

AKCINĖ BENDROVĖ  
"LIETUVOS JŪRŲ LAIVININKYSTĖ"



PUBLIC COMPANY  
"LITHUANIAN SHIPPING COMPANY"

To: Lithuanian Securities commission  
Konstitucijos pr.23,  
LT-08105 Vilnius,  
Lithuania

2011-05-17 Nr. (05)-5-343  
Klaipėda  
I \_\_\_\_\_ 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 March 2011, drawn in accordance with the International Financial Reporting Standards, corresponds to the reality and properly reflects the assets, liabilities, financial state, profit or loss of Public Company "Lithuanian Shipping Company".

Public Company "Lithuanian Shipping Company"  
General Director

Arvydas Bogočionkas

Public Company "Lithuanian Shipping Company"  
Chief Accountant

Arvydas Stropus

**LITHUANIAN SHIPPING COMPANY  
(PUBLIC COMPANY)**

**FINANCIAL STATEMENTS  
AS OF  
31 MARCH 2011**

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 (thousands of LTL if not otherwise stated)

**STATEMENT OF FINANCIAL POSITION**  
**31 March, 2011**

	Notes No.	31 March, 2011	31 December, 2010
Intangible assets	1	32	39
Tangible assets	2,3	232.165	239.279
<i>Total non-current assets</i>		<u>232.197</u>	<u>239.318</u>
Inventories	4	2.784	1.307
Prepayments	4	2.422	1.319
Trade receivables	5	2.176	1.333
Other amounts receivable	5	2.305	3.227
Term deposits		-	-
Cash and cash equivalents	6	1.452	2.067
<i>Total current assets</i>		<u>11.139</u>	<u>9.253</u>
<i>Total assets</i>		<u>243.336</u>	<u>248.571</u>
Authorized capital	7	200.901	200.901
Legal reserve	8	1.283	1.283
Other reserves	8	-	-
Retained profit		(37.808)	(39.134)
<i>Total equity</i>		<u>164.370</u>	<u>163.050</u>
Payables to credit institutions	9	50.029	53.184
<i>Total non-current liabilities</i>		<u>50.029</u>	<u>53.184</u>
Payables to credit institutions	9	18.150	22.818
Trade payables	13	2.245	986
Received prepayments	13	2.949	4.536
Employment related payables	11	2.398	1.850
Income tax liabilities	10	67	67
Provisions	12	1.920	1.620
Other amounts payable	13	1.202	460
<i>Total current liabilities</i>		<u>28.931</u>	<u>32.337</u>
<i>Total shareholders' equity and liabilities</i>		<u>243.336</u>	<u>248.571</u>

Explanatory notes on pages 7-22 are the integral part of the financial statements

General Director

Arvydas Bogočionkas

**STATEMENT OF COMPREHENSIVE INCOME**  
**31 March, 2011**

	Notes No.	During the year	
		31 March, 2011	31 March, 2010
Revenue	13	17.884	13.017
Cost of sales	14	18.809	21.272
<b>Gross profit</b>		<b>(925)</b>	<b>(8.255)</b>
Administrative expenses	15	(1.216)	(1.125)
Distribution expenses		(1)	-
Other operating income, net	16	39	(8.155)
<b>Operating profit before financing cost</b>		<b>(2.103)</b>	<b>(17.535)</b>
Financial income	17	3.973	-
Financial expenses	17	(545)	(4.814)
<b>Net financial cost/income</b>	<b>17</b>	<b>3.428</b>	<b>(4.814)</b>
Profit (loss) before tax		-	-
Income tax		-	-
<b>Profit (loss) for the year</b>		<b>1.325</b>	<b>(22.349)</b>
Other comprehensive income		-	-
<b>Total comprehensive income, net of income tax</b>		<b>1.325</b>	<b>(22.349)</b>
Profit per share (Litas)	18	0,01	(0,11)

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General Director

Arvydas Bogočionkas



**STATEMENT OF CASH FLOWS**  
**31 March, 2011**

	Notes Nr.	31 March, 2011	31 March, 2010
<b>Operating cash flows</b>			
Net profit (loss)		1.325	(22.349)
Corrections due to:			
Depreciation and long-term repair	1, 2	7.182	8.263
Influence of foreign currency profit (losses)	9	(4.457)	4.546
Impairment of assets			
Income from investments			
Interest expenses (net)	17	545	487
Current income tax		-	-
Changes in deferred income tax and provisions	11	300	-
Decrease (increase) in amounts receivable	5	(1.024)	(491)
Increase (decrease) in amounts payable	10	962	(631)
Decrease (increase) in inventories	4	(1.477)	(266)
<b>Operating income</b>			
Paid income taxes		-	-
Paid interests	17	(545)	(487)
<b>Net cash flows from operating activities</b>		<b>2.814</b>	<b>2.768</b>
<b>Cash flows from investing activities</b>			
Acquisition of non-current assets	2	(61)	(1.289)
Transfer of non-current assets	16	-	9.963
Received dividends, interests		-	-
<b>Cash flows from investing activities</b>		<b>(61)</b>	<b>8.674</b>
<b>Cash flows from financing activities</b>			
Dividends paid to the shareholders		-	-
Received loans			
Returned loans	9	(3.366)	(997)
<b>Cash flows from financing activities</b>		<b>(3.366)</b>	<b>(997)</b>
<b>Total net cash flows</b>		<b>(615)</b>	<b>4.909</b>
<b>Net cash and cash equivalents on 1 January</b>		<b>2.067</b>	<b>1.242</b>
<b>Net cash and cash equivalents on 31 March</b>		<b>1.452</b>	<b>6.151</b>

