)

Notes to the financial statements

1. Property, plant and equipment

Items Thousand LTL	Buildings and plant	Machinery and equipment	Vessels	Other vehicles	Repair of vessels	Other non-current assets	Not finished repair of vessels	Total
Acquisition cost								
Balance as at 31 December 2011	3.672	807	453.676	297	22.131	538	751	481.872
Acquisitions	-	59	47	-	10.677	7	-	10.790
Disposals (-)	-	(72)	(4)	-	(9.754)	-	-	(9.830)
Reclassifications	-	(52)	52	-	751	-	(751)	-
Balance as at 31 December 2012	3.672	742	453.771	297	23.805	545	-	482.832
Acquisitions	-	12	3	-	5.227	6	-	5.248
Disposals (-)	-	(30)	(18.420)	-	(10.175)	(85)	-	(28.710)
Transfers to assets held for sale	-	-	(51.910)	-	(5.488)	-	-	(57.398)
Reclassifications	-	(18)	18	-	-	-	-	-
Balance as at 31 December 2013	3.672	706	383.462	297	13.369	466	-	401.972
Accumulated impairment								
Balance as at 31 December 2011	-	-	(93.557)	-	-	-	-	(93.557)
Impairment	-	-	(5.750)	-	-	-	-	(5.750)
Balance as at 31 December 2012	-	-	(99.307)	-	-	-	-	(99.307)
Impairment	-	-	(22.100)	-	-	-	-	(22.100)
Transfers to assets held for sale	-	-	15.788	-	-	-	-	15.788
Balance as at 31 December 2013	-	-	(105.619)	-	-	-	-	(105.619)
Accumulated depreciation								
Balance as at 31 December 2011	507	756	157.260	116	18.856	442	-	177.937
Depreciation for the period	196	38	14.258	40	5.061	45	-	19.638
Disposals (-)	-	(72)	(4)	-	(9.754)	-	-	(9.830)
Reclassifications	-	(51)	51	-	-	-	-	-
Balance as at 31 December 2012	703	671	171.565	156	14.163	487	-	187.745
Depreciation for the period	196	39	11.193	39	6.968	30	-	18.465
Disposals (-)	-	(30)	(14.845)	-	(9.765)	(78)	-	(24.718)
Transfers to assets held for sale	-	-	(22.374)	-	(4.930)	-	-	(27.304)
Reclassifications	-	(18)	18	-	-	-	-	-
Balance as at 31 December 2013	899	662	145.557	195	6.436	439	-	154.188
Carrying amounts								
31 December 2011	3.165	51	202.859	181	3.275	96	751	210.378
31 December 2012	2.969	71	182.899	141	9.642	58	-	195.780
31 December 2013	2.773	44	132.286	102	6.933	27	-	142.165

(in thousand Litas, unless stated otherwise)

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

At the end of the financial year the Company's property, plant and equipment comprised 8 vessels, an administration building, vehicles, machinery and equipment. The depreciation of vessels, equipment and machinery and other tangible assets on vessels was recognised under cost of sales. The depreciation of the building, other vehicles, equipment and machinery and other tangible assets on shore was recognised under administrative expenses.

Thousand LTL	31-12-2013	31-12-2012
Depreciation (including repairs) recognised under cost of sales	18.190	19.363
Depreciation recognised under administrative expenses	282	285
Total:	**18.472**	**19.648**

As of 1 January 2013, the Company reviewed estimations of property, plant and equipment. The Company has reassessed useful lifes and the determination of exit value of the vessels and the lower residual values and extended depreciation periods for all vessels when calculating the depreciation charge for the year were applied prospectively. Residual values of the vessels were changed from the terminal value to the scrap value. Useful lifes extended until 30 years since construction. The effect of changes in the accounting estimates is stated below.

Thousand LTL	Annual depreciation charge for 2013 as to former estimation	Annual depreciation charge for 2013 as to new estimation	Increase (decrease)
Vessels – extended useful lifetime, decreased residual value (scrap value)	10.735	10.083	(652)

All the vessels have been pledged to the bank to secure the bank loan (note 8).

As at 31 December 2013 the Company performed an evaluation with the purpose to determine whether the value of the vessels, presented in the statement of financial position as at 31 December 2013, is not impaired.

While performing evaluation of vessels' impairment indications, the Company has identified that the carrying amount of the vessels to EBITDA ratio indicates that fleet's recovery period is above 50 years which is significantly above average technical life of the vessels. In addition, shares' price to book ratio (P/B) equals to 0,13 which also gives indication of the impairment.

When performing an impairment test on each vessel separately, its recoverable amount is being compared to the carrying amount. The recoverable amount of a vessel is the higher of the value in use and the fair value less selling costs. If the recoverable amount is lower than the carrying amount, the latter is decreased to the recoverable amount. The Company has received valuation reports from external valuators Hammarship AB. Valuation of the vessels, performed by Hammarship AB, has been based on the vessel being charterfree, in class and able give delivery within 2 months (i.e. forced sale method), therefore vessels have been valued at the amounts close to the scrap value. As to the Company's management the Company intends to continue operating the vessels instead of scrapping them; therefore the recoverable amount was determined to be as value in use.

During the evaluation, the value in use of the vessels was calculated by the management of the Company applying the discounted cash flows method. The main assumptions applied are presented below:

(a) Cash flows are forecasted for each vessel individually for the period at the end of which the residual value of vessels is determined. At the end of the useful lifetime, the residual value of a vessel is determined as a scrap value.
(b) Revenue of each vessel separately is forecasted using the actual historical data, many years of experience and forecasts of the Company's economists and of *Drewry publishing research* until the end of 2016. A forecasted increase in revenue for 2014 and subsequent periods is 5% per annum in average until 2019, resulting from an increase in freight margins and stable rate of utilization.

(in thousand Litas, unless stated otherwise)

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

Revenue of each vessel for subsequent periods is forecasted at the fixed level from the year 2019 due to uncertainties in the future.

(c) Number of working days: 5 days of off-hire per year are intended for all vessels where repair is not planned, if the vessel is in inspection of SS (called special survey) – 28 days off-hire, if the vessel is in inspection of DS (called dock survey) – 21 days off-hire.

(d) In 2014 the vessel costs are calculated for each vessel separately based on the vessel costs actually incurred in 2013 and on the forecasts of *Drewry publishing research* until the end of 2016, which forecasts an annual increase in vessel costs by 3 % per annum till 2019. Costs of each vessel for subsequent periods are forecasted at the fixed level from 2019 due to uncertainties in the future.

(e) No additional investments are being planned for the vessels, except for those needed to maintain a proper condition of the vessels. No unscheduled costs in relation to repair of vessels have been planned for the whole forecasted period.

(f) Costs incurred due to class surveys of the vessels during the forecasted period make fixed amounts, which are expected and aimed at in order to optimize the technical maintenance of the vessels.

(g) Discounting of cash flows is based on the weighted average capital cost rate (WACC). The calculated weighted average capital cost rate is 8.50% (2012 – 8.15%).

The impairment test of the vessels revealed that the recoverable amount of some vessels is lower than their carrying amount presented in the financial statements. Therefore, in the financial statements as at 31 December 2013 an impairment of 22.1 million LTL has been recorded for „Audrė“, „Akvilė“, „Daina“, „Alka“ and „Venta“ (refer to note 15).

Calculation of the recoverable amount is particularly sensitive to the projected amount of income and the weighted average cost of capital rate (WACC). Should the forecasted income of each year decrease by 5 per cent, the usage value of some vessels would become lower than the value stated in the Company‘s financial statements as at 31 December 2013, and the Company would be obligated to recognize an impairment of the vessels by approximately 12.5 million LTL. The table below shows possible impairment of the vessels, if the expected income remains unchanged, decreased by 5 % and 10 %, and if the WACC rates, used for calculation of the usage value of the vessels, are 8.5%, 9.0% and 9.5%.

Decrease in projected income	**WACC base**			
		Factually used 8.50%	**9.00%**	**9.50%**
	0%	22.1 million LTL	23.7 million LTL	27.2 million LTL
	5%	34.6 million LTL	38.0 million LTL	41.1 million LTL
	10%	49.6 million LTL	52.5 million LTL	55.4 million LTL

(in thousand Litas, unless stated otherwise)

2. Intangible assets

Items Thousand LTL	Software	Total
Acquisition cost		
As at 31 December 2011	387	387
Additions	3	3
Disposals	-	-
As at 31 December 2012	390	390
Additions	-	-
Disposals	5	5
As at 31 December 2013	385	385
Accumulated amortisation		
As at 31 December 2011	372	372
Amortisation for the period	10	10
As at 31 December 2012	382	382
Amortisation for the period	7	7
Disposals	(5)	(5)
As at 31 December 2013	384	384
Carrying amounts		
31 December 2011	15	15
31 December 2012	8	8
31 December 2013	1	1

Intangible assets are amortised over 3 years.
Amortisation of intangible assets is recognised under administrative expenses in the statement of comprehensive income.

3. Inventories and prepayments

Thousand LTL	31-12-2013	31-12-2012
Fuel and lubricants on vessels	3.261	4.796
Spare parts, materials	659	166
Food supplies on vessels	181	173
Total inventories:	*4.101*	*5.135*
Prepayments	833	867
Total:	**4.934**	**6.002**

As at 31 December 2013, fuel on vessels amounted to 3.261 thousand LTL. There were no revaluations of inventories to net realisable value as at 31 December 2013. As at 31 December 2013, the prepayments include the following amounts: 1 thousand LTL – advances paid, 51 thousand LTL – deferred commission costs related to sale of vessels, 517 thousand LTL – other prepayments (insurance, subscription, etc.) and 264 thousand LTL - prepayments to ship agents.

4. Assets held for sale

Non-current assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as non-current assets held for sale. Immediately before reclassification as held for sale, the assets are remeasured. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial reclassification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss.

On 9 October 2013 the Board of the Company adopted a decision to sell the m/v “Skalva”. The sales transaction was carried out on 11 December 2013. At the moment of reclassification (9 October 2013) the m/v “Skalva” was stated at fair value less selling costs, which was lower than the carrying amount. The fair value was measured as agreed sales price. The Company incurred no selling expenses as the vessel has been sold “as is where is”. The amount, at which the carrying amount was reduced, has been recognized as loss in profit or loss due to impairment.

(in thousand Litas, unless stated otherwise)

4. Assets held for sale (cont'd)

The impairment loss on initial reclassification of the m/v "Skalva" as held for sale, amounting to 105 thousand LTL, is stated under administrative costs (note 15).

On 21 October 2013 the Board of the Company adopted a decision to sell the m/v "Asta". The sales transaction was carried out in 28 January 2014. In the financial statements as at 31 December 2013, the m/v "Asta" was reclassified from non-current assets to assets held for sale. At the moment of reclassification (21 October 2013) m/v „Asta" was stated at fair value less selling costs, which was lower than the carrying amount. The fair value was measured as agreed sales price. The Company incurred commission costs as to the agreement. The amount, at which the carrying amount was reduced, has been recognized as loss due to impairment on initial reclassification as held for sale.

The loss from the write down of the m/v "Asta" to fair value, amounting to 3.907 thousand LTL, is stated under administrative costs (note 15).

On 14 January 2014 the Board of the Company adopted a decision to sell the m/v "Alka". The sales transaction was not carried out as at the date of the financial statements. In the financial statements as at 31 December 2013, the m/v "Alka" was reclassified from non-current assets to assets held for sale. At the moment of reclassification (31 December 2013) m/v „Alka" was stated at fair value less selling costs, which was lower than the carrying amount. The fair value was measured as agreed sales price according to the memorandum of agreement signed in January 2014. The Company incurred no selling expenses as selling transaction has not been accomplished due to the reasons beyond the Company's control. After the memorandum of sales agreement has been signed, the buyer made a prepayment for the m/v "Alka". As the sales transaction has not occurred, prepayment received for the sale of the vessel was left within the Company. Currently the Company is negotiating with another buyer regarding the sale of the vessel m/v "Alka", the price that is being negotiated is not lower than it was agreed according to the previous memorandum of agreement. As there is no valid memorandum of agreement signed yet, the Company cannot evaluate possible selling costs. The amount, at which the carrying amount was reduced to fair value (which is sales price less selling costs), has been recognized as loss due to impairment.

The loss from the write down of the m/v "Alka" to fair value, amounting to 29 thousand LTL, is stated under administrative costs (note 15).

Thousand LTL	31-12-2013	31-12-2012
Fair value of m/v "Alka"	*5.233*	-
Sales costs of m/v "Alka"	-	-
Total:	***5.233***	**-**

Thousand LTL	31-12-2013	31-12-2012
Selling price of m/v "Asta"	*5.145*	-
Sales costs of m/v "Asta"	51	-
Total:	***5.094***	**-**
Total assets held for sale	***10.327***	-

(in thousand Litas, unless stated otherwise)

5. Trade and other receivables

Thousand LTL	31-12-2013	31-12-2012
Trade receivables	3.835	3.524
Impairment (-)	(1.114)	(1.139)
Trade receivables, net	***2.721***	***2.385***
Receivable from the tax authorities	21	59
Prepayments to vessels	86	95
Other receivables	1.237	9
Total other receivables	***1.344***	***163***
Total:	**4.065**	**2.548**

As at 31 December 2013 trade receivables amounted to 2.721 thousand LTL, 2.338 thousand LTL out of which are current trade receivables for services rendered, 358 thousand LTL –prepayments and receivables, and 25 thousand LTL receivable for communication and other services.

Other receivables as at 31 December 2013 include 1.237 thousand LTL of 1.228 thousand LTL insurance premium in relation to insured event, 3 thousand LTL of excess tax on real estate and 6 thousand LTL of other receivable amounts.

			Overdue amounts, on which no impairment has been recognised			
Thousand LTL	**Outstanding balance**	**Not overdue amounts, on which no impairment has been recognised**	**Overdue up to 30 days**	**Overdue from 31 to 60 days**	**Overdue from 61 to 90 days**	**Overdue more than 91 days**
31-12-2013	2.721	1.421	682	239	5	374
31-12-2012	2.385	1.721	282	51	70	261

As at 31 December 2013 the Company's management performed an evaluation of receivable amounts. Based on the evaluation of the amounts, received after the date of the financial statements, and the historical data concerning payments from the clients, no subsequent impairment has been recognized. According to the management, there are no indications that the amounts overdue as at the date of the financial statements will not be settled, except for those on which impairment has been recognised.

6. Cash and cash equivalents

Thousand LTL	31-12-2013	31-12-2012
Cash at bank in national currency	4	30
Cash at bank in foreign currencies	1.592	329
Cash on hand in national currency	-	5
Cash on hand in foreign currencies	6	5
Total:	**1.602**	**369**

The Company had 633 thousand USD (1.587 thousand LTL), 3 thousand EUR (11 thousand LTL) and 3 thousand LTL in bank accounts and on hand as at 31 December 2013.

Since 2 February 2002, the Litas has been pegged to the Euro at the rate of LTL 3.4528 = EUR 1. At the year-end all transactions in EUR were translated into LTL at a fixed exchange rate of 1 EUR = 3.4528 LTL, set by the Bank of Lithuania, and the invoices in USD were restated at the exchange rate of 1 USD = 2.5098 LTL.

Under the conditions of credit agreement with the bank, 100 % of banking operations of the Company must be carried out through accounts opened with this credit institution. In addition, all current and future cash balances in all currencies on these accounts are pledged to the bank.

(in thousand Litas, unless stated otherwise)

7. Authorised capital

Thousand LTL	Authorised and issued capital
31-12-2012	200.901
New emission of shares	-
Acquisition of own shares	-
31-12-2013	200.901

The authorized capital of the Company at 31 December 2013 comprised 200.901.296 ordinary shares at par value of 1 LTL each. All shares are fully paid. Holders of ordinary shares have one vote per share at the general meeting of shareholders of the Company and are entitled to receive dividends when they are declared and the right to return the capital in case of capital reduction.

The shares of the Company are quoted by AB NASDAQ OMX Vilnius.

The Company‘s financial statements for the year ended 31 December 2013 show that the Company‘s equity as at 31 December 2013 amounts to 81.820 thousand LTL and is less than 50% of the authorized capital (100.450 thousand LTL). Therefore, the Company‘s management will request the general shareholders meeting to discuss the issue of restoration of the equity to the minimum amount required by the law.

Legal reserve

Legal reserves are formed in accordance with the legal acts of the Republic of Lithuania. Transfers of not less than 5% of net profit must be performed on annual basis until the reserve makes 10% of the authorized capital. This reserve can be used only to cover the accumulated losses.

8. Financial liabilities to credit institutions

Thousand LTL	31-12-2013	31-12-2012
Payable after one year	-	38.286
Payable within one year	52.624	18.112
Accrued interest payable within one year	194	-
Total:	**52.819**	**56.398**
Loan balances in the beginning of the year	56.398	66.603
Loan received	-	-
Loan repaid	(1.692)	(8.829)
Accrued interest payable within one year	194	-
Currency exchange differences	(2.082)	(1.376)
Total:	**52.819**	**56.398**

All financial liabilities to the bank are secured by pledging the Company‘s vessels. The Company has pledged 8 vessels with the carrying amount of which as at 31 December 2013 amounted to 132.286 thousand LTL, and the vessels „ Asta“ (the carrying amount, less selling costs, of 5.233 thousand LTL as at 31 December 2013) and m/v “Alka” (the carrying amount less selling costs of 5.094 thousand LTL as at 31 December 2013). The total loan balance payable to the bank as at 31 December 2013 amounted to 52.624 thousand LTL, accrued payable interests – 194 thousand LTL.

