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Independent auditor's report to the shareholders of Public Company Lithuanian Shipping Company

Report on the financial statements

We have audited the accompanying financial statements of the Public Company Lithuanian Shipping Company ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information, as set out on pages 6-42.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Public Company Lithuanian Shipping Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.




Emphasis of Matter

Without qualifying our audit opinion, we draw attention to Note 26 of the accompanying financial statements, explaining that as at 31 December 2012 current liabilities reported by the Company its financial statements exceeded current assets by 35 million LTL (as at 31 December 2011: current liabilities exceeded current assets by 42 million LTL). This circumstance indicates significant uncertainty leading to doubts regarding the Company's ability to continue as a going concern. The ability of the Company to meet its obligations in 2013 and to continue as a going concern depend on whether the Company will earn sufficient cash flows from its main activity, adequate cash inflows from planned disposal of certain vessels and negotiations with the bank on rescheduling repayments of the loan mentioned in note 7.

Report on other legal and regulatory requirements

Furthermore, we have read the Annual Report of Public Company Lithuanian Shipping Company for the year ended as at 31 December 2012, set out on pages 43-77 of the financial statements, and have not identified any material inconsistencies between the financial information included in the Annual Report and the financial statements of Public Company Lithuanian Shipping Company for the year ended 31 December 2012.

On behalf of KPMG Baltics, UAB



Domantas Dabulis
Partner, pp
Certified Auditor

Klaipėda, the Republic of Lithuania
26 March 2013

**Public Company Lithuanian Shipping
Company**

Financial statements for the
year ended 31 December 2012

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Company details

Public Company Lithuanian Shipping Company

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Supervisory Council

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

Board of Directors

Saulius Girdauskas
Andrius Šniuolis
Eglė Vyšniauskaitė
Mindaugas Utkevičius
Stepas Telešius

Auditor

KPMG Baltics, UAB

Banks

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

Management's statement on the financial statements

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

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

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

Klaipėda, 26 March 2013

On behalf of the Board:

Audronis Lubys
General Director



Arvydas Stropus
Chief Accountant



Statement of financial position

As at 31 December 2012

	Note	31-12-2012	31-12-2011	01-01-2011
			Restated	Restated
Intangible assets	2	8	15	39
Tangible assets	1	195.780	210.378	260.968
<i>Total non-current assets</i>		<i>195.788</i>	<i>210.393</i>	<i>261.007</i>
Inventories	3	5.135	2.437	1.307
Prepayments	3	867	1.431	1.319
Trade receivables	4	2.385	750	3.087
Other receivables	4	163	191	173
Cash and cash equivalents	5	369	1.793	2.067
<i>Total current assets</i>		<i>8.919</i>	<i>6.602</i>	<i>7.953</i>
<i>Total assets</i>		<i>204.707</i>	<i>216.995</i>	<i>268.960</i>
Share capital	6	200.901	200.901	200.901
Legal reserve		-	-	18.453
Other reserves		-	-	-
Retained profit (loss)	23	(79.087)	(62.320)	(34.615)
<i>Total equity</i>	18	<i>121.814</i>	<i>138.581</i>	<i>184.739</i>
Non-current employee benefits	8	305	200	-
Payables to credit institutions	7	38.286	30.050	53.184
<i>Total non-current liabilities</i>		<i>38.591</i>	<i>30.250</i>	<i>53.184</i>
Current part of non-current loans	7	18.112	36.553	22.818
Trade payables	10	16.560	5.468	1.306
Received prepayments	10	5.174	3.266	4.536
Employment related liabilities	9	3.496	1.930	1.850
Income tax liabilities	17	66	66	67
Other payables	10	894	881	460
<i>Total current liabilities</i>		<i>44.302</i>	<i>48.164</i>	<i>31.037</i>
<i>Total shareholders' equity and liabilities</i>		<i>204.707</i>	<i>216.995</i>	<i>268.960</i>

The notes set out on pages 10-42 form an integral part of these financial statements.

General Director

Chief Accountant

Audronis Lubys

Arvydas Stropus

Statement of comprehensive income
 As at 31 December 2012

	Note	31-12-2012	31-12-2011 Restated
Sales	12	83.874	78.169
Cost of sales	13	(89.202)	(85.981)
Gross result		(5.328)	(7.812)
Administrative expenses	14	(4.657)	(5.848)
Impairment of vessels	1	(5.750)	(29.119)
Distribution expenses		(8)	(22)
Other operating income	15	187	194
Other operating expenses	15	(3)	(53)
Operating result		(15.559)	(42.660)
Financial income	16	1.054	5
Financial expenses	16	(2.196)	(3.437)
Net financial expenses		(1.142)	(3.432)
Profit (loss) before tax		(16.701)	(46.092)
Income tax expenses	17	(66)	(66)
Profit (loss) for the year		(16.767)	(46.158)
Other comprehensive income, net of income tax		-	-
Total comprehensive income		(16.767)	(46.158)
Basic and diluted earnings (loss) per share (in litās)	18	(0,08)	(0,23)

The notes set out on pages 10-42 form an integral part of these financial statements.