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**STATEMENT OF CHANGES IN EQUITY**  
**31 March, 2011**

	Authorized capital	Legal reserve	Other reserves	Retained profit (loss)	Total
<i>Balance as at 31 December 2008</i>	200.901	20.090	29.795	(19.727)	231.059
Comprehensive income for the reporting period				(28.875)	(28.875)
Used reserves			(19.727)	19.727	---
<i>Balance as at 31 December 2009</i>	200.901	20.090	10.068	(28.875)	202.184
Comprehensive income for the reporting period				(22.350)	(22.350)
<i>Balance as at 31 March, 2010</i>	200.901	20.090	10.068	(51.224)	179.835
Comprehensive income for the reporting period				(39.134)	(39.134)
Used reserves		(18.807)	(10.068)	28.875	
<i>Balance as at 31 December 2010</i>	200.901	1.283		(39.134)	163.050
Comprehensive income for the reporting period				1.325	1.325
<i>Balance as at 31 March, 2010</i>	200.901	1.283		(37.809)	164.375

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**EXPLANATORY NOTES**  
**General Information**

AB "Lietuvos jūrų laivininkystė" (LJL) is a joint-stock company established after reorganizing AB "Lietuvos jūrų laivininkystė" (LISCO) by way of division. LJL was registered in the Registry of Legal Entities, certificate No. 027245. LJL registration date is 27 June 2001, its company code is 110865039. The address of LJL is Malūnininku str. 3, Klaipėda. Main activities of the Company are cargo carrying by sea transport and lease of ships.

The Company's management bodies are general meeting of shareholders, supervisory board, board of directors and head of management.

On 31 March 2011 the Company had 349 employees, of which 42 in coast divisions and 307 on board.

On 31 March 2011 the Company's shareholders were:

	2011-03-31		2010-03-31	
	Number of shares	Ownership percent	Number of shares	Ownership percent
State Property Fund	5.619.061	2,80	9.596.998	4,78
Ministry of Transport and Communication	113.833.000	56,66	113.833.000	56,66
Swedbank AS (Estonia)	11.369.607	5,66	11.828.851	5,89
DFDS TOR LINE A/S	11.108.420	5,53	11.108.420	5,53
UAB koncernas "Ahemos grupe"	3.278.086	1,63	12.360.009	6,15
Other small shareholders	55.693.122	27,72	42.174.290	20,99

**II. Accounting policy**

**Compliance with the Standards**

Financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) and their interpretations, approved by the International Accounting Standards Board (IASB) as provided by the EU Regulation EC 1606/2002 on application of International Accounting Standards

**Basis for Financial Statement Preparation**

In the financial statements the figures are presented in Litas, which is the official currency of the Republic of Lithuania and functional currency of the Company. Annual financial statements are prepared on the basis of historic cost and accounting records managed in accordance with the laws and regulations of the Republic of Lithuania.

When preparing the financial statements according to IFRS, approved for application in the EU, the management has to make estimates and evaluations for the assumptions, which then influence the application of accounting policy and figures related to assets, liabilities, income and expenses. Evaluations and related assumptions are based on the historic experience and other factors, which correspond to the current conditions and on the basis of the results of which the conclusion on the residual values of assets and liabilities is made and which cannot be determined based on any other sources. Actual results may differ from the estimates.

Evaluations and related assumptions are reviewed constantly. The impact of the change in the evaluation is recognized in the period of evaluation review, if it has any impact to that period, or in the evaluation review period and future periods, if the evaluation influences both - the review and the future periods.



## **Changes in the Accounting Principles**

The below stated accounting principles of the Company coincide with the accounting principles of the last year, except those that were replaced due to the amendments made in the former IFRS and adjustments in the new IFRS, effective from the 1<sup>st</sup> of January 2010.

### **Standards, standard adjustments and interpretations valid in 2011**

The Company applies the following standards:

IAS 1 „Presentation of Financial Statements“ (revision), effective from the 1<sup>st</sup> of January 2009. The adjustment of the standard comprises different alterations, including the following: introduction of new definitions, modified procedure of own capital transactions disclosure in the Change of Own Capital Report and General Income report. The comparative information has been presented so that it could comply with the standard adjustments.

Application of IAS 23 „Borrowing Cost“ (revision) which was mandatory for reporting periods of the 1<sup>st</sup> of January 2009. The Company has applied this standard from the specified date; however, it did not influence the financial statements, because during the years 2010 and 2011 the Company had not recognized borrowing costs, which could have been subject to capitalization.