According to loan agreement with the bank, the Company must comply with certain financial ratios. Since the Company failed to meet the level of trade payable amounts and has overdue at least one installment as at 31 December, all financial liabilities are classified as current liabilities in the statement of financial position as at 31 December 2013.The loan are denominated in USD and bear variable interest rates related to 3 months LIBOR (USD) plus margin. The effective interest rate in 2013 varied from 3.308 % to 4.2419%. A decline in the shipping market caused a decrease in cash flows; therefore, in October 2013 the loan repayment schedule was restructured. The restructured schedule’s split into payment terms is presented in liquidity risk disclosure. The restructured schedule anticipates repayment of the loan from the expected income from disposal of the vessels as well as partial (monthly) instalments from operational revenues. The loan repayment deadline is 27 February 2015.

(in thousand Litas, unless stated otherwise)

9. Non-current employee benefits

The Company has recognised non-current post-employment employee benefits related to retirement payments. The Company has assessed impact of mortality rate in Lithuania, discount rate, retirement age, age and turnover of the Company's employees, salary and inflation growth, other payouts as to the Company's collective agreement and other factors while calculating non-current employee benefits. Costs in relation to accounting of these liabilities have been stated under the administrative expenses in the profit and loss as well as under a separate item of long-term employee benefits in the statements of financial position.

Thousand LTL	
31 December 2011	**200**
Change	105
31 December 2012	**305**
Change	109
31 December 2013	**414**

10. Employment related liabilities

Thousand LTL	31-12-2013	31-12-2012
Payable salaries	4.173	1.311
Vacation reserve (salaries)	1.294	1.385
Vacation reserve (social taxes)	519	429
Payable to tax authorities	367	369
Other payables	78	2
Total:	**6.431**	**3.496**

11. Trade and other payable amounts

Thousand LTL	31-12-2013	31-12-2012
Payable to suppliers (a)	18.232	16.560
Prepayments received (b)	3.043	4.019
Payable dividends	95	95
Accrued expenses	77	58
Other	97	741
Total:	**21.544**	**21.473**

(a) As at 31 December 2013 payable to suppliers amounted to 18.232 thousand LTL which can be specified as follows: 9.442 thousand LTL – repair and technical supply of vessels; 637 thousand LTL – lubricants; 724 thousand LTL – payable to agents for services provided to vessels; 6.186 thousand LTL – fuel; 709 thousand LTL – vessel supervision classifying companies; 534 thousand LTL – various services to vessels and on-shore divisions. As at 31 December 2012 payable to suppliers amounted to 16.560 thousand LTL, out of which: 7.109 thousand LTL – for repair and technical supply, 6.413 thousand LTL – for fuel, 757 thousand LTL – for ship agents, 600 thousand LTL – for vessel classifying companies, 591 thousand LTL – for lubricants, 1.090 thousand LTL - for various services for vessels and onshore divisions.

(b) As at 31 December 2013 prepayments received amounted to 3.043 thousand LTL and include deferred income for voyages and other deferred income. As at 31 December 2012 prepayments of 5.174 thousand LTL included prepayments for voyages and deferred income.

(in thousand Litas, unless stated otherwise)

12. Deferred tax asset and liabilities

Since in 2007 the Company chose to pay the fixed tonnage tax, the base of which does not depend on the Company‘s profit. All temporary differences between the tax and financial reporting relate to the shipping activities. Due to this, the deferred tax is not recognized in the Company.

13. Sales

Thousand LTL	31-12-2013	31-12-2012
Voyage-charter revenues (a)	68.529	43.433
Time-charter revenues (b)	19.509	39.578
Other *Time-charter revenues*	181	766
Other	4.118	97
Total:	**92.337**	**83.874**

In 2013 revenues from voyage charter contracts increased and revenues from time charter contracts decreased, compared to the prior year, as the Company‘s fleet worked more days under voyage-charter contracts than time charter contracts.

(a) Income earned from Voyage charters is based on the vessel rent for particular trip (voyage) from point A to B. Voyage charter agreements usually are short-term (in most cases up to 1-3 months).

(b) Time charter agreements are based on the vessel’s rent for a particular period of time from date A till B. Time charter agreements may last for up to 3-4 years (but usually do not exceed 2 years).

14. Cost of sales

Thousand LTL	31-12-2013	31-12-2012
Fuel	(31.943)	(21.798)
Crew costs	(20.899)	(20.181)
Depreciation	(18.190)	(19.363)
Port dues	(10.944)	(5.428)
Insurance	(4.898)	(4.495)
Commissions	(3.506)	(2.803)
Vessel’s functional expenses	(2.993)	(3.043)
Lubricants	(1.767)	(2.984)
Emergency repair of vessels	(1.578)	(5.131)
Spare parts	(834)	(1.412)
Other vessel costs	(5.429)	(2.564)
Total:	**(102.981)**	**(89.202)**

Fuel costs for 2013 amounted to 31.943 thousand LTL (2012 - 21.798 thousand LTL). Port dues for 2013 amounted to 10.944 thousand LTL (2012 - 5.428 thousand LTL). In 2013 the Company‘s fleet worked more days under voyage-charter contracts (2013 – 2.223 days; 2012 – 1.181 days), i.e. the Company itself purchased fuel and paid port dues, whereas in 2012 the fleet of LSC worked more days under time-charter contracts (2013 – 1.433 days, 2012 – 2.594 days), where the contract terms and conditions prescribe that the fuel costs and port dues are covered by the charterer.

Depreciation charge has decreased due to changed depreciation periods, restated residual values and adjusted values of the vessels (note 1).

(in thousand Litas, unless stated otherwise)

15. Administrative expenses

Thousand LTL	31-12-2013	31-12-2012
Impairment of vessels (note 1)	(22.100)	(5.750)
Impairment of assets held for sale (note 4)	(4.041)	-
Staff costs	(2.684)	(3.001)
Depreciation and mortization	(282)	(285)
Consultation and legal services	(224)	(407)
Bank services	(161)	(130)
Business maintenance expenses	(144)	(157)
Transport expenses	(112)	(106)
Maintenance of premises	(99)	(101)
Communication services	(92)	(109)
Other	(881)	(369)
Total:	**(30.820)**	**(10.415)**

Staff costs include employee salaries, business trips and daily allowances.

16. Other operating income/expenses

Thousand LTL	31-12-2013	31-12-2012 (restated)
Other income	677	522
Total other operating income:	*677*	*522*
Loss from disposal of non-current assets	(57)	-
Other expenses	(181)	(3)
Total other operating expenses:	*(238)*	*(3)*
Total:	**439**	**519**

17. Financial and investing activity

Thousand LTL	31-12-2013	31-12-2012 (restated)
Interest income	-	-
Gain of currency exchange	2.083	1.054
Total financial activity income:	*2.083*	*1.054*
Interest expenses	(2.141)	(2.196)
Loss of currency exchange	-	-
Total financial activity expenses:	*(2.141)*	*(2.196)*
Total:	**(58)**	**(1.142)**

18. Income tax expense

Thousand LTL	2013-12-31	2012-12-31
Tonnage tax	(66)	(66)

In 2013 and 2012 the Company calculated a fixed income tax from gross tonnage of the operated fleet.

19. Basic earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing net profit (loss) attributable to ordinary equity holders by the weighted average number of ordinary shares. Average number of ordinary shares did not change throughout 2013 and 2012 and amounted to 200.901.296 units.

Basic loss per share as at 31 December 2013 amounts to 0,20 LTL, basic loss per share as at 31 December 2012 – 0,08 LTL.

The Company does not have any convertible or potentially convertible shares; therefore, basic and diluted earnings (loss) per share are equal.

20. Related parties

The related parties of the Company are: members of the Board, general director, fleet management director, technical director, common affairs director (as of 2 January 2013), chief accountant and their family members. Remuneration to the mentioned persons in 2013 amounted to 561 thousand LTL (in 2012 - 639 thousand LTL).

There were no other transactions with the related parties in 2013. The Company had no transactions or outstanding balances as at 31 December 2013 and 2012 with government-related entities.

21. Segments

The main operating markets of the Company are as follows:

- Trans-Atlantic market, where the steel and nonferrous metals, alloys, fertilizer cargo are being carried from Europe, to USA, Latin and South America. Cargo for return trips consists of grain, coal, alumina and fluorspar.
- Northern European-North African market, where the rough sawn timber, paper cargo are being carried from Northern Europe and Scandinavia to the Mediterranean coast. Cargo for return trips consists of fertilizes, ore, steel coils and minerals.
- Caribbean market, where various cargo are being carried between USA and the Caribbean and Central American countries.

The Company has no clients, income from which in 2013 made more than 10% of the total income. In 2012 the Company had two clients, income from which made 32% of the Company’s total income for 2012.

According to the size (tonnage) of vessels, there are three vessel segments: „Asta”- type vessels („Asta“, „Audrė“, „Akvilė“, „Daina“ – with the dead weight up to 6.000 tons), „Alka“- type vessels („Alka“, „Skalva“ – with the dead weight up to 10.000 tons), and „Raguva“- type vessels („Raguva“, „Deltuva“, „Romuva“, „Voruta“ and „Venta“ – with the dead weight up to 25.000 tons).

The Company separates segments based on the size of the vessels (tonnage), however, the vessels of the Company in all separated segments are used for delivery of similar services (they can transport similar cargo). The Company has decided to sell „Alka” type vessels – one was sold in 2013, the remaining vessel has been reclassified as asset held for sale as at 31 December 2013. Since the sale of the vessels of the same type as m/v “Alka” does not reflect discontinued operations of discrete activities, therefore, it is not assumed as discontinued operations.

21. Segments (cont'd)

31-12-2013, in thousand LTL	**Asta**	**Alka**	**Raguva**	**Not attributed**	**Total**
Voyage income	16.494	16.738	59.105	-	92.337
Voyage costs	(6.447)	(10.564)	(33.350)	-	(50.361)
Voyage result	**10.047**	**6.174**	**25.755**	**-**	**41.976**
Current vessel costs	(9.289)	(5.594)	(19.548)	-	(34.431)
Operating costs	-	-	-	(4.396)	(4.396)
Operating result before depreciation, EBITDA	**758**	**580**	**6.207**	**(4.396)**	**3.149**
Impairment of vessels	(14.407)	(4.234)	(7.500)	-	(26.141)
Depreciation	(3.642)	(2.164)	(12.384)	(282)	(18.472)
Operating result, EBIT	**(17.291)**	**(5.818)**	**(13.677)**	**(4.678)**	**(41.464)**
Other activity result	-	-	-	439	439
Interest expenses	-	-	(2.141)	-	(2.141)
Currency exchange result	-	-	2.083	-	2.083
Other financial activity, net	-	-	-	-	-
Tonnage tax	(15)	(9)	(42)	-	(66)
Net result	**(17.306)**	**(5.827)**	**(13.777)**	**(4.239)**	**(41.149)**
Non-current assets of segments	17.020	-	115.266	-	132.286
Loan payable by segment	-	-	52.819	-	52.819
Acquisition of non-current assets		-	9		9

Voyage expenses include: fuel, port dues, commissions, loading services.

Current expenses of vessels include: salaries, taxes, daily allowances, vessel repair and maintenance, insurance, communication and other expenses.

21. Segments (cont'd)

31-12-2012, in thousand LTL	Asta	Alka	Raguva	Not attributed	Total
Voyage income	15.502	17.538	50.834	-	83.874
Voyage costs	(3.778)	(8.722)	(20.308)	-	(32.808)
Voyage result	**11.724**	**8.816**	**30.526**	**-**	**51.066**
Current vessel costs	(8.152)	(6.645)	(22.234)	-	(37.031)
Operating costs	-	-	-	(4.380)	(4.380)
Operating costs before depreciation, EBITDA	**3.572**	**2.171**	**8.292**	**(4.380)**	**9.655**
Impairment of vessels	(2.100)	(1.000)	(2.650)	-	(5.750)
Depreciation	(3.894)	(2.587)	(12.882)	(285)	(19.648)
Operating result, EBIT	**(2.422)**	**(1.416)**	**(7.240)**	**(4.665)**	**(15.743)**
Other activity result	-	-	-	519	519
Interest expenses	-	-	(2.196)	-	(2.196)
Currency exchange result	-	-	1.054	-	1.054
Result from other financial activity, net	-	-	-	-	-
Fixed income (tonnage) tax	(15)	(9)	(42)	-	(66)
Net result	**(2.437)**	**(1.425)**	**(8.424)**	**(4.146)**	**(16.432)**
Non-current assets of segments	39.202	13.342	130.355	-	182.899
Segment loan payable	-	-	56.398	-	56.398
Acquisition of non-current assets	12	2	40	-	54

Voyage expenses include: fuel, port dues, commissions and loading services.

Current expenses of vessels include: salaries, taxes, daily allowances, vessel repair and maintenance, insurance, communication and other expenses.

22. Capital management policy

The Company uses variety of ways to manage and maintain the capital structure - adjusts amount of dividends and other payments to shareholders, may sell assets in order to reduce debts.

Debt – equity ratio

Thousand LTL	31-12-2013	31-12-2012 (restated)
Total liabilities:	81.274	81.738
Less cash and cash equivalents	1.602	369
Net amount of liabilities	***79.672***	***81.369***
Total equity:	*81.820*	*122.969*
Plus subordinated debt instruments	-	-
Less change in fair value of hedging instrument recognized in equity	-	-
Adjusted equity	***81.820***	***122.969***
Debt – equity ratio	**0,97**	**0,66**

(in thousand Litas, unless stated otherwise)

23. Financial ratios

	Calculation	31-12-2013	31-12-2012 (restated)
Gross debt ratio	Total liabilities / total asset	0,50	0,40
Gross solvency ratio	Total equity / Total liabilities	1,01	1,50
Gross profitability	Gross profit / Sales and services	-0,12	-0,06
Current ratio	Current asset / Current liabilities	0,26	0,21
Receivables turnover	Sales and services / Accounts receivable	33,93	35,17

Changes in the above financial ratios in 2013 indicate improving liquidity of the Company compared to the year 2012.

24. Correction of errors

Item	Amount of error, thousand LTL	Amount before adjustment 31-12-2012, thousand LTL	Amount after adjustment 31-12-2012, thousand LTL
Prepayments received	1.155	5.174	4.019
Total current liabilities	**1.155**	**44.302**	**43.147**
Retained earnings (losses)	1.155	(79.087)	(77.932)
Total equity	**1.155**	**121.814**	**122.969**
Other operating income	335	187	522
Operating loss	335	(15.559)	(15.224)
Loss before taxation	335	(16.701)	(16.366)
Loss for the year	335	(16.767)	(16.432)
Total comprehensive income	**335**	**(16.767)**	**(16.432)**

Item	Amount of error, thousand LTL	Amount before adjustment 31-12-2011, thousand LTL	Amount after adjustment 31-12-2011, thousand LTL
Prepayments received	820	3.266	2.446
Total current liabilities	**820**	**48.164**	**47.544**
Retained earnings (losses)	820	(62.320)	(61.500)
Equity	**820**	**138.581**	**139.401**

During the period 2009-2012 the Company received surplus payments from the clients of 1.155 thousand LTL (2009-2011 – 820 thousand LTL, 2012 – 335 thousand LTL), which have not been set off against other payments or claimed back by the clients. Having investigated the terms of settlement and having not received any claims from the clients, the mentioned surplus amounts were recognised as other operating income for prior periods.

25. Contingencies

There is an ongoing legal proceeding regarding compensation of pecuniary and non-pecuniary damage. The Company is being claimed an amount of 411 thousand LTL. The action has been raised regarding the death of captain in 2005. According to the primary courts the claim has been non-suit therefore the Company has not raised a provision.

There is an ongoing legal proceeding with the former employee of the Company regarding compensation of pecuniary and non-pecuniary damage; the claim amount is approximately 140 thousand LTL. The claim against the Company was raised in relation to the termination of the labour contract. According to the primary courts the claim has been non-suit therefore the Company has not raised a provision.

The Company has not granted any guarantees or sureties to other persons.

The tax authorities have not performed a full scope tax review of the Company for the period 2009 to 2013. According to prevailing tax legislation the tax authorities have the right to check accounting registers and records of the company for 5 years prior to the current accounting period and may charge additional taxes and penalties. The management of the Company is not aware of any circumstances due to which additional material tax liabilities could be imposed on the Company.

26. Going concern

The current liabilities, reflected in the Company‘s financial statements as at 31 December 2013, exceed the current assets by 60 million LTL (as at 31 December 2012: current liabilities exceeded current assets by 34 million LTL). The Company has also incurred operating loss of 41 million LTL in 2013 (15 million LTL operating loss in 2012). According to loan agreements with the bank, the Company must comply with financial ratios – debt service cover ratio, the level of trade payable amounts, equity ratio and cash sweep. The Company did not meet the level of trade payable amounts and has overdue at least one installment as at 31 December 2013. If the covenants are breached, the bank has the right to request full repayment of the loan. In addition, the level of equity of the Company was not in compliance with the minimum of authorized share capital requirement specified by the Company Law as at 31 December 2013. These circumstances indicate significant uncertainty regarding the Company's ability to continue as a going concern.