General Director

Chief Accountant

Audronis Lubys

Arvydas Stropus

Statement of changes in equity

As at 31 December 2012

	Share capital	Legal reserve	Other reserves	Retained profit (loss)	Total
Balance as at 31-12-2010 (Restated)	200.901	18.453		(34.615)	184.739
Net profit (loss) for 2011 (restated)				(46.158)	(46.158)
Used reserves		(18.453)		18.453	
Balance as at 31-12-2011 (Restated)	200.901			(62.320)	138.581
Net profit (loss) for 2012				(16.767)	(16.767)
Used reserves					
Balance as at 31-12-2012	200.901			(79.087)	121.814

The notes set out on pages 10-42 form an integral part of these financial statements.

General Director

Chief Accountant



Audronis Lubys

Arvydas Stropus

Statement of cash flows
As at 31 December 2012

	Note	31-12-2012	31-12-2011 Restated
Cash flows from operating activity			
Profit (loss) for the period		(16.767)	(46.158)
Adjustments for:			
Depreciation and amortization	1, 2	19.648	25.824
Effects of exchange rate changes on loans	7	(1.376)	938
Gain (loss) on disposal and write down of property, plant and equipment		-	(7)
Impairment losses on vessels	1,23	5.750	29.119
Interest income/expenses, net	16	2.196	2.071
Income tax expense	17	66	66
Operating cash flows before changes in working capital		9.517	11.853
Decrease (increase) in receivables	4	(1.043)	2.207
Increase (decrease) in payables	8,9,10	10.187	3.028
Decrease (increase) in inventories	3	(2.698)	(1.129)
Cash flows generated from operating activities		15.963	15.959
Income tax paid		(66)	(66)
Net cash flows from operating activities		15.897	15.893
Cash flows from investing activities			
Acquisitions of non-current assets	1,2	(6.295)	(3.815)
Disposals of non-current assets		-	57
Received dividends and interest		-	5
Net cash flows from investing activities		(6.295)	(3.753)
Cash flows from financing activities			
Interest paid	16	(2.196)	(2.076)
Dividends paid to shareholders		-	(1)
Repayments of loans	7	(8.829)	(10.336)
Net cash flow from financing activities		(11.025)	(12.413)
Change in cash and cash equivalents		(1.424)	(273)
Cash and cash equivalents at 1 January		1.793	2.066
Cash and cash equivalents at 31 December	5	369	1.793

The notes set out on pages 10-42 form an integral part of these financial statements.

General Director

Chief Accountant

Audronis Lubys

Arvydas Stropus

Notes to financial statements as at 31 December 2012

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 2012 there were 341 employees in the Company, 30 of them worked in management divisions and 311 in the fleet.

The shareholder structure as at 31 December 2012 was as follows:

	31-12-2012		31-12-2011	
	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)	11.275.992	5,61	11.360.607	5,65
DFDS TOR LINE A/S	11.108.420	5,53	11.108.420	5,53
Other minor shareholders	64.683.884	32,20	64.599.269	32,16
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 25 March 2013. The shareholders of the Company have the right to reject these financial statements and request for the new ones to be issued.

Basis of measurement

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 1 *Property, plant and equipment*).

- Useful lives of vessels

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

- Going concern assumption

For preparation of the financial statements as at 31 December 2012, the Company decided to apply the going concern principle. Judgments and estimates are presented in note 26.

Basis of preparation (cont'd)

Use of judgements and estimates (cont'd)

- Decision on selection of functional currency

Considering the structure of revenue 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.

Accounting principles as set out below are consistent with those used in the previous year, except for those accounting principles which have been changed due to amendments to previously effective IFRS or enforcement of the new IFRS as of 1 January 2012.

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 = 2,6060 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.

Significant accounting principles (cont'd)

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.

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.

Significant accounting principles (cont'd)

Financial instruments (cont'd)

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.

(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 to the 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.

Significant accounting principles (cont'd)

Financial instruments (cont'd)

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.

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 equipment 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 straight-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).

Significant accounting principles (cont'd)

Property, plant and equipment (cont'd)

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 straight-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.

Significant accounting principles (cont'd)

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 2012 and 2011.

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

Segment reporting

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

Sales

The income earning moment is the moment of supplying services when it is probable that the Company will receive economic benefits from the transaction, and the revenue amount can be reliably estimated. Income from sale of goods and services is recognized at 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.

Significant accounting principles (cont'd)

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.

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.

Significant accounting principles (cont'd)

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.

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	31-12-2012	31-12-2011
Prepayments	867	1.431
Trade receivables	2.385	750
Other receivables	163	191
Cash and cash equivalents	369	1.793
Total:	3.784	4.165

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 22.