IAS 7 „Statement of Cash Flows“ (revision), which is mandatory for the reporting periods from the 1<sup>st</sup> of January 2009 or later, had supplemented the disclosures of financial instruments' actual value and risk assessment. The Company has applied this standard from the specified date to the extent it may be adjusted according to the Company's activity.

The Company has applied the new IFRS 8 „Activity Segments“, which is mandatory for the reporting periods from the 1<sup>st</sup> of January 2009. This new standard sets out the requirements to disclose more information on segments, taking into consideration internal reports and statements, in order to assess the information on each business and geographical segment.

IAS 39 „Financial Instruments: Recognition and Measurement – Appropriate Risk Assurance Instruments“ (revision) applies for the reporting periods from the 1<sup>st</sup> of July 2009 and later. The adjustment interprets application of standard principles in risk assurance relations, including: fines, related to the previous loan return; interpretations of exceptions applied on joint ventures; assurance by applying internal contracts; supplemented interpretations on cash flow assurance. The adjustments did not influence the financial statements of the Company.

The below stated standard adjustments and interpretations are due to be applied on the reporting periods starting on (or after) the 1st of January 2010, but not applicable to the activities of the Company:

IFRS 1 „First-time Adoption of International Financial Reporting Standards: Supplementary Exceptions“ (revision)

IFRS 3 „Business Combinations“ (revision).

IAS 27 „Consolidated and Separate Financial Statements“ (revision).

32 IAS „Financial Instruments: Presentations – Classification of Rights Issues“ (revision).

IFRIC 12 „Service Concession Arrangements“ (interpretation).

IFRIC 17 „Distributions of Non-cash Assets to Owners“ (interpretation).

IFRIC 18 „Transfers of Assets from Customers“ (interpretation).

## **Transactions in Foreign Currency**

Transactions in foreign currency are evaluated in Litas on the basis of the official foreign currency exchange rate established by the Bank of Lithuania on the day of the respective transaction. Monetary assets and

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liabilities in foreign currency are evaluated in Litas regarding the foreign currency exchange rate on the day of the statement of financial position. All operations pursued in Euros were converted applying the fixed exchange rate announced by the Bank of Lithuania (1 EUR=3,4528 LTL) and the accounts in US dollars are recalculated applying the exchange rate where 1 USD=2,4551 LTL.

Differences in currency exchange rates, occurred after the operations were pursued, are recognized in the income statement. Non-monetary assets and liabilities in foreign currency and recognized at fair value are recalculated in Litas at the foreign currency exchange rate on the day of value determination.

## **Financial Instruments**

### *Non-derivative Financial Instruments*

Loans and amounts receivable as well as deposits are accounted in the Company on the date of their occurrence. Such financial assets are acknowledge at their actual value added the costs, directly related with the transaction in question. After the initial acknowledgment, loans and amounts receivable are estimated on the basis of their amortization cost value, applying actual interest calculation method and less the losses due to impairment.

Accounting of financial assets is terminated upon ending of contractual powers on cash flows generated by therein assets or upon transferring the right to receive the contractual cash flows related to financial assets together with all risks and benefits, related to the therein financial assets.

Non-derivative financial obligations are acknowledged on the day of transaction, when the Company becomes the party to the contract under the provisions of financial instrument transaction. Such financial obligations are acknowledged at their actual value added the costs directly related to the transaction in question. After their initial acknowledgement, financial obligations are evaluated at their amortization cost, applying actual interest calculation method

Accounting of financial obligation is terminated upon accomplishment, revoking or expiry of contractual obligations.

### *Derivative Financial Instruments*

The Company did not apply any derivative financial instruments during the periods ended on March 31, 2011.

## **Statement of Financial Position**

### *(a) Non-current Tangible Assets*

In financials reports, all the economic resources as disposed by the company are acknowledged as property, if the company expects to gain profit from these resources and the latter ones have their value that can be credibly evaluated.

The long-term property, stated in the financial reports, is evaluated by the cost price of the actual acquisition or production of the property withdrawing the accumulated depreciation and the reduction of the property value.

Depreciation is started to be calculated since the first day of the next month after the transference of the long-term property for the usage and is not calculated from the first day of the next month after its writing-off or selling, and when the whole value of the used long-term property (without the liquidation value) is transferred to the cost price of the production (works, services). The property is depreciated applying the directly proportionate method of the depreciation calculation.



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Property groups	Average time of useful service (in years)
Ships	7 – 16
Machines and equipment	7 – 16
Transport means	6 – 10
Other equipment, devices, tools and facility	4

The authorities establish the time of the useful service of the long-term material property at the time of its acquisition, and later it is reviewed each year. The time of useful service is established following the experience of the past of similar property as well as the planned events in the future. That can have influence upon the time of useful service. It can be changed if there is enough ground to think that the service time remaining does not reflect the physical status of the property and its economic usage. The company reviews the liquidation value of the property each year.

The value of the repair works of the long-term material property that do not improve the useful qualities of the property (and the costs of the repair will not give income in the future), is included in the costs in the report period during which they are carried out.