Growth and development opportunities of the Company depend on recovery of the shipping market. The development of the shipping market is limited in recent years by two major factors – slow economic recovery and excess ship tonnage in the market. It is expected that the market will experience a substantial recovery in 2014 as the first positive changes can already be noticed – transportation charges have started to rise (the value of Baltic Dry Handysize index – the most relevant ship-size segment for the Company – in the beginning of 2013 was 669, and as at 4 February 2014 it was 681). In any case, the minimum recovery signs can be expected due to an increase in demand, because growth has been forecasted for the two leading economies – the US and China – both having significant impact on international freight demand. The Company re-allocates its vessels according to the geographic demand and profitability changes. According to the forecasts of the World Bank for 2014, the economy will experience a stabilization period. An expected global GDP growth is 3%. Similar growth rates should remain until the year 2018.

In order to realize its strategic goals set out in the Company’s business plan for 2014-2016, the Company is planning to sell four inefficient smallest vessels and acquire one new vessel (a „Deltuva“/„Voruta“ type vessel with 17 thousand tons DWT). Acquisition of new vessel is expected to be financed by own cash flows, mainly from sold vessels. It is expected that income from disposal of one vessel will amount to 5.5 million LTL (income from sold vessel in January 2014 amounted to 5.1 million LTL). The Company is planning to change employees’ remuneration system which would be partly linked to the employees’ performance. Due to the sale of vessels, number of shipmen is expected to decrease 10-15%, administrative esmployees – 20-30% during 2014-2016.

The Company continuously negotiates with main creditors (the bank, fuel suppliers, spare parts’ suppliers, employees, etc.) regarding resettlement of the payment schedules.

26. Going concern (cont'd)

Moreover, the Company and the main creditor (the bank which provided the loan) have signed an amendment to the loan agreement providing for an extended repayment deadline until February 2015 and received waiver from the bank regarding non-application of sanctions due to breached loan contract. The Company expects to reach an agreement with the bank that part of the cash inflow from the sale of the vessels will be used for acquisition of the new vessel and repayment of current liabilities. The Company has reached informal agreement with the bank that part of the vessel proceeds will be intended for the acquisition of new vessel and the financing of the Company's working capital. Currently, the Company negotiates with the bank for significant extension of repayment deadlines of the loan and expects to come to a positive agreement in the near future.

The management of the Company seeks to diversify the revenue between voyage charter and time charter income by continuously monitoring, analysing, forecasting of and reacting to the market conditions. Proportion of the income between voyage charter and time charter income fluctuates in other shipping companies as well depending on the managing structure, direct contacts with cargo suppliers and market conditions. Recent market trends indicate growth in all sectors of the dry cargo segment. There is also decrease in the gross tonnage (deadweight – DWT) noticed in the Handysize segment in recent years and the trend remains for the upcoming periods. According to the Company's business plan for 2014-2016, EBITDA is forecasted at 10-14 million LTL every year. The management believes that the mentioned actions will positively affect the Company‘s financial stability and business continuity. These financial statements have been prepared on the going concern basis and do not reflect any adjustments, which might be necessary if the Company were not able to continue as a going concern.

27. Subsequent events

On 28 January 2014 the Company sold the m/v „Asta“ (built in 1996). After the mentioned disposal, the Company‘s fleet consists of 9 vessels.

No other significant events have occurred after the statement of financial position date.

As at the issuance date of the financial statements the Company has not prepared a draft profit appropriation.

28. Fair value of financial instruments

Fair value is defined 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.

When determining the fair value of the financial instruments, the Company uses the following methods and assumptions:

Cash

Cash are funds that are valued at fair value.

Receivable amounts

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the measurement date. Fair value of trade and other receivables of a shorter than six months duration with no stated interest rate is considered as approximately equal to their nominal value at initial recognition, and subsequently - at the carrying amount as the discounting effect is not significant. Fair value is determined for disclosure purposes.

Financial liabilities

Fair value, determined for disclosure purposes, is calculated based on the present value of the future principal and interest rate cash flows, discounted applying the market interest rate at the reporting date. The market interest rate on financial loan is determined based on the similar loan agreements.

28. Fair value of financial instruments (cont'd)

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1 – a quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company has no financial assets and financial liabilities accounted at fair value.

Financial instruments not stated at fair value

The main financial instruments of the Company, not carried at fair value, are trade and other receivables, trade and other payables, non-current and current borrowings. The Company's management is of the opinion that the carrying amounts of these financial instruments approximate their fair values because the borrowing costs are related to an interbank lending interest rate LIBOR, and other financial assets and liabilities are of short-term nature; therefore, their fair value variation is not significant.

General Director	Audronis Lubys
Chief Accountant	Arvydas Stropus

PUBLIC COMPANY
LITHUANIAN SHIPPING COMPANY

ANNUAL REPORT

For the year 2013

Klaipėda, February 2014

Contents

(in thousand Litas, unless stated otherwise)

AKCINĖ BENDROVĖ "LIETUVOS JŪRŲ LAIVININKYSTĖ"

PUBLIC COMPANY "LITHUANIAN SHIPPING COMPANY"

1. GENERAL INFORMATION

1.1. Reporting Period Covered in the Annual Report

The Annual Report is prepared for the year 2013. In addition to the Annual Report, the Company has prepared a Set of Financial Statements for 2013, which includes the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and Notes to the Financial Statements (Explanatory Notes). Herein, the Public Company Lithuanian Shipping Company may also be referred to as the Enterprise, the Company, the Issuer, LSC.

1.2. Contact information of the Company

Table 1

Name	Public Company Lithuanian Shipping Company
Legal form	Public Company
Date and place of registration	27 June 2001, Klaipėda
Identification number	110865039, the former identification number is 1086503
Head office address	Malūnininkų St. 3, Klaipėda
Phone number	+ 370 46 393 105
Fax number	+ 370 46 393 119
E-mail address	info@ljl.lt
Website address	www.ljl.lt

1.3. Shareholders of the Company

As at 31 December 2013 there were 2.143 shareholders. The shareholders who own or hold over 5 percent of the Company's authorized capital are listed in the Table 2.

Table 2

Name	Identification number	Address	Number of shares	Portion of ownership (%)
MINISTRY OF TRANSPORT AND COMMUNICATIONS OF THE REPUBLIC OF LITHUANIA	188620589	GEDIMINO PR. 17, VILNIUS, LITHUANIA	113.833.000	56.66
DFDS TOR LINE A/S	LJL1419471	SUNDKROGSGADE 11, DK-2100 COPENHAGEN, DENMARK	11.108.420	5.53

The shares of the Company grant equal rights to the owners thereof (shareholders). The competence of the General Shareholders' Meeting, property and non-property rights of the shareholders and their realization thereof are provided in the Articles of Association of the Company and the Law on Companies of the Republic of Lithuania.

The State owns 56.66 percent of the shares which are held by the Ministry of Transport and Communications of the Republic of Lithuania.

1.4. Information on Agreements with Agents of Public Circulation of Securities

On 1 November 2002 Public Company Lithuanian Shipping Company signed an Agreement on handling of securities with UAB FMĮ Jūsų Tarpininkas (hereinafter- AB FMĮ SNORAS - Jūsų Tarpininkas, A. Mickevičiaus St. 29-3, 44245 Kaunas). After AB FMĮ SNORAS – Jūsų Tarpininkas was reorganized by merge, on 31 March 2010 AB FMĮ Finasta (code 122570630, address: Maironio St. 11, Vilnius; tel. No. 1813, e-mail: info@finasta.com) took over the rights and obligations of AB FMĮ SNORAS - Jūsų Tarpininkas, which continues to fulfil contractual commitments and handles the securities accounting of Public Company Lithuanian Shipping Company.

1.5. Data Related to Trading of Securities on Regulated Markets

Since 9 July 2001, 200.901.296 ordinary registered shares of Public Company Lithuanian Shipping Company with a nominal value of one Litas have been quoted in the current sales list of Vilnius Stock Exchange (former National Stock Exchange). Based on the amendments to the trading rules of Vilnius Stock Exchange (VSE), adopted by the VSE Board on 18 May 2007, the current list of the securities was changed to the Secondary List. The new name of the exchange market is AB NASDAQ OMX Vilnius.

After the new regulations of Vilnius Stock Exchange came into effect on 30 May 2005, the direct transactions are calculated as automated transactions (Appendix 1), together with other transactions carried out in the central market. Data on trading securities of the Issuer outside the exchange market is provided in the Appendix 2.

The Issuer's securities are not traded on other stock exchange markets or other organized markets.

None of the third parties has submitted an official offer to acquire the Issuer's securities.

The issuer has not submitted an official offer to acquire any securities issued by a third party.

1.6. Structure of Authorized Capital

The authorized capital is equal to the total nominal value of the subscribed shares.
The authorized capital of the Company amounts to 200.901.296 Litas.

The authorized capital of the Company is divided into 200.901.296 ordinary shares at par value of 1 Litas each.
All the shares of the Company are of one class – ordinary registered shares.
ISIN code – LT0000125999.

The method of the securities release to the public trading is reorganization.

1.7. Information on Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

1.8. Information on Restrictions on Voting Rights

There are no restrictions on the voting rights.

2. INFORMATION ON COMPANY'S ACTIVITIES

2.1. Mission, Operating Strategy, and Objectives of the Company

The Company's mission is to provide modern world-class dry cargo shipping and ship management services that meet the needs of the shareholders and counterparties.

The Company's vision is to become a leader in the dry sea freight forwarding market (segment of 17-25 thousand DWT) in the Baltic region, having an efficient and modern fleet operating under Lithuanian flag.

Values:

Our employees:	- Recruitment and retention of experienced specialists and young employees; - Empowering career and professional development; - Promotion for the results.
Client service of high quality:	- Close relationships with clients; - Execution of commitments; - Timely realization of client needs.
Responsibility:	- Reliable rendering of services; - Reliable, safe and efficient operational, technical and environmental management of vessels; - Long- and short-term planning and budgeting, continuous performance monitoring and adjustment, if necessary.

Strategic objectives of the Company:

1. Financial efficiency;
2. Operating efficiency;
3. Modernization of fleet.

2.2. Activities and Services Rendered by the Company

The main activity of the Company is sea freight transportation services.
At the end of 2013 the Company owned 10 vessels:

(in thousand Litas, unless stated otherwise)

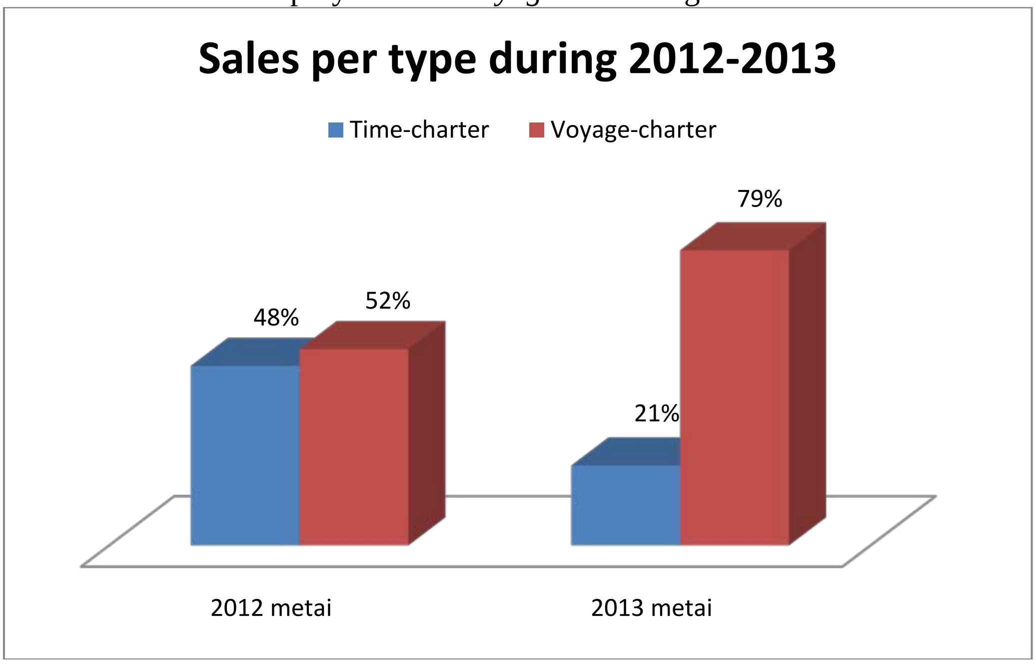
No.	Vessel	Construction year	DWT
1	Asta	1996	5820
2	Audrė	1997	5820
3	Akvilė	1997	5820
4	Daina	1998	5820
5	Alka	1994	7346
6	Raguva	1995	16883
7	Deltuva	1994	16906
8	Romuva	1998	17504
9	Voruta	1998	17504
10	Venta	1995	24202

Changes in the usage of freight vessels and cargo quantities during 2011-2013 are presented below. During the reporting period the number of the vessels employed and their dead weight remained the same, except for m/v „Skalva“ sold in December 2013; however, due to changes in the vessel employment structure the cargo quantities have increased.

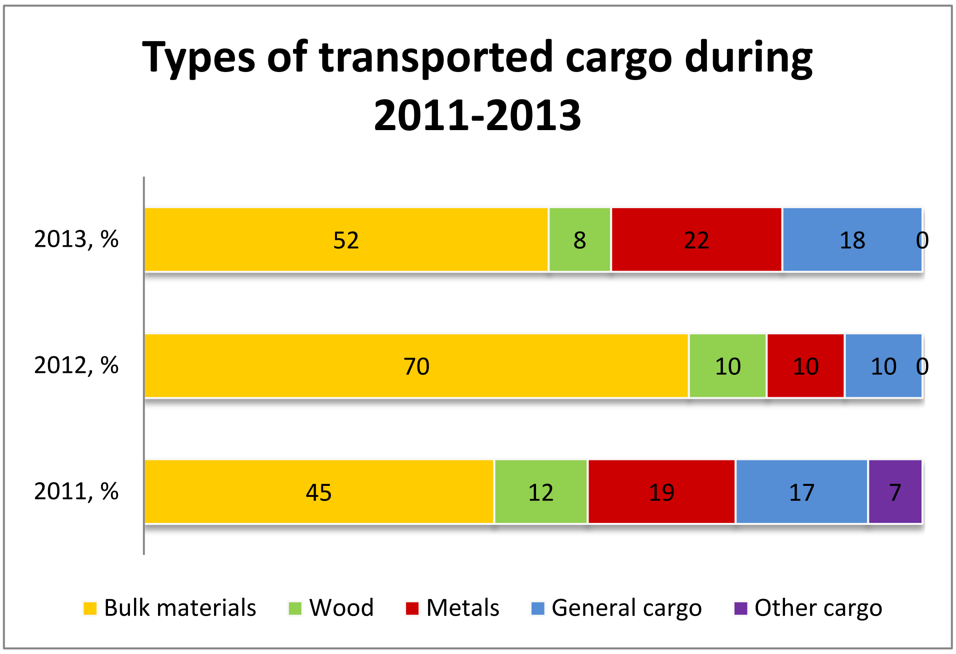
Employment of cargo vessels and cargo quantities carried during the year

Indicator	**2011**	**2012**		**2013**	
	Value	Value	Variation	Value	Variation
Number of vessels employed	10,3	10,3	0 %	10	0.3 %
Deadweight, thousand tons	133,4	133,4	0 %	133,4	0 %
Cargo carried, thousand tons	1.379	1.157	- 16 %	1.275	+ 10 %

Owners employ their vessels as to *time-charter* or *voyage-charter* agreements. The Company aims to retain an optimal balance of the vessels in the market employed under *time-charter* and *voyage-charter* agreements. Due to the fact that trans-Atlantic trade picked up stream in 2013, more vessels of LSC were employed under *voyage-charter* agreements.



The Company's vessels have the capacity to carry approximately 65% of all cargo types in the world, i.e. general cargo, grain, coal, iron ore, chemical products.



The major portion of cargo flows consists of bulk cargo and metal. In the future, the Company plans to further specialize in the mentioned freight transportation segment.

