AKCINĖ BENDROVĖ
"LIETUVOS JŪRŲ LAIVININKYSTĖ"

PUBLIC COMPANY
"LITHUANIAN SHIPPING COMPANY"

To: The Bank of Lithuania
Žirmūnų str. 151,,
LT-09128 Vilnius,
Lithuania

2014-02-28 Nr. (05)-5-51
Klaipėda

Į ______ Nr. ______

CONFIRMATION BY THE RESPONSIBLE PERSONS OF PUBLIC COMPANY "LITHUANIAN SHIPPING COMPANY"

Following the Rules of Preparation and Submission of Periodic and Supplemental of the Securities Commission of the Republic of Lithuania as well as the Law on Securities of the Republic of Lithuania, Item 22, we hereby confirm that, to the best of our knowledge Financial statements for the year ended 31 December 2013, drawn in accordance with the International Financial Reporting Standards, corresponds to the reality and properly reflects the assets, liabilities, financial state, profit or loss and cash flows of Public Company "Lithuanian Shipping Company".

Public Company "Lithuanian Shipping Company"
General Director — Audronis Lubys

Public Company "Lithuanian Shipping Company"
Chief Accountant — Arvydas Stropus

Malūnininkų g. 3, LT-92264 Klaipėda, tel. +370 46 393 105, faks. +370 46 393 119
Duomenys kaupiami ir saugomi Juridinių asmenų registre,
kodas 110865039, PVM mokėtojo kodas LT108650314

Public Company

Lithuanian Shipping Company

Financial statements for the year ended 31 December 2013

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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

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
Tangible assets	1	142.076	195.780	210.378
Total non-current assets		*142.077*	*195.788*	*210.393*
Inventories	3	4.101	5.135	2.437
Assets held for sale	4	10.327	-	-
Prepayments	3	818	867	1.431
Trade receivables	5	2.721	2.385	750
Other receivables	5	1.339	163	191
Cash and cash equivalents	6	1.602	369	1.793
Total current assets		*20.908*	*8.919*	*6.602*
Total assets		*162.985*	*204.707*	*216.995*
Share capital	7	200.901	200.901	200.901
Legal reserve		-	-	-
Other reserves		-	-	-
Retained profit (loss)		(119.170)	(77.932)	(62.320)
Total equity	*17*	*81.731*	*122.969*	*138.581*
Non-current employee benefits	9	414	305	200
Payables to credit institutions	8	-	38.286	30.050
Total non-current liabilities		*414*	*38.591*	*30.250*
Current part of non-current loans	8	52.819	18.112	36.553
Trade payables	11	18.232	16.560	5.468
Received prepayments	11	3.028	4.019	3.266
Employment related liabilities	10	6.431	3.496	1.930
Income tax liabilities	18	66	66	66
Other payables	11	264	894	881
Total current liabilities		*80.840*	*43.147*	*48.164*
Total shareholders' equity and liabilities		*162.985*	*204.707*	*216.995*

The notes set out on pages 6-57 form an integral part of these financial statements

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

STATMENT OF COMPREHENSIVE INCOME
31 December, 2013

	Notes No.	2013-12-31	2012-12-31 Restated	2013 IV Quarter	2012 IV Quarter
Sales	13	92.337	83.874	20.208	23.577
Costs of sales	14	(102.990)	(89.202)	(23.326)	(27.866)
Gross result		**(10.653)**	**(5.328)**	**(3.118)**	**(4.289)**
Administrative expenses	15	(4.669)	(4.657)	(1.555)	(1.524)
Impairment of vessels	15	(26.220)	(5.750)	(26.220)	(5.750)
Distribution expenses		(11)	(8)	(6)	(5)
Other operating income	16	5.501	522	514	339
Other operating income	16	(4.062)	(3)	(4.057)	-
Operating result		**(41.114)**	**(15.224)**	**(30.463)**	**(11.229)**
Financial income	17	2.083	1.054	1.076	1.208
Financial expenses	17	(2.141)	(2.196)	(572)	-
Net financial expenses	**17**	**(58)**	**(1.142)**	**504**	**1.208**
Profit (loss) before tax		(41.172)	(16.366)	29.959	(10.021)
Income tax expenses	18	(66)	(66)	(66)	(66)
Profit (loss) for the year		**(41.238)**	**(16.432)**	**(29.932)**	**(10.087)**
Other comprehensive income, net of income tax		-	-	-	-
Total comprehensive income		**(41.238)**	**(16.432)**	**(30.025)**	**(10.087)**
Basic and dilutaed earrnings (loss) per share (in Litas	19	(0,21)	(0,08)	(0,15)	(0,05)