The residual values of the long-term material property of the company are reviewed for the date of each annual financial reports seeking to establish whether there are signs showing their depreciation. If there are signs of depreciation, the dividend value of such property is calculated. The dividend value is calculated as the bigger one of the two values: the net realization or the property usage value. The loss due to the property depreciation is accounted when the residual value of the unit of the property exceeds the dividend value. The loss incurred due to depreciation is accounted in the report of general income.

The ships of the company are repaired on the regular basis according to the requirements of classification companies: every 5 years (SS) after the repair, the class of the ship is confirmed, after 3 years after the SS repair, the repair on the dock is carried out. The company capitulates and acknowledges the expenses of the repair for the confirmation of the class of the ship as expenditure during 3 years, the expenses of the repair on the dock are acknowledged as expenditure during 2 years.

***(b) Non-current Intangible Assets***

Computer software and other intangible assets with the limited period of use are stated at cost less the amortization and losses due to impairment. Amortization is calculated applying the direct method during the period of useful life. Non-current intangible assets are depreciated within the period of 3 years.

***(c) Inventories***

Inventories are recognized at the lower of the acquisition cost and net realizable value. In order to determine the cost of inventories, FIFO method is applied. Net realizable value is estimated as expected selling price less the expenses related to the sale.

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 the purchase of the inventories, less the received discounts and rebates. When the amounts of inventory transportation and preparation for use are insignificant or constant for several reporting periods, they are written off to operating expenses rather than included into the cost of purchase.

***(d) Amounts receivable***

On recognition amounts receivable are measured at their fair value. Thereinafter, current amounts receivable are measured taking into account their impairment in value and non-current amounts receivable are measured at a discounted value less any impairment loss in value.

***(e) Cash and Cash Equivalents***

Cash comprises cash on hand and in bank accounts. Cash equivalents are liquid investments readily convertible into a known amount of cash. The term of these investments is up to three months and they are a subject to insignificant risk of changes in value. The Company has no cash equivalents currently.

In the statement of cash flows, cash and cash equivalents comprise cash on hand, in bank accounts, in current accounts and deposits. Income and losses, which are not realized and occurred due to the changes in foreign currency exchange rate, are not recognized as cash flows. However, influence of changes on the cash and cash equivalents, maintained or paid in foreign currency, is presented in the statement of cash flows in order to compare the cash and cash equivalents at the beginning of the period with the cash and cash equivalents at the end of the period. The amount of influence is presented separately from the operating, investing and financing cash flows and includes the differences of currency exchange, if such are present, which were determined in the cash flows at the end of the period.

***(f) Borrowings***

The borrowing expenses are acknowledged as expenditure as they are incurred, or capitalized depending on the aim of the borrowing. The company capitalizes the borrowing expenses that are directly ascribed to the acquisition of the property of long preparation, the construction or production, as the part of the cost price of the property.

In the company, the borrowings are acknowledged first of all by the real value of the gained means adding the costs of the contract. Later on they are calculated by the amortized value, and the difference between the gained means and the sum that will have to be paid during the borrowing term, are included into the profit or loss of the period. The borrowings are acknowledged as long-term if the financing agreement concluded till the date of the approval of the financial report proves that the commitment for the date of the report of the financial status in its nature was long-term.

Borrowing costs are recognized as expenses when they are incurred.

At the initial recognition, borrowings are stated at the fair value of received funds. Thereinafter, they are accounted for at amortized cost, and the difference between the funds received and amount payable within the period of the loan is included into the profit or loss for the period. Borrowings are recognized as non-current if the financing agreement signed before the date of the financial statements' approval confirms the liability is long-term in substance on the day of the balance sheet date.

***(g) Provisions***

Provisions on obligations are recognized when and only when the Company has a 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 of 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 recorded as interest expenses.



***(h) Income Tax***

Calculation of income tax is based on the annual profit and is made in accordance with the requirements of the tax laws of the Republic of Lithuania. Deferred income tax is calculated on the basis of temporary differences in the carrying amounts of assets and liabilities in the financial statements and their tax bases. An amount of deferred income tax depends on expected useful lives of assets and future repayments of liabilities and expected tax rates of the corresponding periods. Deferred income tax assets and liabilities are not further calculated, because according to the Income Tax Law of the Republic of Lithuania no temporary differences occur.

Following the amendment and supplement to the Income Tax Law of the Republic of Lithuania on May 3, 2007, the Lithuanian Shipping Company chose to calculate a fixed rate income tax for the tax period beginning on 2007 and subsequent tax periods. The base of the fixed rate income tax is calculated for each 100 payload capacity units (CU) of a sea-going vessel by applying a fixed daily amount and multiplying the resulting amount by the number of days in a tax period of a shipping entity.

***(j) Revaluation of Currency***

In the accounting records transactions in foreign currencies are stated in the national currency, Litas (LTL), in accordance with the official exchange rate of Litas and foreign currency announced by the Bank of Lithuania at the transaction date, except for accumulated income and expenses, which are stated based on the official exchange rate of Litas and foreign currency announced by the Bank of Lithuania on the last day of the reporting period.