Significant accounting principles (cont'd)

(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	31-12-2012	31-12-2011
Prepayments	249	349
Trade receivables	918	52
Other receivables	18	27
Cash and cash equivalents	21	653
Trade payables	(3.350)	(1.043)
Financial liabilities	(21.642)	(24.951)
Net exposure	(23.786)	(24.913)

There are no other material monetary items denominated in 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	31-12-2012	31-12-2011
Increase in currency exchange rate	10%	10%
Profit (loss)	6.199	6.650
Decrease of currency exchange rate	(10%)	(10%)
Profit (loss)	(6.199)	(6.650)

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 2012 the effective interest rate varied from 3.31% to 3.39% (in 2011 – 2.90% to 3.33%).

Significant accounting principles (cont'd)

(c) Financial risk factors (cont'd)

Interest rate risk (cont'd)

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 2012 and 2011 would change as indicated in table:

2012	Increase/ (-) decrease, %	Effect on net result
USD	1 %	(216)
USD	-1 %	216
2011	Increase/ (-) decrease, %	Effect on net result
USD	1 %	(250)
USD	-1 %	250

(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 2012 and 31 December 2011.

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.

Significant accounting principles (cont'd)

Approved, but not yet effective standards and interpretations

New and revised International Financial Reporting Standards and interpretations have been issued, which will be effective for financial reporting periods starting from 1 January 2013 or later. The Company has decided not to early adopt the new standards and interpretations.

Estimates of the possible effect of the new and revised standards applied for the first time, as presented by the Company's management, are stated below.

- 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.

- IFRS 10 *Consolidated Financial Statements* and IAS 27 (2011) *Separate Financial Statements* (effective for annual periods beginning on or after 1 January 2013).

The Company does not expect the new standard to have any impact on the financial statements, as it has no investees and does not prepare consolidated financial statements.

- IFRS 11 *Joint Arrangements* (Effective for annual periods beginning on or after 1 January 2014). The standard supersedes and replaces IAS 31, *Interest in Joint Ventures*. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new Standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement;
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out from IAS 31 jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in its consolidated financial statements.

The Company does not expect the new Standard will have a material impact on the financial statements since it is not a party to any joint arrangements.

- IFRS 12 *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2014). The standard requires additional disclosures relating to significant judgments and assumptions made in determining the nature of interests in an entity or arrangement, interests

Significant accounting principles (cont'd)

Approved, but not yet effective standards and interpretations (cont'd)

in subsidiaries, joint arrangements and associates and unconsolidated structured entities.

The Company does not expect the new Standard will have a material impact on the financial statements.

- IFRS 13 *Fair Value Measurement* (effective prospectively for annual periods beginning on or after 1 January 2013). The standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains 'how' to measure fair value when it is required or permitted by other IFRSs.

The standard does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The standard contains an extensive disclosure framework that provides additional disclosures to existing requirements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income.

The entity does not expect IFRS 13 to have material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

- Amendments to IAS 1 *Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (Effective for annual periods beginning on or after 1 July 2012). Amendments:
 - require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections;
 - change the title of the *Statement of Comprehensive Income* to *Statement of Profit or Loss and Other Comprehensive Income*, however, other titles are also allowed to be used.

The amendments are not relevant to the Company's financial statements as it does not have any other comprehensive income.

- 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.

Significant accounting principles (cont'd)

Approved, but not yet effective standards and interpretations (cont'd)

- IAS 28 (2011) *Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2014. Earlier application is permitted if IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011) are also applied early.). There are limited amendments made to IAS 28 (2008):

Associates and joint ventures held for sale. IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

- *Changes in interests held in associates and joint ventures.* Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured.

The entity does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

- *Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2014). The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The Amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The entity 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.

- *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.

Notes to the financial statements

1 Property, plant and equipment

Items thousand LTL	Buildings and plant	Machinery and equipment	Vessels (Restated)	Other vehicles	Repair of vessels	Other non-current assets	Not finished repair of vessels	Total
Acquisition cost								
Balance as at 31 December 2010	3.672	791	453.374	250	19.006	519		477.612
Acquisitions		34	284	165	3.125	21	751	4.380
Disposals and write downs (-)				(118)		(2)		(120)
Reclassifications		(18)	18					
Balance as at 31 December 2011	3.672	807	453.676	297	22.131	538	751	481.872
Acquisitions		59	47		10.677	7		10.790
Written down (-)		(72)	(4)		(9.754)			(9.830)
Reclassifications		(52)	52		751		(751)	
Balance as at 31 December 2012	3.672	742	453.771	297	23.805	545		482.832
Revaluation/impairment								
Balance as at 31 December 2010			(64.438)					(64.438)
Impairment			(29.119)					(29.119)
Balance as at 31 December 2011			(93.557)					(93.557)
Impairment			(5.750)					(5.750)
Balance as at 31 December 2012			(99.307)					(99.307)
Accumulated depreciation								
Balance as at 31 December 2010	457	706	136.076	156	14.421	390		152.206
Depreciation for the period	50	70	21.164	28	4.435	53		25.800
Disposals and write downs (-)				(68)		(1)		(69)
Reclassifications		(20)	20					
Balance as at 31 December 2011	507	756	157.260	116	18.856	442		177.937
Depreciation for the period	196	38	14.258	40	5.061	45		19.638
Written down (-)		(72)	(4)		(9.754)			(9.830)
Reclassifications		(51)	51					
Balance as at 31 December 2012	703	671	171.565	156	14.163	487		187.775
Carrying amounts								
At 31 December 2010	3.215	85	252.860	94	4.585	129		260.968
At 31 December 2011	3.165	51	202.859	181	3.275	96	751	210.378
At 31 December 2012	2.969	71	182.869	141	9.642	58		195.780