2.3. Analysis of competitive environment

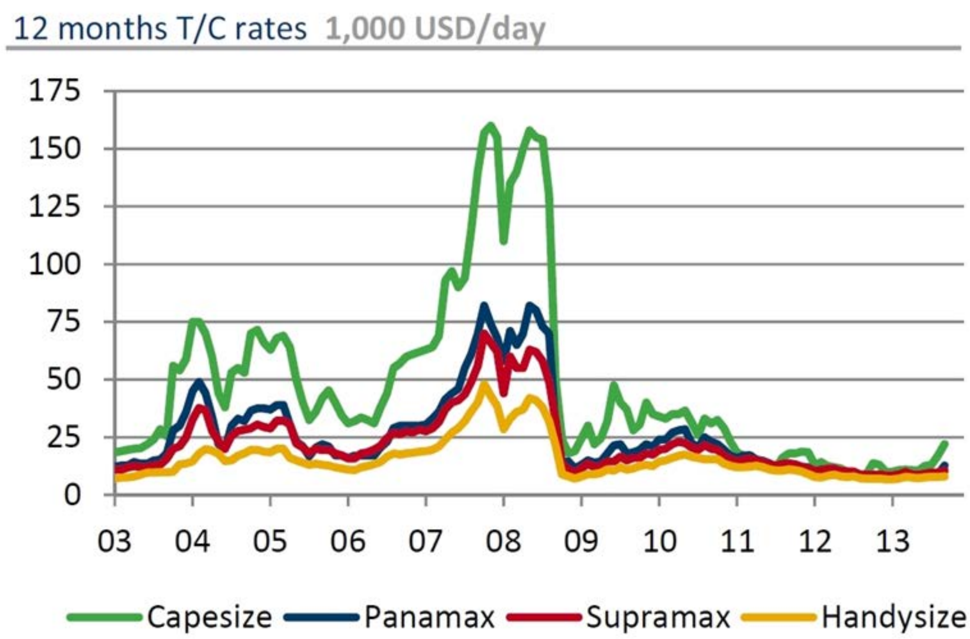
The Company is mainly operating in the following markets:

1. Trans-Atlantic market, where steel and nonferrous metals, ferroalloys, and fertilizers are carried from Europe to the USA, Latin, and South America. The cargo flow on the return voyage consists of grain, coal, aluminium, and stones.
2. The Northern Europe-Northern Africa market, where raw timber, sawn timber and paper cargos are carried from the North of Europe and Scandinavian countries to the countries of the Mediterranean seacoast. The cargo flow on the return voyage consists of fertilizers, ore, steel coils, and minerals.
3. The Caribbean market, where miscellaneous goods such as steel, fertilizers, sugar, rice are carried from the USA and the Caribbean Sea as well as the countries of Central America.

The Company operates in the international maritime transport market, 5-25 thousand tons DWT dry cargo ship segment, where there are no monopolists distorting competitive conditions.

„Cheap“ flags allow ship owners to reduce certain vessel maintenance costs (mainly those related to salaries) and grant certain competitive advantages. However, more and more strict position of the International Seafarers Union and other organizations reduces the advantages of using such flags.

The Company operates in a very competitive market. In recent years the market situation was unfavourable to ship owners as the vessel supply significantly exceeded demand and service charges (freight) have been at historical lows:



Source: RS Platou

Currently, noticeable positive changes are on the market – freight charges started to rise (in the beginning of 2013 the Baltic Dry Handysize index value was 669, whereas on 4 February 2014 – 681).

Changes in the dry cargo fleet are specified below (million DWT)

Laivyno dydžiai	Pastatyti 2013 I-IX	Supjaustyti 2013 I-IX	Laivynas 2013-09-30	Metinis pokytis
Capesize	17,2	6,6	275,3	5%
Post Panamax	2,9	0,4	46,7	9%
Panamax/Kamsarmax	11,6	1,9	141,7	10%
Handymax/Supramax	9	3,7	150	4%
Handysize	4,6	4,9	84,7	-0,5%
VISO:	**45,3**	**17,5**	**698,4**	**5%**

Source: *RS Platou*

Although the global bulk carrier fleet is still growing – as at 30 September 2013 the growth amounted to 5%, compared to 30 September 2012; however, this growth has slowed down. The similar change as at 30 September 2012 was 15%. The drop of transportation prices resulted in a decrease of vessel construction orders and an increase of the number of vessels for demolition. The tonnage decrease was observed in the only mini Handysize segment, in which LSC operates its vessels. In 2012 part of the 15-20 thousand DWT mini Handysize segment decreased by 9.1%. This trend will remain in the future due to a small amount of order for new vessels (only 9 vessels ordered, which make 4.5% of the current fleet).

After a long break, the global commercial fleet will experience changes that are projected for the coming year, which allow expecting positive changes in the market as the decrease in the total tonnage supply is concerned:

(in thousand Litas, unless stated otherwise)

	2012	2013F	2014F
Tonnage demand	6,5%	4,9%	5,8%
Fleet growth	7,3%	5,3%	3,7%
Fleet employment	83,9%	83,7%	85,3%

Source: RS Platou

It is probable that with a projected tonnage growth of 4% in average and the tonnage demand growth of 6% the global dry bulk fleet has good reasons for an increase of transportation prices in the near future.

Due to versatility, the vessels of 10 - 40 thousand DWT have easier survived the market fluctuations than the fleet of larger tonnage. In addition, an ageing analysis of the medium-size fleet shows that this market segment will have the highest growth potential, because that particular segment contains the oldest fleet, i.e. 29% of the vessels are older than 25 years and should be removed from the market (demolished) in the near future. Orders regarding new vessels in this segment will not compensate the old demolished vessels. Therefore, it is projected that supply of the vessels with such tonnage will be decreasing in the near future.

Dry bulk fleet as at 30 September 2013:

Esamas laivynas	10 000-39 999		40 000-59 999		60 000-99 999		100 000-219 999		220 000+		VISO	
	Kiekis	mDWT	Kiekis	mDWT	Kiekis	mDWT	Kiekis	mDWT	Kiekis	mDWT	Kiekis	mDWT
Virš 24 metų	882	24,0	245	10,8	148	9,9	20	3,4	6	1,8	1 301	49,9
20-24 metų	118	3,2	97	4,3	119	8,6	77	12,1	33	8,7	444	36,9
19-15 metų	311	7,9	307	14,1	277	19,9	170	27,2	39	11,0	1 104	80,1
14-10 metų	295	7,9	341	16,7	357	26,8	116	19,6	3	0,7	1 112	71,7
9-5 metų	307	8,6	428	22,8	388	30,5	226	40,8	6	1,5	1 355	104,2
Iki 4 metų	1 063	32,7	1 190	66,7	939	76,3	722	124,5	88	26,4	4 002	326,6
VISO:	**2 976**	**84,3**	**2 608**	**135,4**	**2 228**	**172,0**	**1 331**	**227,6**	**175**	**50,1**	**9 318**	**669,4**
Nauja statyba												
2012	108	3,3	127	6,8	218	17,2	53	9,1	13	4,3	519	40,7
2013	228	7,6	167	9,1	332	25,8	104	18,9	21	7,0	852	68,4
2014+	109	3,8	45	2,4	128	10,0	30	5,6	8	2,1	320	23,9
VISO:	**445**	**14,7**	**339**	**18,3**	**678**	**53,0**	**187**	**33,6**	**42**	**13,4**	**1 691**	**133,0**

Source: SSY

Below is the systemized information of the analyses of comparable companies. The comparison is made more difficult by the fact that very few companies having similar size fleets and operating in the same segment publish their financial and operational information.

(in thousand Litas, unless stated otherwise)

Rodikliai 2012 metais	Palyginamosios laivininkystės kompanijos				MEDIANA	LJL	
	Hellenic Carriers	Seanergy	Euroseas	FreeSeas		2012	2013-2016 vidurkis
EBITDA marža	-1%	-291%	27%	-42%	**-22%**	12%	9%
Grynojo rezultato marža	-157%	-348%	-24%	-217%	**-187%**	-20%	-9%
ROA	-13%	-160%	-5%	-27%	**-20%**	-8%	-6%
ROE	-28%	n.a.	-6%	-396%	**-28%**	-13%	-10%
Nuosavybė/turtas	46%	-84%	75%	7%	**27%**	60%	58%
Fin. Įsipareigojimai/Nuosavybė	1,1	-2,1	0,3	11,4	**0,7**	0,5	0,4
Laivų skaičius	3	7	15	7	**7**	11	8
DWT	169 116	326 255	595 063	197 200	**261 728**	133 123	107 930
Vidutinis laivo dydis	56 372	46 608	39 671	28 171	**43 139**	12 102	14 484
Vidutinis laivo amžius	14,7	12,5	18,1	14,7	**15**	16,8	18,2
Laivyno panaudojimas proc.	91,6%	86,3%	96,4%	92,4%	**92%**	93,8%	95,4%

The comparable analysis shows that the years 2012 -2013 were not favourable for most shipping companies working in the segment of dry bulk vessels. However, while all market participants operate in a difficult economic environment, the major part of comparative financial ratios of LSC exceeded median of the comparable companies. The operating result and the EBITDA of LSC and other companies were influenced by low transportation prices, low vessel market prices and the related revaluations of the vessels in the financial statements. In 2013, out of 5 concerned companies only Euroseas have not decreased the value of its fleet. Impairment of assets directly affected not only operating results but also other asset and property indicators. Due to the lack of sustainable market growth in 2013, it is probable that by the end of the financial year part of the shipping companies will once again decrease the vessel values.

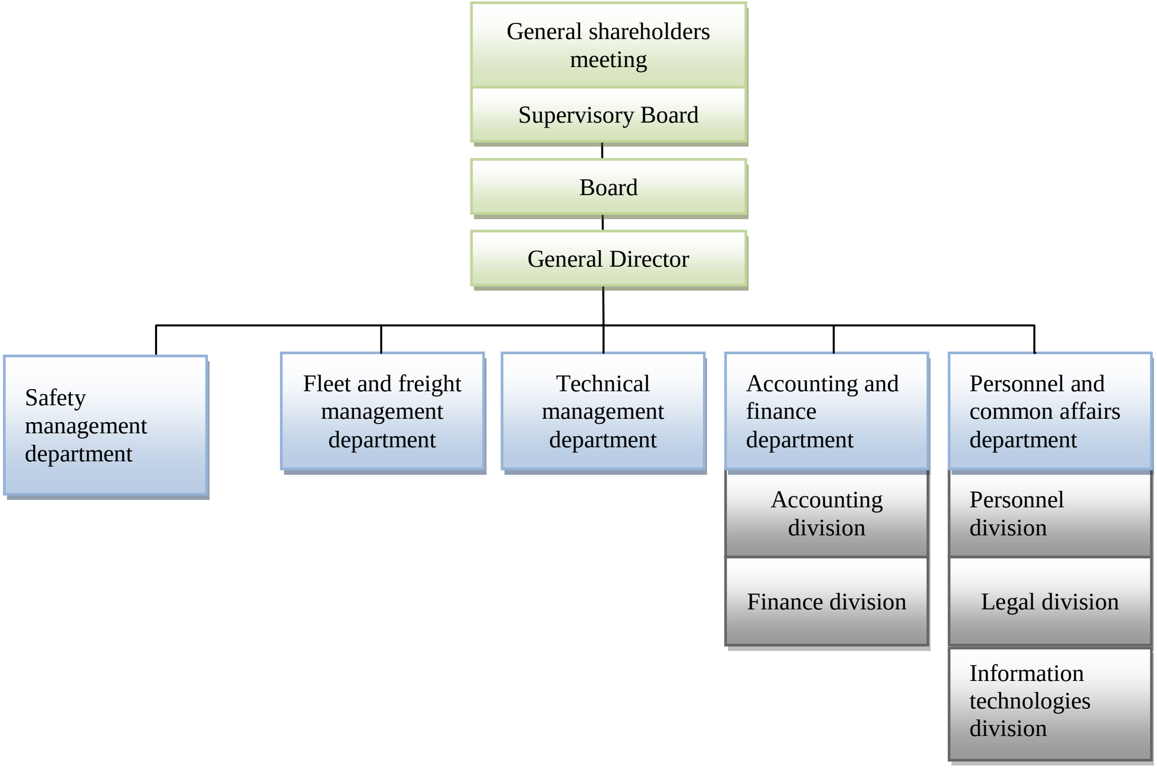
In the shipping business, very few shipments are carried out having direct contracts between a ship owner and a consignor, usually intermediary services are used. It is a normal practice to use a chain of 2-4 different brokers until a cargo is received. The vessels of LSC are employed as to time-charter or voyage-charter contracts. As at 31 December 2013, 7 vessels of LSC operated under time-charter contracts. Under such contracts, the charterer pays to the ship owner for the time period for which a ship is chartered. Net income is paid for the rent of a vessel (the charterer himself covers the voyage costs – fuel, port dues). Such contracts are favourable for ship owners as they ensure fixed income irrespective of cargo availability; they can make a precise planning of cash flows; there is no necessity to freeze working capital for fuel needs and port dues. The charterer pays to the ship owner in advance. However, having signed a charter contract for a longer period, during which the price for transportation may rise, the owner vessel will lose a possibility to earn from the market growth.

As at 31 December 2013, 3 vessels of LSC were operating under voyage-charter contracts. Under such contracts, the ship owner pays for the voyage – fuel and port dues. The charterer pays for transportation just before entering the port of destination; therefore the ship owner must have enough funds to pay the voyage expenses. Moreover, there is a risk of commercial downtime, additional costs on ballast (without cargo) transition.

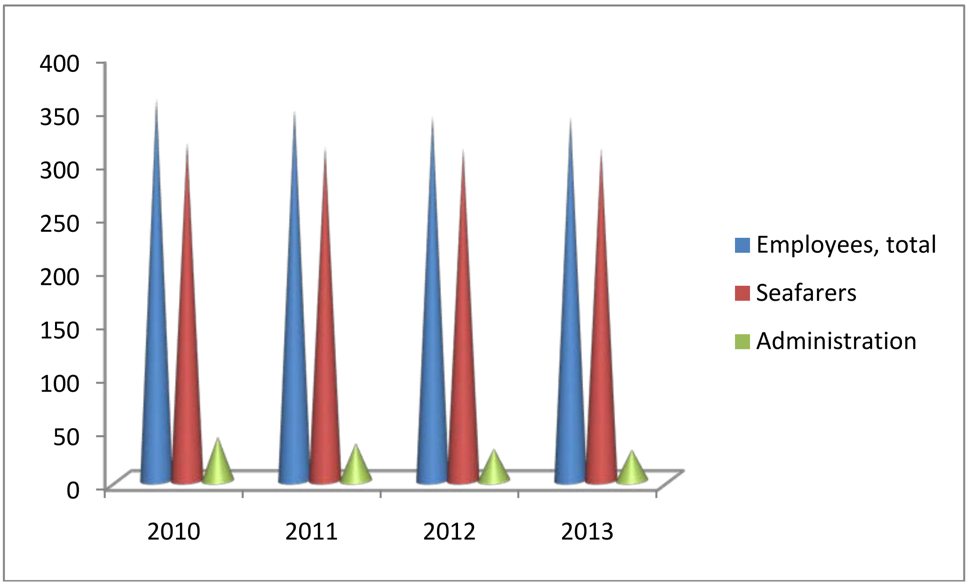
When the vessels are effectively employed as to voyage-charter contracts, their yields are often higher than of similar ships employed under time-charter contracts. The Company seeks to diversify the vessel employment in response to market upturn or fall expectations. When expecting an upturn in the market, the Company attempts at not signing time charter contracts for a longer period and conclude more voyage-charter contracts instead, and vice-versa. The ratio between long-term and short-term contracts in other shipping companies (competitors) is not stable as well. It mainly depends on the management structure, the existing direct relationships with consignors and situations in the market.

2.4. Information Related to Personnel Matters

At the end of the financial year the organization structure of the Company was as follows:



FLEET



(in thousand Litas, unless stated otherwise)

Grouping of employees:

Breakdown of personnel by education for 2011 – 2013

Educational background	Percentage of employees		
	2011	2012	2013
University education	32,6	33,4	33,8
College education	2,2	2,3	1,5
Secondary education	29,0	28,7	30,6
Maritime academy	9,2	8,8	7,1
Post-secondary education	27,0	26,8	27,0

The number of employees with higher education makes up one third of all the employees and has not changed during the reporting period.

Breakdown by amounts calculated to employees:

Group of employees	Annual amounts calculated to the employees fund, LTL				
	2011	2012		2013	
	Amount, LTL	Amount, LTL	Variation, %	Amount, LTL	Variation, %
Executives	807.419	638.475	-21	463.538	-27
Specialists	3.311.590	3.764.087	14	3.137.584	-17
Workers	5.881.221	5.871.099	0	5.726.144	-2
Total	**10.000.230**	**10.273.661**	**3**	**9.327.266**	**-9**

During the reporting period, the total gross salaries to employees have decreased. The amounts calculated to management have decreased due to a reduced number of executives and salaries paid to them. The amounts calculated to specialists were increasing based on the globally increased wages of qualified seafarers (ship pilots, engineers).

Breakdown by the average number of listed employees and their average wages:

Group of employees	Average conditional number of employees			Average earnings per month, LTL		
	2011	2012	2013	2011	2012	2013
Executives	9,3	6,2	5,0	7.235	8.582	7.726
Specialists	157,2	147,0	133,2	1.756	2.134	1.963
Workers	153,2	157,8	125,4	3.199	3.100	3.805
Total	**319,7**	**311,0**	**263,6**	**2.607**	**2.753**	**2.949**

During the reporting year, the average monthly salary has increased by 12.0 %, compared to the year 2012. There is a lack of experienced employees because the Company is not able to increase salaries up to a standard level. A consistent increase of salaries is the only way to retain the employees in a competition with the vessel owners of "cheap" flags.