In the balance sheet currency entries are stated in accordance with the official exchange rate of Litas and foreign currency announced by the Bank of Lithuania at the date of the financial statements. The Company's owned cash in foreign currencies as well as all amounts receivable and payable in foreign currencies are considered to be currency entries.

Changes in currency entries, which occurred due to changes in the exchange rate of Litas and foreign currency announced by the Bank of Lithuania and arisen when performing currency transactions or revaluating currency entries registered earlier, are recognized as income or expenses from financing activities of the related reporting period.

***(k) Payments to the Employees***

The Company considers salaries, social security fees, holiday allowances, compensations for two first days of sickness, premiums, bonuses, grants, leave allowances, holiday accumulations to be the payments to the employees and they are recognized as expenses when an employee has fulfilled his duties in exchange to the received allowance.

***(l) Transactions with Related Parties***

The Company considers members of the board, general director, director for chartering, technical director, director for finance, chief accountant and their family members to be the related parties. The Company is not related to any legal parties.

**STATEMENT OF COMPREHENSIVE INCOME**

***(a) Segments***

Accountable segments are actively operating segments, which meet the stated criteria. The Company receives individual financial information on these segments and the management regularly reviews this information and makes decisions on evaluation of operating results on the basis of such information. Operating segments have separate segment liabilities, segment assets, particular income and expense item evaluations, gross profit (loss) and they are all corresponding to the financial statements of the Company. The Company operates in one market sector and therefore the operating segments are not distinguished.

***(b) Income Recognition***

The moment of rendering services is recognized as the moment of income earning. Transaction of service provision is completed when the buyer pays for the services at once or takes on an obligation to pay for them later without any significant additional conditions (when both parties sign a corresponding document: invoice, delivery note, etc.). Cash received as prepayment is recorded in the accounts as an increase in the Company's liabilities to trade partners. In this case, income is recognized when the services are rendered.

***(c) Recognition of Expenses***

The cost of rendered services is always connected with the services rendered during the reporting period. It comprises a portion of expenses incurred during the reporting period in order to render the services. When it is impossible to directly relate the expenses of the reporting period with the earning of the particular income and they are also not going to generate income in the future periods, they are recognized as income of the period when they are incurred.

**GENERAL NOTES ON THE FINANCIAL STATEMENTS**

***(a) Use of Estimates in Preparation of Financial Statements***

When preparing the financial statements, the management has to make certain assumptions and estimates, which influence the presented amounts of assets, liabilities, income and expenses and disclosures of contingencies. Significant accounts of these financial statements, which are influenced by the estimates, include depreciation, evaluations of impairment and provisions. Future events may influence the assumptions used to make the estimates. The results of such changes in estimates will be presented in the financial statements when they are determined.

***(b) Contingencies***

Contingent liabilities are not recognized in the financial statements. They are disclosed, except for the cases when it is hardly probable that the resources providing economic benefits will be lost.

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) Events after the date of the conclusion of financial reports***

Events that provide additional information about the position of the company on the day of the conclusion of the financial reports (the correcting events) are reflected in the financial reports. Other events after the date of the financial reports that are not correcting events, are described in the remarks if it is important.

***(c) Factors of Financial Risk***

**Market insecurities**

The long-running worldwide liquidity crisis resulted in lower liquidity levels in the economy, lower level of capital market funding and lower liquidity. Furthermore, the economy in Lithuania and the European Union experienced the slowdown, which influenced and might still influence the activities of the companies operating in shipping business. The financial statements provide management evaluations concerning the influence of worldwide and Lithuanian business environment on the activities and financial position of the Company. Further development in the business environment might differ from the evaluations by the management.



#### **Losses of Impairment in Non-current Assets**

The Company reviews the residual values of non-current assets at each date of the statement of financial position (balance sheet) to determine whether there are indications of impairment. If such indications are observed, the recoverable amounts of the assets are calculated. With the purpose to test the impairment in asset value, assets, which earn cash in the process of non-interrupted usage and generally do not depend on the net cash inflows generated by other assets or asset groups (units generating net cash), are grouped together into the smallest possible groups.

A recoverable amount is the higher of the net realizable value and the value in use. Asset value in use is calculated by discounting the future cash flows to the current value applying the pre-tax discount rate, which reflects the objective market assumptions on cash value in time and the risk related to the asset. The recoverable value of an asset, which does not generate cash inflows independently, is determined in line with the recoverable value of the unit, which generates the cash and to which the asset is attributable.

#### **Losses of Impairment in Amounts Receivable**

The Company reviews the amounts receivable at least once in a quarter of the year. In order to determine whether the impairment in value should be recognized in the income statement, the Company evaluates the existence or non-existence of the evidence, which prove the sufficient decrease in the future cash flows, related to the portfolio of amounts receivable, until the decrease of the particular amounts receivable in the portfolio is determined. Evidence might comprise information providing for the negative change in debt repayment status, economic conditions in the country or region, which influence the amounts receivable.

Following the historic experience on the losses, related to the amounts receivable and similar credit risk, the management evaluates probable cash inflows from the debtors. Methods and assumptions, applied when evaluating the amounts and the duration of future cash flows, are regularly reviewed in order to decrease differences between the calculated and actual amounts of losses.