1 Property, plant and equipment (cont'd)

At the end of the financial year the Company's property, plant and equipment comprised 11 vessels, an administration building, vehicles, machinery and equipment. The depreciation of vessels, equipment and machinery and other tangible assets on vessels was recognised under cost of sales. The depreciation of the building, other vehicles, equipment and machinery and other tangible assets on shore was recognised under administrative expenses.

thousand LTL	2012-12-31	2011-12-31
Depreciation (including repairs) recognised under cost of sales	19.363	25.643
Depreciation recognised under administrative expenses	275	157
Amortisation of intangible assets recognised under administrative expenses	10	24
Total:	19.648	25.824

All the vessels have been pledged to secure the bank loans (note 7).

As at 31 December 2012 the Company performed an evaluation with the purpose to determine whether the value of the vessels, presented in the statement of financial position as at 31 December 2012, is not impaired.

When performing an impairment test on each vessel separately, its recoverable amount is being compared to the carrying amount. The recoverable amount of a vessel is the higher of the value in use and the fair (sales) value. If the recoverable amount is lower than the carrying amount, the latter is decreased to the lower amount.

The fair value of vessels is determined based on valuations performed by external appraisers.

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

- Cash flows are forecasted for each vessel individually for the seven-year period at the end of which the residual value of vessels is determined. This value is calculated using the linear method taking into account the change in market value over the remaining technical service life of the vessel.
- Revenue from vessels is calculated using the actual historical data, many years of experience and economists' forecasts. An anticipated increase in revenue for 2013 and subsequent periods is 5 – 8 % in average, resulting from an increase in freight margins. For vessels of lower tonnage (up to 10.000 DWT) the anticipated annual growth of revenue is 5 %, for larger vessels (over 10.000 DWT) – 7 - 8 %.
- Number of working days: 5 days of off-hire per year are intended for all vessels where repair is not planned, if the vessel is in inspection of SS (called special survey) – 30 days off-hire, if the vessel is in inspection of DS (called dock survey) – 25 days off-hire.
- In 2013 the vessel costs are calculated based on the vessel costs actually incurred in 2012, and on the forecasts of *Drewry publishing research* which anticipate an annual increase in vessel costs by 2 - 3 %.
- No additional investments are being planned for the vessels, except for those needed to maintain a proper condition of the vessels.
- No unscheduled costs in relation to repair of vessels have been planned for the whole forecasted period.
- Discounting of cash flows is based on the weighted average capital cost rate (WACC) assuming that the proportion of equity and borrowings over the forecasted period will be 70% and 30% respectively. Therefore, the calculated weighted average capital cost rate is 8.15%.

1 Property, plant and equipment (cont'd)

The impairment test on the vessels revealed that recoverable amount of some vessels is lower than their carrying amount stated in the financial statements. Therefore, as at 31 December 2012, an impairment of 5.75 million Litas was recorded for the vessels Asta“, „Audrė“, „Akvilė“, „Daina“, „Alka“, „Deltuva“, „Voruta“ and „Venta“.

Calculation of the recoverable amount is especially sensitive to projected revenue levels. If the forecasted annual revenue amount decreases by 5%, the value in use of certain vessels would become lower than the value presented in the financial statements as at 31 December 2012, and thus the Company would have to recognise larger impairment.

Sensitivity analysis of the recoverable amount of the vessels is presented below:

Decrease in projected revenue level in 2013- 2018, %	Estimated approximate impairment to be recognised, in thousand LTL
Decrease in revenue by 5 %	18.665
Decrease in revenue by 10 %	34.351

2 Intangible assets

Items Thousand LTL	Software	Total
Acquisition cost		
31 December 2010	387	387
31 December 2011	387	387
Additions	3	3
Write-offs	-	-
31 December 2012	390	390
Accumulated amortisation		
31 December 2010	348	348
Amortisation for the period	24	24
31 December 2011	372	372
Amortisation for the period	10	10
31 December 2012	382	382
Carrying amounts		
31 December 2010	39	39
31 December 2011	15	15
31 December 2012	8	8

Intangible assets are amortised over 3 years.
 Amortisation charge is provided in administrative expenses.