The notes set out on 6-43 form an integral part of these financial statements

General Director Audronis Lubys

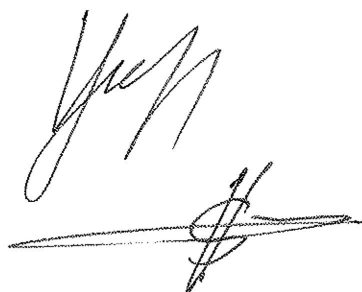
Chief Accountant Arvydas Stropus

Statement of changes in equity

As at 31 December 2013

	Authorized capital	Legal reserve	Other reserves	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)
Reserves used				-	-
Balance at 31-12-2012 (restated)	**200.901**			**(77.932)**	**122.969**
Net profit (loss) for 2013				(41.145)	(41.238)
Other comprehensive income, net of taxes				-	-
Reserves used				-	-
Balance at 31-12-2013	**200.901**			**(119.170)**	**81.731**

The notes set out on pages 6-57 form an integral part of these financial statements.



General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

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		(41.238)	(16.432)
Adjustments for:			
Depreciation and amortization	1,2	18.481	19.648
Effects of exchange rate changes on loans	8	(2.083)	(1.376)
Gain (loss) on disposal and write down of property, plant and equipment		-	-
Impairment losses on vessels	15	22.100	5.750
Impairment of assets available for sale	4, 15	4.120	
Interest income/expenses, net	17	2.141	2.196
Income tax expense	18	66	66
Operating cash flows before changes in working capital		**3.587**	**9.852**
Decrease (increase) in receivables	5	(1.463)	(1.043)
Increase (decrease) in payables	9, 10, 11	3.095	9.852
Decrease (increase) in inventories	3	1.034	(2.698)
Cash flows generated from operating activities		**6.253**	**15.963**
Income tax paid	18	(66)	(66)
Net cash flows from operating activities		*6.187*	*15.897*
Cash flows from investing activities			
Acquisitions of non-current assets	1,2	(5.198)	(6.296)
Disposals of non-current assets	1,2	3.881	-
Received dividends and interest		-	-
Net cash flows from investing activities		**(1.317)**	**(6.296)**
Cash flows from financing activities			
Interest paid	17	(1.947)	(2.196)
Dividends paid to shareholders		-	-
Repayments of loans	8	(1.690)	(8.829)
Net cash flow from financing activities		*(3.637)*	*(11.025)*
Change in cash and cash equivalents		*1.233*	*(1.424)*
Cash and cash equivalents at 1 January		*369*	*1.793*
Cash and cash equivalents at 31 December	6	*1.602*	*369*

The notes set out on pages 6-57 form an integral part of these financial statements

General Director — Audronis Lubys

Chief Accountant — Arvydas Stropus

Notes to financial statements as at 31 December 2013

I. Reporting entity

Public Company Lithuanian Shipping Company (LSC) is a joint-stock company established after reorganizing (desintegration) Public Company Lithuanian Shipping Company (LISCO). LSC was 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 and lease of vessels.

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 Communication 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) as adopted by the European Union.

These financial statements were approved by the management on 21 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 and in accordance with the accounting records maintained as to Lithuanian accounting laws and regulations.

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 values are determined based on valuations performed by independent appraisers. 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 **Error! Reference source not found.** *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.

- Going concern assumption

For preparation of the financial statements as at 31 December 2013, the Company decided to apply the going concern principle. Judgments and estimates are presented in note 26.

- Decision on selection of functional currency

Considering the structure of revenue and costs, 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 management uses Litas to perform forecasts and to measure performance of the business.