(in thousand Litas, unless stated otherwise)

Breakdown by the average wages in subdivisions:

Subdivision	Average earnings per month, LTL				
	2011	2012		2013	
	Amount, LTL	Amount, LTL	Variation, %	Amount, LTL	Variation, %
CEO unit	9.929	8.936	-10	9.352	5
Fleet management department	6.129	5.962	-3	5.458	-8
Technical management department	6.606	5.525	-16	5.859	6
Safety management department	4.632	-	-	-	-
Information technologies department	4.824	3.914	-19	3.915	0
Accounting and finance department	3.835	3.656	-5	4.288	17
Personnel department	3.068	2.588	-16	2.899	12
Fleet	2.038	2.666	31	3.004	13

An increase in average monthly wages of employees in all administrative units during the reporting period occurred due to the fact that having reduced the number of employees and the number of vessels having remained the same, specialists were paid additional bonuses for the additional work load. Salaries of employees on ships have increased by 13%. This was influenced by the additional wages to seafarers for achieved good voyage results.

2.5. Analysis of external factors

Political-legal factors

Since the Company's vessels operate on a global scale, the Company may encounter with various countries governments intervention in the economy, and other political decisions.

As Lithuania and the European Union are concerned, the situation is sufficiently stable in terms of material respects. For instance, currently there are no signals that there is an intention to reject the tonnage tax for the Company, which would be particularly important, if the Company earned a profit. Changes in minimum salary would not affect the Company as the wages in the Company are not related to minimum monthly salary.

The Company pays great attention to resolutions in the field of environmental protection, where requirements set by the European Union are often more stringent than prescribed by the international treaties, or require an earlier entry into force. The same could be said about policies of third countries. Lack of a single international regulation is an important interference in operational activities of the Company.

Protectionism of some countries is also a serious external factor. Part of South American, Asian states determine the conditions under which cargo of these countries can be transported only by vessels flying the flags of these countries.

(in thousand Litas, unless stated otherwise)

The Company is also facing the political security challenge - piracy West Africa, East Africa, the Indian Ocean, the military-political risks in North Africa, Middle East, and in some Central American countries. The Company has the opportunity to insure against such risks. The insurance charges are not fixed as they vary depending on the situation in the mentioned regions. Therefore, decisions on the passage to the dangerous regions shall be taken on a case-by-case basis. It should be noted that although such insurance costs may be recovered through higher freight levels, however, such journeys are one-way in the sense that, as a rule, there is no return cargo from such countries/regions. Therefore, the Company's vessels would be forced to spend more time on voyage without cargo.

Economic factors

Recently, the perspectives for recovery of the global economy have improved.

Based on data of the Organization for Economic Co-operation and Development, the global GDP in 2014-2015 will increase. A more intensive growth is expected in the major operation regions of LSC – the USA, Euro zone countries, Scandinavian countries:

GDP growth	2012	2013P	2014P	2015P
USA	2,8%	1,6%	3,3%	3,7%
Euro zone	-0,6%	-0,5%	0,8%	1,7%
China	7,8%	7,5%	7,4%	7,0%
Japan	2,0%	1,9%	1,4%	1,0%
North countries	1,2%	0,8%	2,4%	2,5%

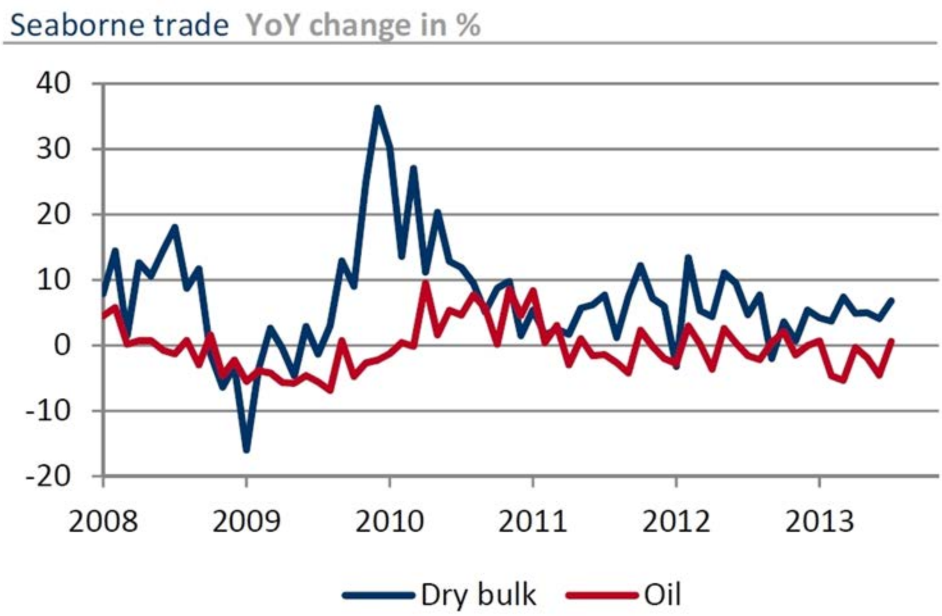
Source: Organization for Economic Co-operation and Development

A quite positive world economic development scenario in the near future is based on the forecasts that inflation will remain low:

Inflation	2012	2013P	2014P
USA	2,1%	1,6%	1,9%
Euro zone	2,5%	1,5%	1,2%

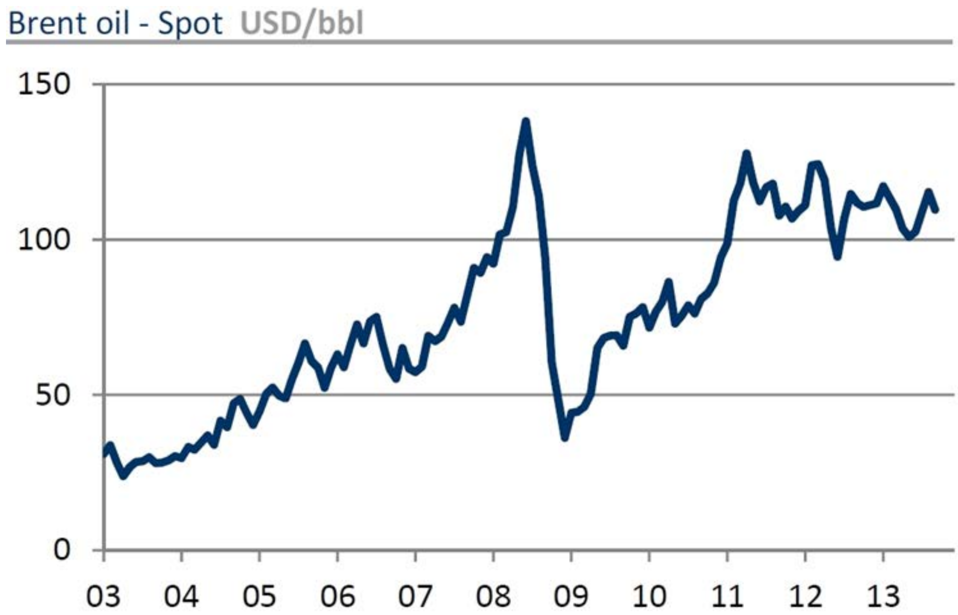
Source: Organization for Economic Co-operation and Development

The GDP change is always directly related to maritime trade volumes.
Development of the global maritime trade volumes:



Source: RS Platou

The global macro economical and political processes influence fluctuations of oil prices. Fuel costs for 2012 made 24% of cost of sales, for 2011 – 14%. Growth of fuel prices reduces operational efficiency of the vessels. Recently, more than half of the Company's vessels are operating under a voyage-charter agreements, and therefore, fuel consumption and their dependence on world oil prices is increasing.



Source: RS Platou

It is projected that in 2013 the fuel costs will make approximately 38% of the cost of sales, in 2014 – 29%, in 2015 – 26%, in 2016 – 28%.

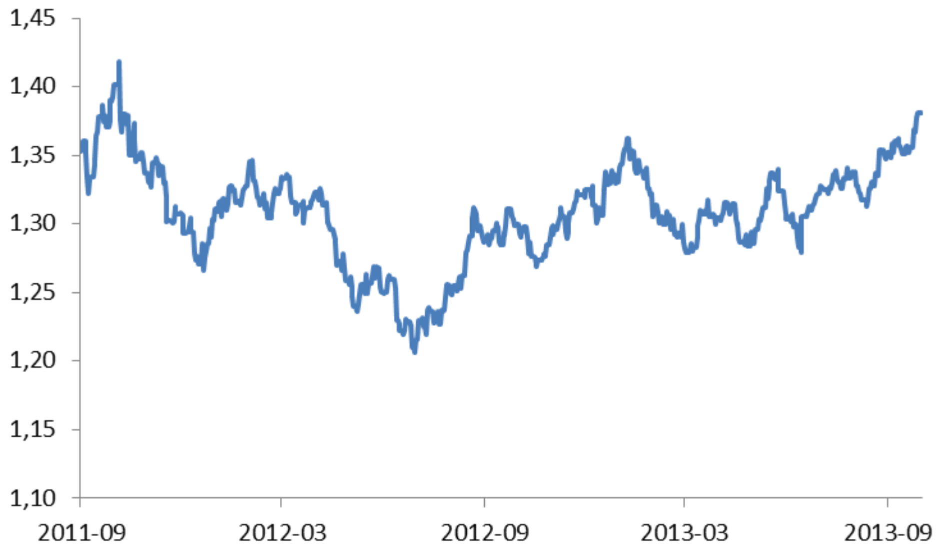
(in thousand Litas, unless stated otherwise)

Sensitivity analysis of EBITDA to fuel price fluctuations, projected for 2014, is presented below.

Metinės kuro sąnaudos, tūkst. Lt	35 575	37 552	39 528	41 505	43 481
Pokytis	-10%	-5%	0%	5%	10%
EBITDA, tūkst. Lt	14 260	12 284	10 307	8 331	6 355
Pokytis	38%	19%	0%	-19%	-38%

Specialists of the Company analyze possibilities to apply derivative financial instruments to hedge against the fuel price risk; however, such instruments are effective only when having stable cargo flows and working in one region. As the vessels of LSC operate in different regions and, in addition, in order to achieve the maximum efficiency, part of the vessels, working under voyage-charter contracts, is not constant – the use of these derivatives in the LSC case would be not efficient.

Rate fluctuations of the US dollar, as one of the main world economies currency, directly affect international trade and consumption volumes. This currency is the dominant in the shipping sector.



Source: The Bank of Lithuania

Approximately 80% of the revenue of LSC is denominated in USD. The bank loan and sales/purchase transactions are carried out in this currency. Purchases of goods and services denominated in LTL and other currencies make approximately 50% of total purchases. As 20% of all income is received in EUR, it can be stated that part of the acquisitions dependant on the fluctuations of the USD rate is not significant and cannot significantly affect the Company's cash flows. Financial profit or loss, arising from translation of currencies, is non-monetary and does not directly affect the cash flows.

Social factors

Success of the Company's business is inseparable from ability to recruit and retain qualified specialists; however, due to a large scale of emigration currently there is a lack of specialists. Though educational institutions train ship specialists and their number is not expected to be decreasing, the major part of them choose to work in foreign fleets because of more competitive wages.

One of the ways to reduce the lack of competent specialists is a decrease of the vessel amount in the Company. This makes it easier to distribute the same number of skilled seafarers to the smaller number of the vessels. Determination of “the ceiling” for Sodra contributions would also be very helpful, at least for certain categories of executive seafarers (especially ship mechanics).

In 2013 Lithuania ratified the Maritime Labour Convention, 2006, realization of which on the Company’s vessels may have a positive socio-psychological effect for the seafarers to remain with the Lithuanian flag vessels since the mentioned Convention will ensure the seafarers’ rights and compliance with the labour safety requirements, etc.

Technological factors

Ageing of the fleet shows by increasing maintenance costs of the vessels, a larger probability of emergency breakdowns, possibility of downtime, larger investments in dock repairs. In 2014 the age average of the fleet will be 17,7 years. There are possibilities to carry out regular calibrations of new vessels according to the classification requirements without putting a vessel on dry dock – this shortens the time of the verification and decreases expenses. Older vessels consume more fuel. A significant rise in fuel prices would negatively affect the Company’s results. Cargo insurance is usually more expensive when transported by older vessels – this fact also reduces the competitiveness of the older vessels. Furthermore, changes in the regulative environment concerning safety of vessels, may require additional costs for modernization of the existing or acquisition of new vessel equipment, as well as to restrict shipment of certain types of cargo. For instance, according to Lithuanian Ship Owners Association, installation of additional equipment in order to comply with the requirement for low-sulphur fuel in the Baltic and North Seas, may cost approximately 3 million USD for a medium vessel.

Environmental factors

The Company operates in a globally regulated environment; therefore, the Company and/or the vessels must comply with a number of international conventions or local legal requirements. For instance, MARPOL, SOLAS, Bunker, Ballast Waters Conventions, ISM and ISPS Codes, Oil Pollution Act of the USA. Such eligibility in the future may require acquisition of new equipment or to make changes in the management of vessels (e.g. compliance with new requirements for fuel-sulphur may require significant investments into vessels or abandonment of the regions where such strict requirements apply). The same could be said about the expected changes in the ballast water management. Such fleet conversions would require additional costs and investments. As the shipping requirements are often reviewed and there are no final decisions on these issues (and no technologies for their implementation), the Company cannot estimate the costs that would be incurred in order to comply with the environmental requirements.

2.6. Major factors that will influence Company’s activities

- The drop of transportation prices resulted in a decrease of vessel construction orders and an increase of the number of vessels for demolition. The tonnage decrease was observed in the mini Handysize segment, in which LSC operates its vessels. Therefore, it is probable that this segment will have good reasons for growth of transportation prices in the near future;
- The Company has one creditor – AB SEB Bankas, holding all the pledged vessels of LSC. Therefore, the position and actions of this creditor have a significant influence on the Company.
- The age of the LSC vessels exceeds the average market age. This results in an increase in repair costs, and unscheduled idle-time due to breakdown;
- Due to specific requirements of MARPOL and MLC conventions that will come into effect in 2014-2015, the maintenance expenses of the Company will increase;

- LSC employs 210 seafarers (i.e. 62 % of all the Company's seafarers), whose current age is 50 years and more.

2.7. Investment Projects of the Company

2.7.1. Investments into non-current assets during the reporting year

Investments for 2013 include repair of vessels at an amount of 5.385 thousand LTL.

2.7.2. Major ongoing and planned financial projects

Currently, no investment projects are being carried out.

2.7.3. Activity plans and forecasts

Growth and development opportunities of the Company depend on recovery of the shipping market. The development of the shipping market is limited by two major factors – slow economic recovery and excess ship tonnage in the market. It is expected that the market will experience a substantial recovery in 2014 as the first positive changes can already be noticed – transportation charges have started to rise (the value of Baltic Dry Handysize index in the beginning of 2013 was 440, and as at 4 February 2014 it was 681). Besides, there are fewer orders for construction of new vessels and a lot of orders have been postponed due to more strict financing conditions for shipping sector. In any case, the minimum recovery signs can be expected due to an increase in demand, because growth has been forecasted for the two leading economies – the US and China. According to the forecasts of the World Bank for 2014, the economy will experience a stabilization period. An expected GDP growth in the world is 3 %. Similar growth rates should keep until the year 2018.

In order to realize its strategic goals, during 2014-2016 the Company is planning to sell four inefficient smallest vessels and acquire one (two) new vessel (a „Deltuva“/„Voruta“ type vessel with 17 thousand tons DWT).