3 Inventories and prepayments

thousand LTL	31-12-2012	31-12-2011
Fuel on vessels	4.796	1.899
Spare parts, materials	166	374
Food supplies on vessels	173	164
<i>Total inventories:</i>	<i>5.135</i>	<i>2.437</i>
Prepayments	867	1.431
Total:	6.002	3.868

As at 31 December 2012 fuel on vessels amounted to 4.796 thousand LTL. Inventory balances increased as at 31 December 2012 as the vessels started operating under short-term contracts, where the Company itself purchases fuel.

There were no revaluations of inventories to net realisable value as at 31 December 2012 and 2011.

Prepayments as at 31 December 2012 comprise: 53 thousand LTL - prepayments made (for spare parts, supplies and repair), 640 thousand LTL – prepayments for insurance, subscription and etc. , and 174 thousand LTL - prepayments to ship agents.

4 Trade and other receivables

thousand LTL	31-12-2012	31-12-2011
Trade receivables	3.524	1.889
Impairment (-)	(1.139)	(1.139)
Trade receivables, net	2.385	750
Receivable from the budget	59	31
Prepayments to vessels	95	143
Other	9	16
<i>Total other receivables</i>	<i>163</i>	<i>191</i>
Total:	2.548	941

As at 31 December 2012 trade receivables amounted to 2.385 thousand LTL, out of which 2.323 thousand LTL represent current trade receivable amounts for vessel services, and 62 thousand Lt for communication and other services.

thousand LTL	Outstanding balance	Not overdue amounts, on which no impairment has been recognised	Overdue amounts, on which no impairment has been recognised			
			Overdue up to 30 days	Overdue from 31 to 60 days	Overdue from 61 to 90 days	Overdue more than 91 days
31-12-2012	2.385	1.721	282	51	70	261
31-12-2011	750	675	-	75	-	-

As at 31 December 2012 the management performed an evaluation of receivable amounts. Based on the payments received after the reporting date and historical data on settlements of the Company's clients, no impairment on receivables has been recognised. As to the management's estimation, there are no indications showing that the past due receivables as at the reporting date will not be paid.

5 Cash and cash equivalents

thousand LTL	31-12-2012	31-12-2011
Cash at bank in national currency	30	32
Cash at bank in foreign currencies	329	1.732
Cash on hand in national currency	5	4
Cash on hand in foreign currencies	5	25
Total:	369	1.793

As at 31 December 2012 cash on hand and at bank accounts comprised 21 thousand USD, 81 thousand EUR and 35 thousand LTL.

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

6 Authorised capital

thousand LTL	Authorised capital	Share premium	Total
As at 31 December 2011	200.901	-	200.901
New emission of shares	-	-	-
Acquisition of own shares	-	-	-
As at 31 December 2012	200.901	-	200.901

The authorized capital of the Company at 31 December 2012 comprised 200.901.296 ordinary shares at par value of 1 LTL each. All shares are fully paid. . Holders of ordinary shares have one vote per share at the general meeting of shareholders of the Company and are entitled to receive dividends when they are declared and the right to return the capital in case of capital reduction.

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

Legal reserve

Legal reserve is formed in accordance with Lithuanian legislation. Annual allocations of not less than 5% from the net profit should be made to the legal reserve until the reserve makes up 10% of the share capital. The reserve can be used to cover the accumulated losses.

7 Financial liabilities to credit institutions

thousand LTL	31-12-2012	31-12-2011
Payable after one year	38.286	30.050
Payable within one year	18.112	36.553
Total:	56.398	66.603
Loan balances in the beginning of the year	66.603	76.002
Loans received	-	-
Loans repaid	(8.829)	(10.337)
Currency exchange differences	(1.376)	938
Total:	56.398	66.603

All financial liabilities to the bank are secured by pledging the Company's property, which includes 11 vessels with the carrying amount of 182.869 thousand LTL as at 31 December 2012.

The total outstanding loan balance as at 31 December 2012 amounts to 56.398 thousand LTL. On 16 March 2012 the Company signed with the bank an amendment to the loan agreement on the new loan repayment schedule. After amendment of the loan repayment terms, all loan payments were carried out as to the new Schedule. The loan shall be repaid in instalments by 27 February 2015.

7 Financial liabilities to credit institutions (cont'd)

The loans bear variable interest rates related to 3 months LIBOR (USD). The effective interest rate in 2012 varied from 3.31 % to 3.39%.

Pursuant to the loan agreement signed with the bank, the Company shall comply with certain financial ratios, such as credit coverage ratio (DSCR), capital ratio or excess flows ratio. As at 31 December 2012 the Company complies with the mentioned financial ratios.