Significant accounting principles

Determination of fair values

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 estimated amount for which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing 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.

Fair values of financial assets and liabilities

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.

Valuation models

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). This category includes instruments valued based on quoted prices of similar instruments, which require significant unobservable adjustments or assumptions in order to reflect differences between the instruments.

The following valuation methods are used: the net present value and discounted cash flows methods, comparison with similar instruments to which observable market and other valuation methods apply. Assumptions and variables used in the estimates is a risk-free and basic interest rate, credit additions and other bonuses used to evaluate the discount rate, the bond and stock prices, currency Exchange rates, stock prices and stock indices.

The purpose of the assessment is to obtain fair value, which would reflect the price on the valuation day, at which the asset would be sold or the liability transferred through an orderly transaction between market participants.

Where appropriate, the Company assesses the fair value of the instrument using the instrument‘s price quoted in the active market. The market is considered active, if transactions with the assets or liabilities are sufficiently frequent and substantial to provide continuous information about prices.

If the prices are not quoted in an active market, the Company uses the valuation methods which maximize the usage of relevant observable variables and minimize the use of unobserved ones. The chosen valuation method includes all the factors that market participants would refer to in assessing the transaction.

Usually, the best source of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of given or received consideration. If the Company determines that the fair value on initial recognition differs from the transaction price, and the fair value is not supported by either the price of an identical asset or liability quoted in an active market nor is justified by the valuation method using only data from observable markets, then on initial recognition the financial instrument is valued at fair value adjusted so that the difference between the fair value on initial recognition and the transaction price would be deferred.

Significant accounting principles

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

Valuation models (cont'd)

Subsequently, this difference is provided in the income statement over the validity period of the instrument, but not later when the valuation is fully justified by observable market data or when the transaction is completed.

Financial assets or financial liabilities that are exposed to market risk and credit risk, which are managed by the Company based on the net market risk or credit risk exposure, are evaluated based on the price that would be received by selling the net long position (or paid by transferring net short position) for a particular risk.

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

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.

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.

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

(a) *Non-derivative financial instruments*

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 either financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets, as appropriate. 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.

Significant accounting principles (cont'd)

Financial instruments (cont'd)

Financial assets or financial liabilities at fair value through profit or loss

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy; or

- the financial instrument contains an embedded derivative, unless the economic characteristics and risks of the embedded derivative are closely related to the risk of the host contract or the embedded derivative has been separately accounted from the host financial instrument.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Related profit or loss on revaluation is charged directly to the profit or loss. Interest income and expense and dividends on such investments are recognized as interest income and dividend income or interest expenses, respectively.

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 rate 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 or liability. 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, deposits in current accounts with the maturity of less than 3 months, and deposits. 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 financing activities, and includes currency exchange differences, if any, recorded on these cash flows at the end of the period.

Significant accounting principles (cont'd)

Financial instruments (cont'd)

(b) Non-derivative financial liabilities

Debt securities and subordinated liabilities are recognised on the date of their origination. All other financial liabilities (including liabilities at fair value through profit or loss) 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: loans and borrowings 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.

(c) *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.

(d) Derivative financial instruments

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in the statement of comprehensive income when incurred. Subsequently to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit and loss. During the period the Company did not use any financial instruments of this category.

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.

Significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

Costs incurred during regular dock surveys of ships are accounted as separate component of non-current tangible asset. The value of repair works of non-current tangible asset that do not improve qualities of the asset for a few years (and the repair costs will not produce economic benefits in the future) are recognised as costs at the time in which they are performed.

Depreciation is calculated from the first day of the next month after an item of property, plant and equipement is put into operation, and is not calculated from the first day of the next month after its retirement or disposal, and when the total value of the used asset (less residual value) is transferred to the cost of production (works, services). Tangible non-current assets are depreciated on a stright-line basis over the useful life of each component of the asset. Dock survey and repair costs are depreciated over the period until the next dock survey (repair).