(in thousand Litas, unless stated otherwise)

2.8. Assessment of the Company's Position and Performance

An analysis of and comments on financial ratios that best reflect the Company performance results are provided below:

Financial ratio analysis

Title, thousand LTL	Fact			Comment
	2011	2012	2013	
Required (employed) capital	**205.369**	**178.509**	**111.002**	An increase in net working capital indicates that part of operations, financed by the Company due to deferral payments to suppliers, is constantly increasing
Tangible non-current assets	210.378	195.780	142.165	
Net working capital	(5.009)	(17.271)	(31.163)	
Sources of financing	**206.004**	**179.367**	**134.639**	
Financial debt	66.603	56.398	52.819	50% of the employed capital is being financed by borrowed resources, and the other part - by own resources.
Grants and subsidies				
Provisions and deferred taxes				
Authorized capital	200.901	200.901	200.901	
Retained profit (loss) + reserves	(61.500)	(77.932)	(119.081)	
Sales	78.169	83.874	92.337	In previous periods, the major part of the loss was incurred due to disposal and impairment of vessels. During the current period – impairment of vessels.
Net profit (loss)	(46.158)	(16.432)	(41.149)	
EBITDA	12.283	10.174	3.588	
Interest expenses	2.076	2.196	2.141	
Scheduled credit repayments	10.336	8.829	1.690	
EPS, LTL	(0,23)	(0,08)	(0,20)	
Net profit margin, %	(59,05)	(19,59)	(44,56)	
ROE, %	(33,31)	(12,53)	(40,19)	
ROA, %	(21,27)	(7,79)	(22,38)	
Liquidity ratio	0,14	0,21	0,26	The ratio value between 1.2 and 2.0 is considered acceptable
Gross debt ratio	0,36	0,40	0,50	An approximate ratio value of 0.5 is considered normal (i.e. half of financial resources are borrowed).
Debt-to-equity ratio	1,79	1,50	1,01	The ratio value below 0.5 is considered low, normal- about 1, good- above 2. The ratio values comply with the requirement.
DSCR	0,99	0,92	0,99	Acceptable ratio value- above 1

(in thousand Litas, unless stated otherwise)

2.9. Description of Main Risks and Contingencies (SWOT Analysis)

Strengths	Weaknesses
• An extensive history of the Company (established in 1969) – long-standing relationships with charterers and suppliers; • A large number of employees having a significant offshore work experience; • All 11 vessels of LSC operate under the Lithuanian flag, which is on the White List of Paris Memorandum of Understanding. The White List shows that the vessels comply with the highest requirements of the international conventions, they are least be checked; • 5 vessels of LSC have the Right Ship certificates, providing commercial/operational advantages to the vessels; • LSC uses the opportunity to pay a fixed tonnage fee (approx. 60 thousand LTL per year); • Management of the Company's fleet is concentrated in one place – some shipping companies buy part of management services from third parties and this often decreases efficiency and on-line operation. • Shares of the Company are quoted at OMX Vilnius Stock Exchange and this provides more transparency and ability to raise capital.	• The Company does not have direct relationships with cargo dispatchers to ensure stable cargo flows; • Ageing fleet (average age – 18 years) increases repair and maintenance costs, and a risk of breakdown; • The Company faces a lack of skilled workers, as it does not have opportunities to increase seafarers' wages, which is less than in the foreign fleet companies. Owners of the „cheap“ flag vessels have more reserves for increasing salaries because they do not pay any social security taxes; • An increasing age of seafarers – currently an average is 51 years; • Overdue receivables burden the financial planning, restrict supply choices and discount possibilities; • „Short" loan schedule with the main creditor – the Company does not have the capacity to independently plan fleet renewal questions, and to more efficiently manage cash flows.
Opportunities	**Threats**
• To strengthen position in the mini Handysize type segment (17-25 thous. t DWT), by selling smaller vessels; • Employment of the vessels in new cargo lines, ensuring a long-term flow of cargo; • Recruitment of skilled seafarers from other countries (Russia, Ukraine); • An increasing Baltic Dry Cargo index encourages that the economical cycle in this segment progresses from recession (which began in 2009) to the growth phase; • Due to a decline in the market over the recent years, the number of vessels has decreased (new vessel construction orders have significantly decreased whereas the amount of vessels for demolition has increased).	• More strict environmental requirements – as of the year 2015 amendments to MARPOL Convention will come into force in relation to fuel sulphur that will determine higher vessel maintenance costs; • High dependency on single creditor - all the ships are pledged to this creditor; therefore, it shall have the right to require ship sales, regardless of the needs of the Company; • The marine piracy, international conflicts make the international shipping more complicated, and change the trading geography; • International trade protectionism (e.g. Argentine often requires that the cargo would be transported by vessels with the Argentine flag (especially as coasting trade is concerned).

2.10. Financial Risk Management

The major vessel insurance costs include costs for H&M (hull and machinery) together with Loss of Hire (not received income) and P&I (ship owner liability insurance).

Possession of H&M and P&I insurance is actually absolutely necessary for the engaged in the shipping business. The mentioned insurance policies are obligatory solely for the reason that the vessels are pledged to the bank, and, as prescribed in the Civil Code of the Republic of Lithuania, pledged items must be insured.

However, the necessity to insure the vessels is not only determined by legal requirements, it is also a certain form of risk management as well as commercial and operational necessity. Vessels encounter with various maritime – collisions, pollution cases, claims for cargo. The vessel collisions and especially pollution cases can lead to huge claims that the Company may not be able to cover. As all the vessels belong to one company, a significant incident of one of the vessels without an insurance cover could paralyze the activity of the whole company. Charterers always require that a vessel is insured with a reliable P&I insurance club. The P&I insurance policy is the key document based on which other essential documents of a vessel can be obtained (e.g. certificate for liability of bunker pollution). Without P&I insurance the vessels would not be allowed to enter in USA – one of the most significant markets of the Company.

An analysis of the Company's insurance costs shows that they make approximately 13% of the total vessel maintenance costs, whereas the market average is 9% (source: Moore Stephens). This can be explained by a higher than the average market age of a vessel and a sufficiently high fleet insurance loss from the point of view of insurers. In 2013 the insurance losses of H&M amounted to more than 60%. Every year the Company actively negotiates with the insurers for the insurance contributions not to be increased. The Company does not use any derivative financial instruments to hedge the currency risks.

2.11. Branches and Representative Offices

The Company does not have any branches or representative offices.

2.12. Significant Events after the Year End

Information about significant events after the end of the financial year, which are not a commercial secret and are reasonable to announce, is provided in the explanatory note to the financial statements.

2.13. Research and Development Activities

The Company did not perform any research and development activities during the reporting period.

2.14. Social Factors Affecting Activities of the Company

Success of the Company's business is inseparable from ability to recruit and retain qualified specialists; however, due to a large scale of emigration currently there is a lack of specialists. Though educational institutions train ship specialists and their number is not expected to be decreasing, the major part of them choose to work in foreign fleets because of more competitive wages.

One of the ways to reduce the lack of competent specialists is a decrease of the vessel amount in the Company. This makes it easier to distribute the same number of skilled seafarers to the smaller number of the vessels. Determination of "the ceiling" for Sodra contributions would also be very helpful, at least for certain categories of executive seafarers (especially ship mechanics). In 2013 Lithuania ratified the Maritime Labour Convention, 2006, realization of which on the Company's vessels may have a positive socio-psychological effect for the seafarers to remain with the Lithuanian flag vessels since the mentioned Convention will ensure the seafarers' rights and compliance with the labour safety requirements, etc.

2.15. Information on Compliance with Transparency Policy Provisions

The Company complies with the Transparency Policy provisions, which have been approved by the resolution No. 1052, issued by the Government of the Republic of Lithuania on 14 July 2010 regarding "Approval of description guidelines of transparent activity in the state-regulated companies and appointment of the coordinating institution":

1. The Company acts in accordance with the provisions of the Corporate Governance Code regarding disclosure of information.
2. The Company publishes its objectives, tasks, performance results, the current number of employees, the annual wages fund, remuneration to key management, acquisitions and investments that are realized, ongoing and planned during the financial year.
3. The information disclosed by the Company includes annual reports, six-month interim reports, activity reports and interim reports, which objectively reflect the nature of the state company's activity, current and future business directions, tasks and objectives, performance results and achievements.
4. The information on the Company is available to the society (announced on the company's website).
5. The Company's accounting is in line with International Accounting Standards.
6. The Company prepares interim (3, 6, 9 and 12 months) Financial Statements.
7. Audit of the annual financial statements is in line with International Audit Standards.
8. All the information on the website is published in accordance with the procedures and terms set out in the Transparency Guide.

3. INFORMATION ON COMPANY'S SHARES AND SHAREHOLDERS

3.1. Company shareholders rights

The shares of the Company grant equal rights to the owners thereof (shareholders). The competence of the general shareholders' meeting, property and non-property rights of the shareholders, as well as implementation thereof, are provided in the Articles of Association of the Company and the Law on Companies of the Republic of Lithuania.

Property rights of the shareholders:

1. to receive a share of the Company's profit (dividends);
2. to receive a share of the Company's funds when the authorized capital is reduced;
3. to receive shares free of charge when the authorized capital is increased by the Company's funds, except the cases specified in the Law on Companies of the Republic of Lithuania;
4. to have the pre-emptive right in acquiring the shares or convertible debentures issued by the Company, except the case when the general shareholders meeting decides to withdraw the pre-emption right for all the shareholders according to the procedure specified by the Law on Companies of the Republic of Lithuania;

5. to lend to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company cannot pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by local commercial banks in the creditor's place of business or residence, and which is effective at the moment the loan agreement is signed. In such a case, the Company and the shareholders shall be prohibited from negotiating a higher interest rate;
6. to receive part of the Company's assets in the event of liquidation;
7. other property rights established by the Law on Companies and other laws of the Republic of Lithuania.

Non-property rights of the shareholders:

1. to attend the General Meetings of Shareholders;
2. to submit in advance the issues related to the agenda of the General Meeting of Shareholders;
3. to vote at the General Meetings of Shareholders in accordance with the granted voting rights;
4. to receive information on the Company in the manner specified in the Articles of Association of the Company;
5. to apply to the court for reparation of damage to the Company resulting from nonfeasance or malfeasance of duties by the Company's management and Board members as prescribed by the Law on Companies and other laws of the Republic of Lithuania and the Articles of Association of the Company, as well as in other cases laid down by legislation;
6. other non-property rights established by the Law on Companies and other laws of the Republic of Lithuania.

One ordinary registered share of the Company with a nominal value of 1 Litas grants one vote at the General Shareholders' Meeting. The right to vote at the General shareholders' Meeting is granted only by fully paid-in shares. The right to vote at the General Shareholders' Meeting may be forbidden or limited in the cases prescribed by the Law on Companies of the Republic of Lithuania and other laws, or in case where the property right to a share is challenged. There are no shareholders having special control rights.

3.2. Arrangements among shareholders

There are no mutual arrangements between the shareholders that the Issuer is aware of and which may be subject to restriction of transfer of securities and (or) voting rights.

3.3. Acquisition of treasury shares

During the year 2013 the Company did not acquire, transfer nor currently holds any treasury shares. No authorizations on behalf of the Issuer's managing bodies have been given for the issue or purchase of the Issuer's shares.

The General Shareholders' Meeting has an exceptional right to the issue and purchase of treasury shares.

The Company does not have any information about directly or indirectly controlled shareholdings of Lithuanian Shipping Company; no notifications of the same have been received.

(in thousand Litas, unless stated otherwise)

3.4. Dividend policy

The Company did not pay any dividends during the financial years 2012 and 2013.

4. INFORMATION ON THE COMPANY'S MANAGEMENT BODIES

4.1. Supervisory Board

Members of the Supervisory Board

No.	Full name	Shares of LSC	Term of office	Activity area
1	Tomas Karpavičius (Chairman)	None	Since 26-04-2013 Chairman since 03-06-2013	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Ona Barauskienė	None	Since 26-04-2013	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Evaldas Zacharevičius	21.081 = 0,01% of vote	Since 26-04-2013	Employee of Lithuanian Maritime Safety Administration
4	Gytis Kaminskas	None	Since 26-04-2013	Attorney - partner of the Lawyers professional union Baltic Legal Solutions Lietuva
5	Laimutė Tinglum	None	Since 26-04-2013	Partner, director and auditor of UAB Scandinavian Accounting and Consulting

The Supervisory Board is a collegial body of the Company supervising the Company's activities. The Supervisory Board shall be elected by the general shareholders' meeting for a term of 4 years and shall consist of 5 members. The number of the terms of office of a member of the Supervisory Board shall not be limited. Its chairman, who is elected by the Supervisory Board from the members thereof, shall manage the Supervisory Board. The Supervisory Board shall:

1. elect and recall members of the Board. If the Company's operations are loss-making, the Supervisory Board must consider the pertinence of the Board members;
2. supervise the activities of the board and the manager of the Company;
3. submit comments and proposals to the general meeting of shareholders regarding the Company's operating strategy, annual financial statements, draft profit/loss appropriation and the annual report of the Company as well as the activities of the Board and the manager of the Company;
4. submit proposals to the Board and the Company's manager to revoke their decisions which are in conflict with laws and other legal acts, the Articles of Association of the Company or the decisions of the general meeting of shareholders;
5. attend to other issues assigned to the scope of powers of the Supervisory Board by the Articles of Association as well as by the decisions of the general meeting of shareholders regarding the supervision of the activities of the Company and its management bodies.

The Supervisory Board shall not be entitled to assign or delegate the functions assigned to the scope of its powers by the Law on Companies of the Republic of Lithuania and the Articles of Association to other bodies of the Company.

The Supervisory Board shall be entitled to request the Board and the manager of the Company to submit documents related to performance of the Company.

(in thousand Litas, unless stated otherwise)

Members of the Supervisory Board are obliged to protect the commercial (production) secrets and confidential information, which they obtain while serving as members of the Supervisory Board.

4.2. The Board

Members of the Board

No.	Full name	Shares of LSC	Term of office	Field of activities
1	Saulius Girdauskas (Chairman)	None	Since 15-02-2013 Chairman since 27-02-2013	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Andrius Šniuolis	None	Since 13/09/2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Eglė Vyšniauskaitė	None	Since 13/09/2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
4	Stepas Telešius	None	Since 07/06/2012	Co-owner, director and member of the boards of ACME group companies
5	Mindaugas Utkevičius	None	Since 07/06/2012	Partner of AS LHV Capital

Arūnas Štaras – member of the Board (Chairman), from 10-03-2009 to 14-12-2012, does not own any shares of LSC, employee of the Ministry of Communications of the Republic of Lithuania.

The Board is a collegial executive body consisting of 5 members. The Supervisory Board elects the members of the Board for a term of four years. The Board elects the chairman from the members thereof.

Only a natural person may be elected as the Chairman of the Board. The following persons cannot be elected as the Chairman of the Board: members of Company's Supervisory Board and persons, who are not allowed to hold this position according to Lithuanian legislation.

Terms of office of the members and the Chairman of the Board shall not be limited.

The Board discusses and approves:

1. the operating strategy of the Company;
2. the annual report of the Company;
3. an interim report of the Company;
4. the management structure of the Company and positions of employees;
5. the positions to which employees are recruited through competition;
6. by-laws of the Company's branches and representative offices;
7. work regulations of the Board;
8. asset depreciation and amortization methods;
9. procedures for procurement of goods, works and services.

The Board elects and recalls the CEO of the Company, determines his/her salary as well as other terms and conditions of the labour contract, approves job descriptions, and provides incentives for and imposes penalties against him/her.

The Board determines which information is deemed a commercial (industrial) secret and is confidential. Any information publicly available under the Law on Companies and other laws of the Republic of Lithuania, may not be deemed a commercial (industrial) secret and is not confidential.

The Board shall adopt:

1. decisions for the Company to become an incorporator or a member of other legal entities;
2. decisions on the opening of branches and representative offices;
3. decisions on the investment in, disposal or lease of non-current assets with the book value exceeding 10 million Litas (calculated individually for every type of transaction);
4. decisions on the pledge or mortgage of non-current assets with the book value exceeding 10 million Litas (calculated for the total amount of transactions);
5. decisions on the issue of sureties or guarantees to secure the obligations of third parties exceeding 10 million Litas;
6. decisions on acquisition of non-current assets at an amount exceeding 10 million Litas;
7. decisions on restructuring of the Company in the cases laid down by the Law on Restructuring of Enterprises;
8. decisions to permit the Company's manager to conclude transactions (except for the transactions of financial derivatives, purchase-sale of currency, insurance of vessels, as well as maritime risk insurance of vessels), with the value exceeding 2 million LTL (excluding tax) and transactions of procurement of the works, the value of which exceeds 3 million LTL (excluding tax).
9. other decisions assigned to the scope of powers of the Board as adopted by the general meeting of shareholders.

The Board shall analyze and evaluate the information submitted by the CEO on:

1 Implementation of the operating strategy of the Company;

2 Organization of the Company's activities;

3 Financial position of the Company;

4 Performance results, income and expenditure estimates, accounting information on physical stock counting and asset movements.

The Board analyzes and assesses the Company's annual financial statements and a draft profit/loss appropriation and submits them to the Supervisory Board and the General Meeting of Shareholders together with the annual report of the Company.

The Board is responsible for convening and organizing General Meetings of Shareholders in due time.

Members of the Board are obliged to protect the commercial (production) secrets and confidential information, which they obtain while serving as members of the Board.

The Board is obliged to organize general shareholders' meetings in due time and ensure proper organization thereof.

4.3. Management

Chief Executive Officer

Full name	Shares of LSC	Term of office	Field of activities
Audronis Lubys	None	Since 1 August 2012	General Director

CFO of the Company

Full name	Shares of LSC	Term of office	Field of activities
Arvydas Stropus	None	Since 27 June 2001	Chief Financial officer

(in thousand Litas, unless stated otherwise)

Information presented in the Table 16 discloses the following: total amounts calculated at Lithuanian Shipping Company over the accounting period, other assets transferred, guarantees granted to the persons listed in the tables, average amounts, falling to a single member of the Supervisory Board or Board member of the Company, as well as to CEO and CFO of the Company.

Remuneration amounts calculated for 2013

	Amount of remunerated money, LTL	**Disposed assets, LTL**	**Provided guarantees**
Chief Executive Officer Chief Financial Officer	201.866	-	-
Members of the Board	-	-	-

Other members, who are not employed by the Company and with whom the Company has not signed any labour contracts, have not received any remuneration, bonuses, assets or guarantees from the Company.

There are no agreements implying large compensation amounts.

4.4. Other Information on Management Bodies

Based on the Minutes No. 3 of the Supervisory Board Meeting, dated 21 July 2011, the Company formed the Audit Committee, comprising three persons:

1. Jonas Nazarovas, AB DFDS Seaways Managing Director;
2. Ligita Mikienė, Deputy Director of Economy and Finance of Klaipėda Stevedoring Company – a group company of UAB Achema Group;
3. Dana Cemnolonskienė, acting Head of Internal Audit Department of the State Property Fund.