8 Non-current employee benefits

The Company has recorded non-current employee benefits in relation to retirement age of employees. The liability costs are included in administrative expenses in the statement of comprehensive income and in a separate item of non-current employee benefits in the statement of financial position.

thousand LTL

As at 31 December 2010	-
Change	200
As at 31 December 2011	200
Change	105
As at 31 December 2012	305

9 Employment related liabilities

thousand LTL	31-12-2012	31-12-2011
Payable salaries	1.311	415
Vacation reserve (salaries)	1.385	893
Vacation reserve (SODRA)	429	277
Payable to SODRA	369	344
Other payables	2	1
Total:	3.496	1.930

10 Payable amounts

thousand LTL	31-12-2012	31-12-2011
Payable to suppliers	16.560	5.468
Received prepayments	5.174	3.266
Payable dividends	95	96
Accrued expenses	58	115
Other	741	670
Total:	22.628	9.615

As at 31 December 2012 payable to suppliers amounted to 16.560 thousand LTL, out of which: 7.109 thousand LTL – for repair and technical supply, 6.413 thousand LTL – for fuel, 757 thousand LTL – for ship agents, 600 thousand LTL – for vessel classifying companies, 591 thousand LTL – for lubricants, 1.090 thousand LTL - for various services for vessels and onshore divisions.

As at 31 December 2012 prepayments of 5.174 thousand LTL included prepayments for voyages and deferred income.

11 Deferred income tax assets and liabilities

Since the Company in 2007 chose to pay a fixed tonnage tax, the base of which is independent of the Company's result, all temporary differences between the tax and financial reporting have disappeared. Due to this, deferred taxes do not originate in the Company.

12 Sales

thousand LTL	31-12-2012	31-12-2011
Income from Voyage-charter (short-term contracts)	43.433	30.488
Income from Time-charter (vessel lease contracts)	39.578	46.713
Other Time-charter income	766	525
Other income	97	443
Total:	83.874	78.169

Income from short-term contracts increased in 2012, compared to the previous year, because at the end of the year all vessels operated under separate voyage contracts, whereas in 2011 only two vessels m/v „Alka“ and m/v „Venta“ operated under the mentioned contracts.

13 Cost of sales

thousand LTL	31-12-2012	31-12-2011
Fuel	(21.798)	(12.084)
Crew costs	(20.181)	(17.344)
Depreciation	(19.363)	(25.643)
Port dues	(5.428)	(5.056)
Repair of vessels	(5.131)	(3.851)
Insurance	(4.495)	(3.863)
Vessel's functional expenses	(3.043)	(2.716)
Lubricants	(2.984)	(2.277)
Commissions	(2.803)	(2.720)
Spare parts	(1.412)	(4.874)
Other vessel costs	(2.564)	(5.553)
Total:	(89.202)	(85.981)

The fuel costs for 2012 amounted to 21.798 thousand. LTL. An increase was determined by the fact that at the end of the reporting period all the vessels were operating under Voyage-charter contracts.

Compared to the year 2011, the crew costs have increased and in 2012 amounted to 20.181 thousand LTL. The increase basically occurred due to enforcement of the new edition of the Collective Agreement resulting in the change of seafarers salary calculation for work on rest days, determining an increase in salaries and social security costs.

Depreciation charge has decreased due to changes in depreciation periods for vessels, their residual values and adjustments of vessel values (note 23).

14 Administrative expenses

thousand LTL	31-12-2012	31-12-2011
Staff costs	(3.001)	(3.243)
Consultation and legal services	(407)	(170)
Amortization and depreciation	(285)	(181)
Business maintenance expenses	(157)	(148)
Bank services	(130)	(140)
Communication services	(109)	(137)
Transport expenses	(106)	(114)
Maintenance of premises	(101)	(94)
Impairment of trade receivables	-	(1.113)
Other expenses	(361)	(508)
Total:	(4.657)	(5.848)

Staff costs include: salaries, business trips and daily allowances. In 2012 staff costs decreased due to the lower number of employees at the end of the reporting year (as at 31 December 2012 there were 30 employees in onshore decisions. As at 31 December 2011 – 37).

Depreciation and amortisation charge has increased due to the changed depreciation period of the administrative building as of 1 January 2012. According to estimations, the carrying amount of the building as at 31 December 2012 will be depreciated over 15 years, the residual value remaining the same (232 thousand LTL).

15 Other operating income/expenses

thousand LTL	31-12-2012	31-12-2011
Other operating income		
Proceeds on disposal of non-current assets	-	7
Other income	187	187
<i>Total other operating income:</i>	<i>187</i>	<i>194</i>
Other operating expenses		
Loss from disposal of non-current assets	-	-
Other expenses	(3)	(53)
<i>Total other operating expenses:</i>	<i>(3)</i>	<i>(53)</i>
Total:	184	141

16 Financial income/expenses

thousand LTL	31-12-2012	31-12-2011
Interest income	-	5
Gain of currency exchange rate	1.054	-
<i>Total financial activity income:</i>	<i>1.054</i>	<i>5</i>
Interest expenses	(2.196)	(2.076)
Loss of currency exchange rate	-	(1.361)
<i>Total financial activity expenses:</i>	<i>(2.196)</i>	<i>(3.437)</i>
Total:	(1.142)	(3.432)

17 Income tax expense

thousand LTL	31-12-2012	31-12-2011
Tonnage tax	(66)	(66)

In 2012 and 2011 the Company calculated a fixed income tax from gross tonnage of the operated fleet.