Property groups	Useful lives (in years)
Vessels	20 - 27 years since construction
Machines and equipment	7 – 16
Repair of vessels	2 – 3
Buildings and plant	15
Other vehicles	6 – 10
Other tangible assets	4

The Company capitalises borrowing costs directly related to acquisition, construction or production of a related asset under cost of the asset. In 2012 and 2011 the borrowing costs were not capitalised.

The management establishes useful lives 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 held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured. 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 initially attributed to goodwill and subsequently to remaining assets and liabilities in proportion, other than inventories, financial assets, deferred tax asset, and employee benefits. 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.

Significant accounting principles (cont'd)

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.

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 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 recognised as an expense in equal instalments over the average period until the benefits become vested. Gains or losses resulting from changes in benefit terms (reduction or increase) are recognised immediately in profit or loss.

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 has decided not to disclose transactions with the state institutions as provided for in IAS 24.

Significant accounting principles (cont'd)

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 fair value less the value of returned goods and discounts. Services are deemed granted when paid immediately or without substantial additional conditions are undertaken to be paid by the client at a later date (when both parties sign a relevant document: invoice, bill of lading, etc.). Prepayments for services are recorded as increase in liabilities to suppliers. In this case income is recognized only after the services have been rendered.

Income from the lease of vessels includes voyage-charters and time-charters of vessels.

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 and matching principles. Only that part of costs of prior or current periods, which relates to income earned during the current period irrespective of the time of money release, is recognized as costs. Costs not related to specific income are registered in the period in which they were incurred.

Cost of services is always connected with the services provided during the reporting period. Cost of sales includes depreciation of cash generating units, salaries and other costs incurred to earn the income.

Vessel repair costs incurred during regular dock-surveys are capitalised as part of an asset and amortised over a period of 2-3 years. Other repair and maintenance costs are recognised as costs for the year in which they were incurred.

Distribution and administrative costs

Distribution and administrative costs include costs related to administrative staff, management, Office expenses, depreciation, amortisation and etc.

Costs are stated based on accrual principle 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 and not identified interest, costs are estimated by discounting the amount at the market interest rate.

Significant accounting principles (cont'd)

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 activity 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 finance lease payments is recognized in the profit or loss using the effective interest rate 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. Deferred income 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 income tax depends on expected manner of realisation of assets and future settlements of liabilities and expected tax rates of the corresponding periods. Deferred tax assets and liabilities are not calculated when there is no origination of temporary differences as provided for by the Law on Income Tax.

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. Income tax is calculated using the rates enacted at the date of statement of financial position.

Since the year 2007, the result of the Company from sea freight is subject to tonnage tax directly dependable on the total fleet capacity. 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 on payload capacity units (PC) of each of 100 vessels, applying a fixed daily amount and multiplying it by an amount of shipping 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.

Profit earned not from sea freight services is taxed in accordance with the Law on Income Tax.

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 have disappeared. Due to this, the deferred tax does not originate 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.

Significant accounting principles (cont'd)

Other general notes to the financial statements

(a) 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.

(b) Subsequent events

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

(c) Financial risk factors

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.

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
Trade receivables	2.721	2.385
Cash and cash equivalents	1.602	369
Other receivables	1.339	163
Prepayments	818	867
Total:	**6.480**	**3.784**

The major part of receivables consists of amounts due from Euro zone countries. Ageing of receivables is presented in note 4.

Liquidity risk

In order to avoid the liquidity risk, the Company maintains sufficient flow of cash and cash equivalents or has financing through respective credit planning in advance as well as controlling cash flows. The Company does not have an approved liquidity ratio to aspire to, however the management shall aim at keeping the balance between unattractiveness and flexibility of financing. Liquidity ratios of the Company are provided in Note 23.