No other committees have been established in the Company.

AB SEB Bankas is entitled to terminate unilaterally the credit contract, if the main shareholder of the Company – the Republic of Lithuania, holding by the title of ownership 56.66 percent of the Company's shares, transfers any number of own, as credit beneficiary's, shares and / or revokes its written obligation not to transfer such shares without the consent of AB SEB Bankas.

There are no significant arrangements between Lithuanian Shipping Company and its governing bodies, executives, employees that would entitle to receive a compensation in case of retirement or dismissal without a valid reason, or if their service is terminated due to changes in the control over Lithuanian Shipping Company.

There are no related party transactions.

4.5. Procedure for Amending Company's Articles of Association

The Articles of Association shall be amended by the General Shareholders' Meeting by the qualified majority of votes, which shall not be less than 2/3 of votes present at the shareholders meeting. Following the decision taken by the General Meeting of Shareholders to amend the Articles of Association of the Company, the full text of the amended Articles of Association shall be drawn up and signed by the person authorized by the General Meeting of Shareholders.

In cases, specified by the Law on Companies, the Articles of Association of the Company shall be amended by the Board of the Company. In this case, the Chairman of the Board shall sign the amended Articles of Association.

The most recent amendments of the Articles of Association of LSC were approved at the general shareholders meeting on 30 April 2010.

5. OTHER COMPANY INFORMATION

5.1. Information on Detrimental Transactions Concluded on Issuer's Behalf over Accounting Period

No adverse transactions have been made on behalf of Lithuanian Shipping Company, that had or would have negative influence on the activities and (or) performance results of Lithuanian Shipping Company. There were no transactions carried out under a conflict of interests between the LSC managers, controlling shareholders or other related parties, and their private interests and (or) other duties.

5.2. Data on Published Information

An issuer, while executing his liabilities according to the legal acts regulating the stock market that apply to him, publicly announced the following information in 2013:

1. Election of the Chairmen of the Board of Public Company Lithuanian Shipping Company
2. Interim information of twelve months of the year 2012 of AB Lithuanian Shipping Company.
3. General shareholders meeting of AB Lithuanian Shipping Company.
4. Announcement of draft resolutions of the general shareholders meeting of 26 April 2013.
5. Supplemented agenda of the general shareholders meeting of 26 April 2013 of AB Lithuanian Shipping Company.
6. Resolutions of the general shareholders meeting of 26 April 2013 of AB Lithuanian Shipping Company.
7. Annual information on AB Lithuanian Shipping Company for 2012.
8. Operating results of AB Lithuanian Shipping Company and interim information for a 3 months period of 2013.
9. Announcement of AB Lithuanian Shipping Company on disposal of voting rights.
10. CORRECTION: Announcement of AB Lithuanian Shipping Company on disposal of voting rights.
11. Operating result of AB Lithuanian Shipping Company and interim information for a 6 months period of 2013.
12. Extraordinary shareholders meeting of AB Lithuanian Shipping Company.
13. Resolutions of the extraordinary general shareholders meeting of AB Lithuanian Shipping Company.
14. Announcement of AB Lithuanian Shipping Company regarding disposal of a vessel.
15. Announcement of AB Lithuanian Shipping Company regarding disposal of a m/v „Asta“.
16. Operating result of AB Lithuanian Shipping Company and interim information for a 9 months period of 2013.

The information is published in AB Lithuanian Shipping Company's website http://www.ljl.lt/lt/akcininkams/esiminiai-ivykiai/

The Corporate management code is provided in Appendix 2.

ENCLOSURE:

1. *Securities sold by automatically matched transactions, results for last 12 quarters (for each one), 1 page.*
2. *Announcement on disclosure of compliance with the Company Management Code of the Public Company Lithuanian Shipping Company, listed on the regulative market, 30 pages.*

General Director ______________ *Audronis Lubys*

The Results of Securities, Sold under Automatic Performance Transactions, for the Last 12 Quarters *(Individually)*

Reporting period		Price			Turnover (LTL)			Last session date	General turnover	
From	Until	Max.	Min.	Last session	Max.	Min.	Last session		(units)	(LTL)
2011.01.01	2011.03.31	0,276	0,166	0,190	648.078,26	0	216.677,62	2011.03.31	20.424.203	4.023.284,79
2011.04.01	2011.06.30	0,193	0,162	0,173	152.392,10	0	22.640,87	2011.06.30	6.907.509	1.195.686,83
2011.07.01	2011.09.30	0,197	0,138	0,138	271.683,70	0	7.544,78	2011.09.30	10.684.969	1.726.476,76
2011.10.01	2011.12.31	0,142	0,110	0,124	144.735,61	0	3.895,10	2011.12.30	10.833.991	1.393.040,82
2012.01.01	2012.03.31	0,131	0,114	0,117	49.886,88	0	10.913,23	2012.03.29	3.434.092	425.559,20
2012.04.01	2012.06.30	0,121	0,097	0,097	50.985,98	0	33.132,61	2012.06.29	2.953.968	312.204,76
2012.07.01	2012.09.30	0,114	0,097	0,100	37.005,52	0	561,94	2012.09.28	2.834.072	293.843,03
2012.10.01	2012.12.31	0,104	0,086	0,090	27.735,03	0	1.032,39	2012.12.28	1.384.744	133.113,62
2013.01.01	2013.03.31	0,104	0,079	0,079	52.099,42	0	1.718,31	2013.03.28	5.602.905	519.642,11
2013.04.01	2013.06.30	0,086	0,066	0,069	55.645,33	0	31,69	2013.06.28	4.781.076	345.496,19
2013.07.01	2013.09.30	0,073	0,062	0,062	52.344,45	0	1864,51	2013.09.30	4.705.405	303.356,51
2013.10.01	2013.12.31	0,066	0,041	0,048	220.392,08	0	4.237,05	2013.12.30	13.523.947	675.905,18

Source: information published in the http://www.nasdaqomxbaltic.com *statistics column*

Annexe 2

The disclosure of compliance with the Company Management Code of
Public Company Lithuanian Shipping Company,
listed on the regulative market

2013

PRINCIPLES/ RECOMMENDATIONS	YES / NO NOT APPLICABLE	COMMENTS
Principle I: The main provisions **The main goal of the company should be meeting the interests of all the shareholders, ensuring a constant increase of the shareholders' property value.**		
1.1. The company should prepare and publish the development strategy and objectives of the company, clearly stating the plan for acting in the shareholders' interests and increasing the shareholders' property.	Yes	The company's financial statements, the annual (semi-annual) report are the key source of information about the company. The company's strategy and objectives are published in annual (semi-annual) management reports, and discussed at the general shareholders' meeting. Approved financial accounts and reports are announced in the Register of Legal Entities, and are submitted to the Securities Commission as well as to AB NASDAQ OMX Vilnius according to defined procedures; they are also published on internet sites. As per defined procedure of the main shareholder - the Ministry of communication of the Republic of Lithuania, the company prepares strategic activity plans for the coming 3 years and accounts for their implementation on quarterly basis.
1.2. Activities of all company bodies should be focused on implementation of strategic goals, considering the need to optimize the shareholders' property.	Yes	Otherwise implementation of the strategic goals is impossible.
1.3. Supervisory and management bodies of the company should be in close cooperation, seeking for the highest benefits for the company and shareholders.	Yes	All company bodies aim at the highest possible benefits for the company and the shareholders. The chief executive officer is elected, re-called and dismissed by the board of the company. The manager performs his activities in accordance with the Constitution of the Republic of Lithuania, the Civil Code of the Republic of Lithuania, the Law on Companies and other laws, resolutions of the Government of the Republic of Lithuania, other legal acts, the Articles of Association as well as the decisions of the general shareholders' meeting, the supervisory board and the board as the management bodies of the company. The Board is a collegial body of management, which analyzes, accesses submitted material, discusses, approves, and takes decisions. The supervisory board

		elects the board members and recalls them from office, supervises the activities of the board and the manager of the company, submits proposals and addresses other issues, assigned to the scope of power of the supervisory board. The supervisory board is elected by the general meeting of the shareholders. All the management bodies of the company, being in solid cooperation, aim at the highest possible benefits for the shareholders of the Company.
1.4. The supervisory and management bodies of the Company should ensure that a proper respect is given not only to the rights and interests of the company shareholders, but also of other persons, participating in the company activities or related to it (employees, creditors, suppliers, clients, local community).	Yes	
Principle II: The Company management scheme **The Company management scheme should ensure strategic management of the company, effective supervision of the company management bodies, proper balance and functional distribution among management bodies of the company, protection of the shareholders' interests.**		
2.1. Besides the indispensable bodies regarding the Law on Companies of the Republic of Lithuania – general meeting of shareholders and the manager of the company – it is recommended to form both collegial supervisory body and collegial management body in the company. Setting-up the bodies of collegial supervisory and management assures clear differentiation between the functions of management and supervisory in the company, accountability of the company manager and control. Such kind of formation, in turn, determines more effective and fair process of company management.	Yes	The Company respects this recommendation. Management bodies of the company are general shareholders' meeting (the supreme body), the supervisory board (the collegial supervisory body, supervising the Company activities), the board (the collegial management body), manager of the company – Director General (a single-person management body of the Company).
2.2. Collegial management body is responsible for strategic management in the company, and it also pursues other essential functions of company management. The collegial supervisory body is responsible for effective supervision of work in relation to the bodies of company management.	Yes	The board is a collegial body of management of the Company.
2.3. If a company decides to form only one collegial body, it is recommended to form a supervisory body, i.e. supervisory board. In this case, the supervisory board is responsible for effective function supervision exercised by the company manager.	Not applicable	The Company has the supervisory board and the board.

2.4. Collegial supervisory body chosen by the general meeting of stockholders should be formed and should operate under the order stated in principles III and IV. If a company decides not to form collegial supervisory body, but forms collegial management body – the board instead, principles III and IV should be applied to the board to the extent, which does not contradict to the essence and purpose of this body.[1]	Yes	
2.5. The bodies of company management and supervision should be formed in a measured number of board members (executive managers) and supervisory board members (managers advisors), in order that a separate person or a small group of people could not dominate for these bodies in the process of making decisions.[2]	Yes	The supervisory board consists of 5 members, the board is of 5 members. There is no reason to suppose that a single person or a small group of persons could dominate in the decision making process of these bodies.
2.6. Manager's advisors or supervisory board members should be appointed for a specific period of time, with a possibility to be reselected individually under the maximum range prescribed by legal acts of the Republic of Lithuania. This action is preceded in order to certify the necessary growth of professional experience and to reaffirm a quite frequent validation of their status. In addition, there should also be a retained possibility to discharge them. However, this procedure should not be easier than discharging executive manager or a member of the board.	Yes	Supervisory board of the company is elected by the general meeting of shareholders for 4 years. The chairman of the supervisory board is elected by the supervisory board members. There is no limitation of the term of office for a supervisory board member. General meeting of shareholders can re-call the whole supervisory board or its individual members, even if the term of office for the supervisory board is not over. The board members are elected by the supervisory board for a term of 4 years. The board elects a chairman from its members. There is no limitation of the term of office for the chairman and the board members. The supervisory board may re-call the board in total or its separate members prior to the end of their term of service.
2.7. The chairman of the collegial body, elected by the general meeting of shareholders, can be a person, whose present or past position is not a difficulty to pursue independent and fair supervision. When supervisory board is not organized in the company, but has an organized management, it is recommended that the chairman of the company management and the manager of the company would not be the same person. The former manager of the company should not be immediately appointed to the collegial body chairman post that is elected by the general meeting of shareholders. When company decides not to follow these recommendations, information about the means that are taken to assure supervisory fairness should be presented.	Yes	The Company respects this recommendation, implementing its provisions in practice.

[1] The regulations of the principles III and IV are more applied to those occasions, when the general meeting of stockholders selects supervisory board, i.e. body which, in fact, is formed in order to assure the supervision of company management and manager, and to stand for the company stockholders. However, if the supervisory board is not formed in the company, but has an organized management, many of the recommendations stated in principles III and IV become relevant and applicable to the management. Although, it is noted that some recommendations that are exclusively related to the supervisory board, according to their essence and nature (ex. the formation of committees), should not be applied to the management. Under the Law of Companies (Official Gazette, 2003, No. 123-5574), the purpose of this body and functions are different. For example, article 3.1 regarding body supervisory management is applied to the extent, which is related to the head of the company, but not to the management supervision itself; article 4.1 regarding the offering of recommendations to the management bodies is applied to the extent, which is related to offering recommendations to the head of the company; article 4.6 regarding the general meeting of stockholders selected by the collegial body independence from the bodies of company management, is applied to the extent, which is related to the independence from the head of the company.

[2] The concepts of *Executive manager* and *manager's advisor* are used in cases when only one collegial body is formed in the company.

III principle: Formation order of the collegial body, elected by the general meeting of shareholders. **The formation order of the collegial body, elected by the general meeting of shareholders, should ensure representing of interests of minority shareholders of the company. Accountability of this body towards the shareholders and objective supervision of the company activities and its management bodies3.**		
3.1. The formation mechanism of the collegial body (hereinafter referred to as the collegial body), elected by the general meeting of shareholders, should ensure that an objective supervision of the company management bodies shall be executed. Also proper representation of the interests of minority shareholders.	Yes	General meeting of the shareholders (GMS) elects the supervisory board, which is a collegial body, executing supervision of the Company activities. One of the members of the supervisory board is a representative of the minority shareholders.
3.2. Names, surnames, education information, qualification, professional experience, current occupation, other important professional commitments and potential interest conflicts of the candidates to the members of the collegial bodies should be revealed to the shareholders of the company prior to the general meeting of the shareholders, giving enough time for the shareholders to decide which candidate to vote for. All circumstances, being able to affect candidate‘s independence, should also be revealed (a sample list is presented in recommendations 3.7). The collegial body should be informed about subsequent changes in the information, listed in this clause. The collegial body should annually accumulate the above mentioned information about its members and to present them in the annual report of the company.	Yes	In accordance with the laws, the annual report of the company, presenting the main information about the members of collegial bodies, is prepared and signed by the Director General of the company, discussed and approved by the board of the Company.
3.3. When it is proposed to appoint a member of the collegial body, the person‘s particular competence should be stated, which is in direct relation with the work in the collegial body. In order to enable the shareholders and investors to access whether this competence is still appropriate, the collegial body in each annual report of the company should provide information about the body‘s structure and about each single member‘s competence, directly related to his work in the collegial body.	Yes	Candidates to the elected bodies inform mandatory to the body, executing the election, where and what occupation he is on now, how his other activity is related to the Company and to other legal entities, related to the Company. The supervisory board members of the company are elected by the general meeting of the shareholders, the supervisory board elects the board members, and the board elects the manager of the company. Manager of the company – Director General as per the legal scope of competence is responsible for drafting the annual report, prepares and signs it.
3.4. In order to maintain a proper balance of existing competence of the members of the collegial body, the composition of the collegial body should be determined with respect to the company structure and nature of activities and to be accessed periodically. The collegial body should ensure that its members, as an entire unit, would have versatile knowledge, opinions and experience for proper execution of given assignments. Members of the Auditing committee, as an entire unit, should have the latest knowledge and respective experience in the field of finance and accounting and (or) auditing of the companies, listed on the stock exchange. At least one of the members of the remuneration committee should have knowledge and experience in the field of remuneration policy.	Yes	The portfolio of the company is managed by the state, represented by the Ministry of Communication of the Republic of |Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of |Lithuania comprise part of the Supervisory board (2/5) and the majority of the board (3/5). Recommendations to form committees by nature and its essence is solely related to the supervisory board, and to the board of the company, having different purpose and functions as per the Law on Companies, it is not applicable. On July 21, 2001, at the meeting of the supervisory board, as documented in minutes of the meeting No. 3, the Auditing committee was formed of 3 members: - Jonas Nazarovas, AB DFDS Seaways executive director;

		- Ligita Mikienė, deputy director of economics and finance at Klaipėda Stevedoring Company under Concern Achemos grupė; - Dana Cemnolonskienė, the acting head of the internal auditing division of the state enterprise State Property Fund.
3.5. All new members of the collegial body should be offered an individually tailored program focused on introducing a member with the duties, the company organization and activities. The collegial body should conduct an annual review in order to identify the fields where its members need to update their skills and knowledge.	Yes	
3.6. In order to ensure that all essential conflicts of interests, related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[3] number of independent[4] members.	Yes	Two members of the collegial body are independent members.

[3] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable company management.

[4] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The main criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the	Yes	The major shareholding of the company is governed by the state, represented by the Ministry of Communication of the Republic of |Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise part of the Supervisory board (2/5) and the board (3/5). Two members of the Supervisory board are considered to be independent.

company or its group; 6) He is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies; 8) He has not been in the position of a member of the collegial body for over than 12 years; 9) He is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above sub-clauses 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.		
3.8. The content of the concept of independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to certain personal or company-related circumstances.	Yes	

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	Refer to clause 3.7.
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	The major shareholding of the company is governed by the state, represented by the Ministry of Communication of the Republic of |Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise part of the Supervisory board (2/5) and the board (3/5). Members of the collegial body comply with the independence confirmation.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's means.[6] The general shareholders' meeting should approve the amount of such remuneration.	No	This provision is not applicable to the company governed by the Ministry of Communication of the Republic of Lithuania.