18 Basic 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.

Basic loss per share as at 31 December 2012 amounts to 0.08 LTL, as at 31 December 2011 the basic loss per share was 0.23 LTL.

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

19 Related parties

The related parties of the Company are: members of the Board, general director, fleet management director, technical director, chief accountant, divisional managers and their family members. In 2012 current benefits to the mentioned persons amounted to 638.5 thousand LTL (2011 - 807.4 thousand LTL).

There were no other transactions with the related parties in 2012.

20 Segments

The main operating markets of the Company are as follows:

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

The Company has two clients, from whom the revenue in 2012 made more than 10% of all the Company's revenue. In 2012 income from these clients made 32% of the total income (in 2011 – three clients, from whom generated income amounted to 77% of the total income for 2011).

20 Segments (cont'd)

As identified based on the vessel tonnage, there are three segments in the Company: „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), „Raguva“ type vessels („Raguva“, „Deltuva“, „Romuva“, „Voruta“, „Venta“, with the deadweight up to 25.000 tons).

2012

Thousand LTL	Asta	Alka	Raguva	Not attributed	Total
Voyage income	15.502	17.538	50.834	-	83.874
Voyage costs	(3.778)	(8.722)	(20.308)	-	(32.808)
Voyage result	11.724	8.816	30.526	-	51.066
Current expenses	(8.152)	(6.645)	(22.234)	-	(37.031)
Operating expenses	-	-	-	(4.380)	(4.380)
Operating result before depreciation, EBITDA	3.572	2.171	8.292	(4.380)	9.655
Impairment of vessels	(2.100)	(1.000)	(2.650)	-	(5.750)
Depreciation	(3.894)	(2.587)	(12.882)	(285)	(19.648)
Operating result, EBIT	(2.422)	(1.416)	(7.240)	(4.665)	(15.743)
Other activity result	-	-	-	184	184
Interest expenses	-	-	(2.196)	-	(2.196)
Result of currency exchange differences	-	-	1.054	-	1.054
Other activity result, net	-	-	-	-	-
Fixed income tax (tonnage)	(15)	(9)	(42)	-	(66)
Net result	(2.437)	(1.425)	(8.424)	(4.481)	(16.767)
Non-current assets of segments	39.202	13.342	130.355	-	182.899
Loan payable by segment	-	-	56.398	-	56.398
Acquisition of non-current assets	12	2	39	-	53

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

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

20 Segments (continued)

2011

Thousand LTL	Asta	Alka	Raguva	Not attributed	Total
Voyage income	11.682	16.474	50.013	-	78.169
Voyage expenses	(986)	(8.593)	(13.066)	-	(22.645)
Voyage result	10.696	7.881	36.947	-	55.524
Current expenses	(13.905)	(5.823)	(17.965)	-	(37.693)
Operating expenses	-	-	-	(5.689)	(5.689)
Operating result before depreciation, EBITDA	(3.209)	2.058	18.982	(5.689)	12.142
Impairment of vessels	(16.628)	(3.000)	(9.491)	-	(29.119)
Depreciation	(7.767)	(4.318)	(13.558)	(181)	(25.824)
Operating result, EBIT	(27.604)	(5.260)	(4.067)	(5.870)	(42.801)
Other activity result				141	141
Interest expenses	-	-	(2.076)	-	(2.076)
Result of currency exchange differences	-	-	1.361	-	1.361
Other financial activity result, net	-	-	-	5	5
Fixed income tax (tonnage (66))	(15)	(9)	(42)	-	-
Net result	(27.619)	(5.269)	(4.824)	(5.724)	(43.436)
Non-current assets of segments	44.221	15.327	143.312	-	202.860
Loan payable by segment	-	-	66.603	-	66.603
Acquisition of non-current assets	30	60	210	-	300

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

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

Public Company Lithuanian Shipping Company

Company code: 110865039, address: Malūninkų St. 3, LT-92264 Klaipėda

Financial statements for the year ended 31 December 2012

(in thousand Litas, unless stated otherwise)

21 Capital management policy

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

Debt – equity ratio

thousand LTL	31-12-2012	31-12-2011
Total liabilities:	82.893	78.414
Less cash and cash equivalents	369	1.793
Net amount of liabilities	82.524	76.621
Total equity:	121.814	138.581
Plus subordinated debt instruments	-	-
Less change in fair value of the recognized hedging instrument in equity	-	-
Adjusted equity	121.814	138.581
debt – equity ratio	0.68	0.55