Significant accounting principles (cont'd)

(c) Financial risk factors (cont'd)

Liquidity risk (cont'd)

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							
Loans from banks	52.819	(55.112)	(12.558)	(42.554)	-	-	
Payable to suppliers	18.232	(18.232)	(18.232)	-	-	-	-
Prepayments received	3.028	(3.028)	(3.028)	-	-	-	-
Employment related liabilities	6.845	(6.845)	(6.431)	-	(414)	-	-
Other payable amounts	330	(330)	(330)		-		
	81.254	(83.547)	(40.579)	(42.554)	(414)	-	-

According to loan agreements with banks, the Company must comply with certain financial ratios. Since the Company failed to meet some of the financial ratios as at 31 December 2013, 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							
Loans from banks	56.398	(59.105)	(4.731)	(15.091)	(22.045)	(17.238)	
Payable to suppliers	16.560	(16.560)	(16.560)	-	-	-	-
Prepayments received	4.019	(4.019)	(4.019)	-	-	-	-
Employment related liabilities	3.801	(3.801)	(3.496)	-	(305)	-	-
Other payable amounts	960	(960)	(960)	-	-	-	
	81.738	(84.445)	(29.766)	(15.091)	(22.350)	(17.238)	-

(c) Financial risk factors (cont'd)

Currency exchange 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 USD	31-12-2013	31-12-2012
Prepayments	300	249
Trade receivables	1.085	918
Other receivables	517	18
Cash and cash equivalents	633	653
Trade payables	(3.931)	(3.350)
Financial liabilities	(21.045)	(21.642)
Net exposure	**(22.441)**	**(23.786)**

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

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 currency exchange rate	10%	10%
Profit (loss)	5.632	6.199
Decrease of currency exchange rate	(10%)	(10%)
Profit (loss)	(5.632)	(6.199)

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.

The functional currency of the Company is Litas, which is pegged to the euro at a fixed rate. Therefore, the currency exchange risk faced by the Company is related to purchases and sales expressed in other currencies than euro.

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:

Significant accounting principles (cont'd)

(c) Financial risk factors (cont'd)

Interest rate risk (cont'd)

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

(d) 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 keeps track on the ratios of capital return and makes suggestions regarding proposed dividends, taking into account the financial results and strategic plans of the Company. 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.

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.

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

The accounting policies applied by the Company to all financial information reported in these financial statements are consistent with the accounting policies of the previous year.

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 available for sale), Note 1 (Property, plant and equipment), 29 (Fair value of financial instruments)).

Significant accounting principles (cont'd)

Effect of application of new standards, amendments to published standards and interpretations on financial statements (cont'd)

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

As a result of the amendments to IAS 1, the Company has modified the presentation of items in the statement of other comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be.

(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.

New standards and interpretations not yet effective

Accounting policies presented below coincide with the accounting policies of the previous year, except for those which were changed due to amendments to IFRS and the new IFRS effective as of 1 January 2013.

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)

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees. The Group does not expect the new

standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

Under IFRS 11, the structure of the joint arrangement, although still an important consideration, is no longer the main factor in determining the type of joint arrangement and therefore the subsequent accounting.

- The Group's interest is a joint operation, which is an arrangement in which the parties have rights to the assets and obligations for the liabilities, will be accounted for on the basis of the Group's interest in those assets and liabilities.
- The Group's interest in a joint venture, which is an arrangement in which the parties have rights to the net assets, will be equity-accounted.

The Group does not expect IFRS 11 to have material impact on the financial statements since it is not a party to any joint arrangements.

Significant accounting principles (cont'd)

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

- 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.

The Company does not expect the Amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

- IAS 19 (2011) *Employee Benefits* (Effective for annual periods beginning on or after 1 January 2013). The amendment requires actuarial gains and losses to be recognized immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognizing actuarial gains and losses, and eliminates the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognized in profit or loss to be calculated based on rate used to discount the defined benefit obligation.

The amendments are not relevant to the entity's financial statements, since the entity does not have any defined benefit plans.

- I *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (*Effective for annual periods beginning on or after 1 January 2013*)*. The Interpretation sets out requirements relating to the recognition of production stripping costs, initial and subsequent measurement of stripping activity assets.

The Company does not expect the Interpretation to have any impact on the financial statements since it does not have any stripping activities.

FRS 12 brings together into a single standard all the disclosure requirements about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The Group does not expect the new Standard will have a material impact on the financial statements.
These standards are effective for annual periods beginning on or after 1 January 2014 with early adoption permitted.

(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