#### **Capital Management**

In order to maintain the trust of the investors, creditors and other market participants, to support the future development of activities and correspond to the external capital requirements, the policy of the Company requires maintaining a significant amount of equity capital when compared to the borrowed funds. The capital comprises equity capital belonging to the owners.

The management also seeks to maintain the balance between the higher return, which could be acquired through the higher level of borrowed funds, and the security provided by the higher level of equity capital.

The Company manages the capital structure and corrects it regarding the changes in economic circumstances and the nature of operating risk. In order to maintain or correct the capital structure, the Company might correct dividend pay out to the shareholders, return the capital to the shareholders or issue new shares.

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**III. Explanatory Notes to Accounts**

**1. Non-current Intangible Assets**

	Computer software
<b>Acquisition cost</b>	
31 December 2008	361
Acquisitions	-
Write-offs	-
31 December 2009	361
Acquisitions	27
Write-offs	-
31 December 2010	387
Acquisitions	-
Write-offs	-
31 March, 2011	387
<b>Accumulated amortisation</b>	
31 December 2008	304
Calculated during the period	22
31 December 2009	326
Calculated during the period	22
31 December 2010	348
Carrying amount	
Calculated during the period	7
31 March, 2011	355
31 December, 2008	57
31 December, 2009	35
31 December, 2010	39
31 March, 2011	32

Non-current intangible assets are depreciated within the period of 3 years.



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**2. Non-current Tangible Assets, in thousand LTL**

	Buildings and construction	Plant and machinery	Ships	Other transport means	Repairs	Other tangible assets	Total
<b>Acquisition value</b>							
<b>31 December 2008</b>	3.672	1.202	491.226	802	8.246	568	505.716
Acquired		2	1.019		2.943	38	4.003
Written-off(-)		(386)	(7.952)		(5.869)	(50)	(12.256)
<b>31 December 2009</b>	3.672	818	484.294	802	5.319	556	495.462
Acquired	-	21	211	60	2.766	13	3.071
Reclassifications	-	(26)	26				
Written-off(-)		(22)	(28.536)	(612)	(3.500)	(51)	(32.722)
<b>31 December 2010</b>	3.672	791	455.994	250	4.585	519	465.811
Reversed impairment							
31 December 2008			(61.407)				(61.407)
31 December 2009			(61.407)				(61.407)
31 December 2010			(61.407)				(61.407)
Acquired	-	3	55	-	-	3	61
Written-off(-)	-	-	-	-	(690)	-	(690)
Reclassifications	-	1	(1)	-	-	-	-
<b>31 March 2011</b>	3.672	795	456.048	250	3.895	522	465.182
<b>Accumulated depression</b>							
<b>31 December 2008</b>	355	939	128.096	666		341	130.398
Accounted for the period	51	106	27.349	80		62	27.647
Written-off(-)		(38,6)	(7.480)			(44)	(7.910)
<b>31 December 2009</b>	406	659	147.965	746		358	150.135
Accounted for the period	50	95	25.861	22		57	26.085
Reclassifications		(26)	26				
Written-off(-)		(22)	(10.436)	(612)		(25)	(11.096)
<b>31 December 2010</b>	457	706	163.416	156		390	165.125
Accounted for the period	12	23	6.429	6		14	6.484
Reclassifications	-	(1)	1	-	-	-	-
<b>31 March 2011</b>	469	728	169.846	162	-	404	171.609
<b>Carrying amount</b>							
31 December 2008	3.317	263	301.723	136	8.246	227	313.911
31 December 2009	3.266	159	274.921	56	5.319	198	283.920
31 December 2010	3.215	85	231.171	94	4.585	129	239.279
31 March 2011	3.203	67	224.795	88	3.895	118	232.166

**Ships**

Capital tangible asset of Lithuanian Shipping Company for the 31 March 2011 included 11 vessels, administration building, vehicles, machinery and equipment.

The vessels are mortgaged for the loans with SEB bankas (See Note 9).

All vessels, except M/V "Alka", were hired under long-term time charters, concluded for the period of 6 months with subsequent extensions. M/V "Alka" was hired under short-term voyage charters, since the company was operating the vessel by itself. In time charter, income is received in US dollars. In 2011, there

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were no cases of demurrage, except repair or emergency cases. m/v "Venta" from the end of March 2011 was hired under long term time charters.

### 3. Ship Repairs

Ship repairs expenses of LTL 3895 thousand were recognized as assets.  
 This amount will be transferred to expenses according to the table below:  
 of which planned write-offs to expenses in:

2011 m.	-	LTL 2070 thousand
2012 m.	-	LTL 1657 thousand
2013 m.	-	LTL 168 thousand

### 4. Inventories and Prepayments

	31-03-2011	31-12-2010
Ships bunker	2.218	690
Spare parts	450	467
Food provision on ships	116	150
Prepayments	2.422	1.319
Total:	5.206	2.626

On 31-12-2011 2.218 thousand LT was paid for bunkers of the mv Alka and mv „Venta“ under short term charter parties.