Principle IV: Duties and liabilities of a collegial body elected by the general meeting of shareholders

The company management system should ensure proper and effective functioning of the collegial body, elected by the general meeting of the shareholders, and the powers granted to the collegial body should ensure effective monitoring76 of the company management bodies and protection of interests of all the company's shareholders.

4.1. The collegial body, elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiemes) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiemes) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[7] See Footnote 3. If collegial management elected by the General meeting of shareholders is board, it should provide recommendations to the company's chief executive officer.

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefits and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best knowledge of the Company, all the members of the Supervisory board and of the Board act in good faith towards the Company, are guided by the company interests, and not the third party‘s or their own, seeking to maintain their independence in decision making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[8] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The shareholding of the company is managed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56.66%). Employees of the Ministry of Communication of the Republic of |Lithuania comprise part of the Supervisory board (2/5) and the board (3/5). Participation of the members of the collegial bodies in the meetings is documented and reported to the company in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company’s shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company’s affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The procedure of presenting company documents and other information to the shareholders is defined in the Articles of Association.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company’s management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	There were no transactions.

[8] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable company management.

4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[9]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advice the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The general meeting of the shareholders elects the supervisory body of the company's activities – the Supervisory board.
4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees[11] Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	The board shall elect and recall from office the single-person management body of the Company – the General Director, fixes his salary and sets out other terms of the employment contract, approves his job description, provides incentives for and imposes penalties against him. The board discusses and approves the management structure of the company and the employees' duties and employment positions to which they are recruited through competition. The General Director organizes daily activities of the Company, issues procuracies and authorizations, employs and dismisses people, concludes and terminates employment contracts therewith, provides incentives and imposes penalties. He is also responsible for organization of the activities of the Company as well as implementation of its goals. The Company operates according to the Articles of Association, working regulations of the Supervisory Board and the Board. Recommendations on formation of the auditing committee by nature and essence are solely related to the supervisory board, and are not applicable to the board of the company, having different purpose and functions as per the Law on Companies. On 21 July 2011, the Supervisory Board formed the Auditing committee of 3 members (minutes of the meeting No. 3).

[9] In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

11 The Law of the Republic of Lithuania on Audit (Official Gazette, 2008, No 82-53233) determines that an Audit Committee shall be formed in each public interest entity (including, but not limited to public companies whose securities are traded in the regulated market of the Republic of Lithuania and/or any other member state).

4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.	Yes	The shareholding of the company is managed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56,66%). Employees of the Ministry of Communication of the Republic of |Lithuania comprise part of the Supervisory board (2/5) and of the board (3/5). The company has management bodies, which are provided for in the Articles of Association, and the functions of which are strictly regulated by legislation. Duties of the Audit committee as defined in the Law on Audit of the Republic of Lithuania are partially exercised (executed) by a committee, established as per the decree of the company's chief executive officer, following the conditions of „Terms and conditions of the tender for election of the auditor of PC Lithuanian Shipping Company". The committee starts functioning 2001-10-22. The Securities Commission of the Republic of Lithuania as well as AB NASDAQ OMX Vilnius have been informed thereon. On 21 July 2011, the supervisory board established the Audit committee of 3 members (minutes of the meeting No. 3).
4.9. Committees, established by the collegial body, should normally consist of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.	Yes	Refer to clauses 3.4., 4.7., 4.8. The supreme management body of the company – the general meeting of shareholders elects the Supervisory board. On 21 July 2011, the supervisory board established the Audit committee of 3 members (minutes of the meeting No. 3).
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its company management structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.	Not applicable	Refer to clauses 3.4., 4.8.

4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.	Not applicable	Refer to clauses 3.4., 4.8.
4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.	Not applicable	Refer to clauses 3.4., 4.8. The nomination committee is not formed.

4.13. Remuneration Committee. 4.13.1. The main functions of the remuneration committee should be the following: 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); 7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.	Not applicable	Salaries and other employee benefits in the company are paid out in accordance with the Collective agreement, employment contracts and provisions of remuneration system for on-shore workers of Lithuanian Shipping Company, description of the procedures for remuneration to the General Director, directors and the chief accountant, as approved by the Board. The remuneration committee is not formed

4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: 1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; 2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; 3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies. 4.13.4. The remuneration committee should report on the performance of its functions to the shareholders and be present at the annual general meeting for this purpose.		

4.14. Audit Committee. 4.14.1. The main functions of the auditing committee should be the following: 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually;	Yes	Refer to clause 4.8
4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. 4.14.2. All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of such operations. 4.14.3. The audit committee should decide whether	Not applicable	An independent external audit firm is selected by the Company in accordance with the procedure, set by the collegial body of the Company – the Board. For this purpose the chief executive officer of the Company issues an order regarding formation of the committee. The minutes of the meetings of the committee are documented. The committee evaluates proposals, ranks the audit companies on the basis of ranking points, and presents the candidates to the Board. The Board suggests to the general meeting of shareholders, which has an exclusive right to select the auditing firm, to elect an auditor and to set remuneration conditions. The Supervisory board at meeting, dated 21 July 2011, formed the Audit committee, consisting of 3 members (minutes of the meeting No. 3).

participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present. 4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors. 4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit. 4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action. 4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.		
4.15. Annually the collegial body should conduct the evaluation of its activities. The evaluation should include assessment of collegial body's structure, work organization and ability to perform as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.	Yes	Refer to clauses 1.3., 3.10.
Principle V: The working procedure of the collegial bodies of the company **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	Chairman of the Supervisory board – Tomas Karpavičius (since 2013-06-03), Chairman of the board of the company – Saulius Girdauskas (since 2013-02-27).
5.2. It is recommended that meetings of the company's collegial bodies should be held according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential company management issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[12] .	Yes	The governing bodies of the Company discuss all the issues, assigned to them as provided for in their work regulations. Frequency of the meetings of the bodies depend on the topical issues. The board makes a plan of ordinary meetings. Agendas of extraordinary meetings of the Board are defined by the persons, convening the meeting. The Supervisory board also structures a schedule for meetings. The Supervisory Board meetings are held at least once per quarter.
5.3. Members of a collegial body should be notified about the meeting being held in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents 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 are present or certain issues of great importance to the company require immediate resolution.	Yes	The Supervisory board structures a schedule for meetings, defines the main topical issues, responsible persons and preliminary dates. The meeting agenda is announced not later than 7 days prior to the meeting. The foreseen agenda can be changed only if all the members of the Supervisory board approve. The material of the meeting has to be made available to the members of the Supervisory Board not later than 5 days prior to the meeting. The Board structures a plan of ordinary meetings of the Board. The meeting agenda is defined by the persons, initiating the meeting. The prepared meeting material has to be presented to the chairman of the Board not later than 5 days prior to the Board meeting. The chairman of the Board calls for the board meeting by distributing invitations to the Board members as well as the material for the meeting 3 days prior to the meeting. The agenda can be supplemented irrespective of this term, if all the members of the Board are present, or, in case not all the members are present, but the ones, who are absent, did not object with regard to such actions, and if none of the present Board members are against.

[12] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of company management. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The material on the issues, discussed by the Supervisory Board, is prepared by the Company's staff and members of the Board, and, if necessary, by members of the Supervisory Board, using the input of other persons. It is allowed to invite persons, related to the issues under consideration, to the open meetings of the Supervisory Board.
Principle VI: The equitable treatment of shareholders and shareholder rights **The company management system should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The company management system should protect the rights of the shareholders.**		
6.1. 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 their holders.	Yes	The authorized capital of the Company amounts to 200.901.296 Litas. The authorized capital of the Company is divided into 200.901.296 ordinary registered shares of one Litas nominal value each. The Company's shares are of one class - ordinary registered shares, giving their owners equal rights.
6.2. 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	It is foreseen in the Law on Companies and the Articles of Association of the Company. Only the General Shareholders Meeting (further – GSM) shall have an exclusive right to determine the class, number, nominal value and the minimal emission price of the Company's issued shares. The Company publicly announces about convocation of the General Shareholders Meeting in accordance with the Article of Association.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting[13]. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant company issues, including approval of transactions referred to above, are discussed.	Yes	Articles of Association of the Company provide that the Board shall take the following decisions: – decisions on the investment, disposal or lease of the fixed assets the book value whereof exceeds 10 million Litas (calculated individually for every type of transaction); – decisions on the pledge or mortgage of the fixed assets the book value whereof exceeds 10 million Litas (calculated for the total amount of transactions); – decisions on offering of surety or guarantee for the discharge of obligations of third parties the amount whereof exceeds 10

[13] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorized capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

		million Litas; – decisions on acquisition of fixed assets the price whereof exceeds 10 million Litas; only having received an approval of the General Meeting of Shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company informs publicly about convening of the General Meeting of the shareholders in accordance with the Law on Companies (it is informed publicly no more than 21 day before the meeting).
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	The order of convocation of General Meeting of shareholders of the Company, procedure of decision making and organizational arrangements are determined by Law on Companies of the Republic of Lithuania and the Articles of Association of the Company, by which the Company is guided. Key events involving also the GSM agenda and decisions, their drafts are announced publicly by electronic means through the news distribution system used by NASDAQ OMX Vilnius, in Lithuanian and English languages. This information is also posted in the Company's website.
6.6. Shareholders should be equipped with the opportunity to vote at the general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	These rights of the shareholders are provided in the Law on Companies and in the Articles of Association.
6.7. Seeking to increase shareholders' opportunities to effectively participate in shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Yes	The Company would like to use modern voting technologies at shareholders' meetings, without significant increase of expenditures and (or) costs, which may prejudice the interests of the same shareholders. Currently, the possibilities are limited for it.
Principle VII: The avoidance of conflicts of interest and their disclosure		

The company management system should encourage members of the company bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the company bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the Company's supervisory and management bodies have been informed about that.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a company body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other company body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a company body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same company body or to the company body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the Company's supervisory and management bodies have not had any transactions with the Company.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
VIII principle: Remuneration policy of the Company **The Company's remuneration policy and procedure for approval, revision and disclosure of directors' remuneration should prevent potential conflicts of interest and abuse in determining remuneration of directors, it should also ensure publicity and transparency both of the remuneration policy in the company and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual report as well as posted on the company's website.	Yes	The company announces the average number of employees and monthly remuneration in the annual report as stipulated by the Securities commission of the Republic of Lithuania. This information is available in the Company (Malūnininkų 3, Klaipėda), in the Securities Commission of the Republic of Lithuania (Konstitucijos pr. 23, Vilnius), at NASDAQ OMX Vilnius (Konstitucijos pr. 7, 15th floor,

		Vilnius), and it is also posted on the websites of the latter companies, where information is open and available to everybody.
8.2. The remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The report is not being prepared.
8.3. The remuneration statement should at least include the following information: 1) An explanation and a ratio of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance evaluation criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance evaluation criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance evaluation criteria have been fulfilled; 5) Sufficient information on deferment periods with regards to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main criteria and justification for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regards to vesting periods for share-based remuneration, as referred to in clause 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the related company; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) The remuneration statement should not include commercially sensitive information.	No	The supplementary pension or early retirement schemes are not applicable, neither the right to participate in the share selection transactions, nor rights to shares are applicable.

8.4. The remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	Not prepared. So far the Company has not exercised such a policy.
8.5.In addition, the information should be disclosed in connection with the preparation and decision-making process, during which a policy of remuneration to the Company's managers is established. This information should include, if applicable, data on authorisation and composition of the Remuneration Committee; full names of external consultants, whose services have been used for determining the remuneration policy, and the role of the general annual shareholders meeting.		
8.6. Without minimising the role of relevant bodies responsible for determination of salaries to the company's managers, the remuneration policy or any major change of it should be included in the agenda of the annual general shareholders meeting. The remuneration report should be presented to the general shareholders meeting for voting. The vote may be mandatory or advisory.		
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: 1) The number of share options offered or shares granted by the company during the relevant financial year and their	Not applicable Not applicable	Refer to the explanation in clause 4.13. Such a right to participate by shares in the share option transactions is not provided. The company has not earned any profit, and no bonuses have been paid from profit.

conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: 1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. 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 should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	No	Not provided in the Articles of Association of the Company. No share-based remuneration.

8.9. The following issues should be subject to approval by the shareholders' annual general meeting: 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	No	Not provided in the Articles of Association of the Company.
8.10. Should national law or Articles of Association of the company allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.		Not provided in the Articles of Association of the Company. Such models are not applicable.
8.11. Provisions of clauses 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the annual general meeting of the shareholders.	No	Participation in schemes is not provided for by the Articles of Association.
8.12. Prior to the annual general meeting of shareholders that is intended to consider decision stipulated in clause 8.8. the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	No	Not provided for in the Articles of Association. Draft resolutions are publicly announced as per established procedure and they are available prior to the general meeting of shareholders.

Principle IX: The role of shareholders in the company management **The management system of the company should recognize the rights of shareholders as established by law and encourage active co-operation between companies and shareholders in creating the company's prosperity, jobs and financial sustainability. For the purposes of this Principle, the concept "shareholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the specific company.**		
9.1. The company management system should assure that the rights of shareholders which are protected by law are respected.	Yes	Laws provide for certain penalties in case of incompliance. The company aims at avoiding any conflicts of interests.
9.2. The company management system should create conditions for the shareholders to participate in company management in the manner provided by law. Examples of mechanisms of shareholder participation in company management include: employee participation in adoption of certain essential decisions for the company; consulting the employees on company management and other important issues; employee participation in the company's share capital; creditor involvement in management in the context of the company's insolvency, etc.	Yes	The company acts as provided by the Law on Companies, and the Articles of Association.
9.3. Where shareholders participate in the company management process, they should have access to relevant information.	Yes	Otherwise, there is no participation in the Company's management process. The Articles of Association provide for this.
Principle X: Information disclosure **The management system of the company should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and management of the company.**		
10.1. The company should disclose information on: 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Essential foreseeable risk factors; 6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; 7) Essential issues regarding employees and other shareholders; 8) Management structures and strategy.	Yes	It was disclosed in activity reports of the Company, in the prospect-reports (annual, semi-annual), and since 2007 in annual reports. Information on how the listed clauses are respected is disclosed as per current laws, legal regulations, as per specified procedure and terms of the securities commission of the Republic of Lithuania and the Stock exchange AB NASDAQ OMX Vilnius, as per current order and practice in the Company. Public interest of the shareholders is regulated by the Law on Companies, Articles of Association, documents and rules of the securities market, which are mandatory to and are followed by the Company. Information to the market is disclosed in Lithuanian and in English via NASDAQ OMX news distribution system, announcing the main events, posting on the Company's website in the section for investors. In addition, there is an equal possibility granted to get information about the company, which is listed on the stock exchange, thus all the shareholders can take decisions on their own regarding purchasing-selling of the shares.

This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list 10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in clause 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in clause 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII. 10.4. It is recommended that information about the links between the company and its shareholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in clause 7 of Recommendation 10.1 is under disclosure.	 Yes Yes	There is no group of companies. Refer to clause 10.1. This is regulated by the legal system, the Articles of Association as well as contractual obligations. While committing to it, the aim was to avoid conflicts of interests, granting the shareholders the right to choose.
10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Refer to clause 10.1. However, in the first place, interests of the shareholders and of the main shareholder should not be violated and (or) under violation with regard to the interests of the future investor.

10.6. Channels for distributing information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company’s website. It is recommended that information should be published and placed on the company’s website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Refer to clause 10.1.
10.7. It is recommended that the company’s annual reports and other periodical accounts prepared by the company should be placed on the company’s website. It is recommended that the company should announce information about material events and changes in the price of the company’s shares on the Stock Exchange on the company’s website too.	Yes	Refer to clause 10.1. Information on the changes in the price of the Company‘s shares is public, and it is posted on the Stock Exchange (NASDAQ OMX Vilnius) website.

Principle XI: The selection of the audit firm for the Company The mechanism of selection of the company auditors should ensure independence of conclusion and opinion of the firm of auditors.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	Audit of annual financial statements is provided by the law. Interim financial statements are not audited by an independent auditor as it is not provided by the law.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The auditing firm is selected in accordance with the provisions for selection of an auditing firm, approved by the Board of the Company. The winner of the tender is presented to the general meeting of shareholders in order to approve the elected auditor. As prescribed by the Law on Companies of the Republic of Lithuania and the Articles of Association, only the general meeting of shareholders has an exclusive right to elect and to cancel the auditing firm, to define remuneration provisions for the services rendered. Such a right to make proposals is not provided by the law.
11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The audit company has never received fees from the Company for non-audit services. This information was stated in the letter, dated 25 November 2013, issued by the head of the company „Regarding confirmation of independence of KPMG Baltics, UAB to the Authority of Audit and Accounting and to the Company.

The attention of the readers is drawn to the fact that the Code of NASDAQ OMX Vilnius is prepared on the basis of the analysis of the global good practice in company management and the latest EU recommendations in the field of company management, and it is given as a guidance – in case some provisions and concepts are in conflict with the provisions of legal acts of the Republic of Lithuania, the disclosure of compliance as per set procedure, should be seen and assessed from the latter position.