### 5. Amounts Receivable

	31-03-2011	31-12-2010
<b>Trade debtors</b>	2.176	1333
Amounts receivable from State budget	16	15
Prepayments to ships	132	120
Other amounts receivable	2.157	3.092
Total:	4.481	4560

The trade debtors as of 31-03-2011 increased due to the income not received by mtrl. „Alka“ at the end of March, 1179 thousand LTL. The income was received in April.

In other receivable sums, the doubtful sums of 1227 thousand LTL as a deposit for mtrl. "Deltuva" arrest in Puerto-Rico in May, 2010, the sum is not disciplinary, the legal research is going on; 611 thousand LTL for the services of lawyers due to the arrest of mtrl. "Deltuva", the sum is disciplinary. Other amount 319 thousand Lt for m/v "Akvile", "Raguva" of maritime accidents.

### 6. Cash and Cash Equivalents

	31-03-2011	31-12-2010
Cash in national currency	53	136
Cash in banks in foreign currencies	1381	1897
LJL's cash in hand in national currency	1	7
LJL's cash in hand in foreign currencies	17	27
Total:	1452	2067

### 7. Capital

	Authorised capital	Share premiums	Total
31 December 2009	200901	-	200901
New emission of shares	-	-	-

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Acquisition of own shares	-	-	-
31 March 2011	200901	-	200901

On 31 March 2011 the Company's authorised capital consisted of 200 901 296 ordinary registered shares. With par value of LTL 1 for each share.

**8. Reserves**

	31-03-2011	31-12-2010
Compulsory legal reserves	1283	1283
Reserve for acquisition of ships	-	-
Reserve for employees' bonuses	-	-
Reserve for social and cultural activities	-	-
Total:	1283	1283

**9. Financial Liabilities (to credit institutions)**

	31-03-2011	31-12-2010
Payable after one year	50029	53184
Payable within one year	18150	22818
<b>total</b>	<b>68179</b>	<b>76002</b>
Balance of loans at the beginning of the year	76002	73469
Loans received	-	-
Loans repaid	3366	-3628
Effect of exchange rates	-4457	6161
<b>Balance of loans at 31 March 2011</b>	<b>68179</b>	<b>76002</b>

All financial debts of Lithuanian Shipping Company to the bank are ensured with the asset. 11 vessels are mortgaged at the book value of 224794 thousand LTL.

Total balance of the loan of AB SEB bankas for the year ended 31/03/2011 amounted to 68179 thousand LTL, whereof:

- 7.856 thousand LTL for acquisition of M/V "Romuva" and M/V "Voruta". Due date for redemption of the loan – 31/03/2011;
- 41.910 thousand LTL for acquisition of M/V "Venta". Due date for redemption of the loan – 27/02/2015;
- 18.413 thousand LTL for acquisition of M/V "Raguva" and M/V "Deltuva". Due date for redemption of the loan – 19/02/2012.

**10. Liabilities Related to Employment Relations**

	31-03-2011	31-12-2010
Payable salaries	489	-
Provision for annual leaves (salaries)	1202	1144
Provision for annual leaves (social insurance)	372	355
Payable social insurance contributions	326	350
Income tax payable	8	-
Amount payable to guarantee fund	1	1
<b>Total</b>	<b>2398</b>	<b>1850</b>



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**11. Provisions**

	31-03-2011	31-12-2010
Provisions for not received invoices	1920	1620

At the end of the report period, in the suspensions due to the arrest of mtrl. "Deltuva" at Puerto-Rico in May, 2010, where the legal research is going on, the return of the paid deposit (50 per cent) for the services of lawyers and for the ungained accounts.

**12. Other Amounts Payable**

	31-03-2011	31-12-2010
Debts to suppliers	2245	986
Prepayments from clients	2949	4536
Dividends payable	97	97
Accrued expenses	68	357
Other liabilities	1037	6
Total	5982	5982

Debts to suppliers has increased the amount of fuel and lubricants, which were paid in April.

**13. Sales**

Sales revenue, LTL thousand	31-03-2011	31-03-2010	%
Income from time charter	14526	11882	122,3
Other income from time charter	-	-	
Income from short-term freight contracts	2766	981	281,9
Other income	592	154	384,4
Total:	17884	13017	137,4

Freight income of short-term charter parties in 2011 increased, since the company has been operating M/V "Alka" and m/v "Venta" by itself, earning any and all income.

**15. Cost of sales**

	31-03-2011	31-03-2010	%
Crew expenses	4288	4512	95,0
Depreciation	6440	6597	97,6
Repair expenses	693	3122	22,2
Spare parts	1408	1862	75,6
Ship funkcional expenses	960	1087	88,3
Fuel	1571	1006	156,2
Lubricants	530	533	99,4
Insurance	952	939	101,4
Broker, address commission	528	457	115,5
Port charges and taxes	586	428	136,9
Other ships expenses	853	729	117,1
Total:	18.809	21.272	88,4

Decrease in crew cost during the accounting period of 2011 as compared with 2010 was determined by a smaller number of the vessels.



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Increase in fuel cost in 2011 was determined by the fact that M/V "Alka" was hired under short-term charter parties and that the company has been operating the vessel by itself.

**15. Administrative expenses**

	31-03-2011	31-03-2010	%
Employee expenses	882	803	109,8
Amortization and depreciation	52	52	100,0
Premise maintenance	33	39	84,6
Transport expenses	19	23	82,6
Business maintenance expenses	30	25	120,0
Communication services	20	33	60,6
Bank services	37	50	74,0
Consulting, legal services	24	6	400,0
Asset insurance and insurance franchise	58	18	322,2
Other expenses	61	76	80,3
Total:	1216	1125	108,1

**16. Other operating income**

	31-03-2011	31-03-2010	%
Income from sale of non current assets	-	9963	-
Remaining value of sold tangible assets	-	18123	-
Net income from sale of non current assets	-	(8160)	-
Other operating income, net	39	(8155)	-
Total :	39	(8155)	-

**17. Financing and Investing Activities**

	31-03-2011	31-03-2010	%
Received interests	-	-	-
Positive effect of changes in currency exchange rates	3973	-	-
Paid interests	(545)	(488)	-
Negative effect of changes in currency exchange rates		(4326)	-
Total:	3428	(4814)	-

**18. Profit (Earnings) per Share**

Profit per share is calculated by dividing net profit (loss) of the period, belonging to the holders of shares (1325438 LTL), by the number of ordinary shares – 200901296 – in the end of the period.

**19. Cash Flow Statement**

Cash for the period ended (31/03/2011) totaled 1452 thousand LTL and since the beginning of the year increased by 615,0 thousand LTL.

**20. Statement of Changes in Equity**

Owner's equity for the year ended 31 March, 2011 amounted to 164375 thousand LTL and, as compared to the beginning of the period, decreased by 1325 thousand LTL due to 1325 thousand LTL profit in the accounting period.

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**21. Related Party Transactions**

The persons associated with the company are members of board, general director, director of chartering department, technical director, financial director, chief accountant and their family members.

**22. Segments**

The Company operates in one business segment. Geographical segments are not separated.

**23. Capital management policy**

To manage and maintain the capital structure the Company might sell the assets in order to reduce the debts.

**Liability – equity ratio**

	<u>31-03-2011</u>	<u>31.12.2010</u>
<b>Total liabilities</b>	78.961	85.521
Less the cash and cash equivalents	1.452	2.067
<b>Liabilities in net amount</b>	77.509	83.454
<b>Total equity</b>	164.376	163.050
Plus the subordinated debt instruments		
Less the change in fair value of assurance instruments recognized in the equity		
Adjusted equity capital	164.376	163.050
<b>Liability – equity ratio</b>	<b>0,47</b>	<b>0,51</b>

Liability – equity ratio decreased due to the increased in the equity and reduced debt.

**24. Financial means**

**Credit risk**

Credit risk or risk of default of the partners is controlled by applying credit terms and procedure control. Residual value of financial asset reflects maximum credit risk, which as of the date of financial statement was as follows:

	<b>31.03.2011</b>	<b>31.03.2010</b>
Prepayments	1.319	2422
Trade receivables	1333	2176
Accumulated income and other amounts receivable	2305	3227
Less the doubtful amounts receivable	-	-
Cash and cash equivalents	2067	1452
<b>TOTAL:</b>	<b>7.946</b>	<b>8.355</b>

**Liquidity risk**

The company, with a view to avoid the liquidity risk, 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 has not approved a liquidity index to aspire to; however, the management shall aim at keeping the

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balance between unattractiveness and flexibility of financing. Liquidity indexes of the company are exhibited in Note 25. The company does not have financial asset.

**Currency rate, interest rate, and other risks**

Transactions of the company take place in Euros, US dollars, and Litas, therefore, there is a risk of currency rate fluctuation and exchange.

The loans of the company are taken in US dollars with a variable interest rate. Interest rate is not high and does not have major effect on the activities of the company.

**Future cash flows**

Book value of the asset (vessels) currently covers any and all benefits in cash, since the asset (vessels) is prepared and continuously used to earn income (with the exception of scheduled repairs).

**25. Financial indexes**

	Calculation	31.03.2011	31.12.2010
Gross debt rate	$\frac{\text{Total liabilities}}{\text{total assets}}$	0,32	0,34
Gross solvency rate	$\frac{\text{Equity capital}}{\text{Total liabilities}}$	2,08	1,91
Gross profitability	$\frac{\text{Gross profit}}{\text{Sales and services}}$	-0,05	-0,63
Rate of gross current solvency (gross liquidity)	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0,39	0,29

Maximum income risk constitutes risk of amounts receivable. The company has introduced the following income policy – the buyers shall pay in advance for shipping services.

The loan of the company constitutes the loans with a variable interest rate related to 6 months USD LIBOR.

**26. Unclassified assets and liabilities**

The legal research of the case due to the compensation of the material and non-material loss, the sum of the claim is 411 thousand LTL. The claim was started due to the death of the captain of the company J.Smirnov in 2005.

The company has not provided guarantees and vouchers.

General Director

Arvydas Bogočionkas