22 Financial ratios

	Calculation	31-12-2012	31-12-2011
Gross debt ratio	$\frac{\text{Total liabilities}}{\text{total asset}}$	0.40	0.36
Gross solvency ratio	$\frac{\text{Total equity}}{\text{Total liabilities}}$	1.47	1.77
Gross profitability	$\frac{\text{Gross profit}}{\text{Sales and services}}$	-0.06	-0.10
Current ratio	$\frac{\text{Current asset}}{\text{Current liabilities}}$	0.20	0.14
Receivables turnover	$\frac{\text{Sales and services}}{\text{Accounts receivable}}$	35.17	104.23

The maximum credit risk implies the risk of receivable amounts. The Company has established an income policy where clients make prepayments for ship services by making contracts.

23 Correction of errors and changes in accounting policy

Taking the matters reported in the basis for qualified opinion by an independent auditor KPMG Baltics, UAB in the report issued on 16 March 2012 regarding depreciation periods of vessels and incompliance of capitalisation of repair costs related to regular inspection of the vessels with International Financial Reporting Standards, as at 30 June 2012 the Company reviewed and changed (if deemed necessary) the accounting policy of property, plant and equipment, and corrected the errors (if identified). The effect of corrections was reflected retrospectively.

The Company reviewed the acquisition cost, depreciation periods, and residual values and estimated the recoverable amount of the vessels.

The effect of changes in accounting policy and correction of errors is stated below:

Item, thousand LTL	Before adjustment as at 31-12-2011, thousand LTL	Amount of error	Restated 31-12-2011
Statement of financial position			
Property, plant and equipment	207.237	3.141	210.378
Retained earnings (loss)	(65.461)	3.141	(62.320)
Statement of comprehensive income			
Cost of sales	(96.553)	10.572	(85.981)
Impairment of vessels	-	(29.119)	(29.119)
Net loss for 2011	(27.610)	(18.548)	(46.158)

Error description	Amount of error, thousand LTL
Segregation of repair costs related to regular inspection of the vessels from acquisition cost (a)	(2.620)
Adjustment of accumulated depreciation of vessels (b)	28.838
Impairment of vessels (c)	(23.077)
Total:	3.141

(a) On initial application of the new accounting policy regarding capitalisation of vessel class inspection costs as at 1 January 2005, the Company did not account the costs related to regular inspections of the vessels as a separate component of property, plant and equipment as prescribed by IAS 16. Based on the requirements of IAS 16, the Company prepared a detailed description of the procedure on accounting of repair costs related to regular inspection of the vessels and performed an assessment of the effect of segregation of these costs from the acquisition cost of vessels as well as recorded relevant adjustments of the vessel values.

Except for the costs related to regular inspections, the acquisition cost of m/v „Alka“ was decreased by 368 thousand LTL, m/v „Raguva“ – by 1.331 thousand LTL, m/v „Romuva“ – by 382 thousand LTL, m/v „Voruta“ – by 539 thousand LTL; total adjustments amounted to 2.620 thousand LTL.

(b) Preparation of the financial statements for 2011 did not include any review of the remaining useful lives of the vessels and their residual values as prescribed by International Financial Reporting Standards. Seeking to eliminate this deficiency, the Company reviewed the useful lives and the residual values of the vessels retrospectively. The useful technical life determined for the vessels is 27 years and, based on this, useful lifetime has been determined for each vessel individually. Motor vessels up to 6.000 DWT are depreciated over 20 years, other vessels – over 25 years.

23 Correction of errors and changes in accounting policy (cont'd)

The oldest vessel of the Company – m/v „Skalva“ – is depreciated over 27 years. New residual values were calculated based on the useful lives of the vessels, provided on a straight-line basis. The estimation was made retrospectively, therefore the restatement of depreciation resulted in a decrease of accumulated depreciation charge by 28.838 thousand LTL, by which the carrying amount of the vessels was increased.

(c) After adjustment of the carrying amounts of the vessels based on determined market values and the restated values in use applying the discounted cash flow method, new recoverable amounts of the vessels were determined as at 31 December 2011. The main assumptions applied for estimation of values in use, are presented below:

1. Cash flows are projected separately for each vessel for a period of seven years (depending on the useful life of a vessel), at the end of which the terminal value of a vessel is determined. This value is calculated using a linear method, taking into account the change in the market value during the remaining technical life of the vessel.
2. The vessel revenue is determined based on factual historical data, many years of experience and economic forecasts. Income from freight decreased in 2012, compared to the year 2011. It is anticipated that an annual revenue growth for 2013-2015 will be 5 - 15 per cent, resulting from an increase in freight margins. From the year 2015, the revenue growth for smaller vessels (up to 10.000 DWT) will be slighter, and for larger vessels (above 10.000 DWT) the expected annual revenue growth is up to 10% .
3. Number of working days: 5 days downtime per year are supposed for the vessels that do not need repair, 30 days downtime are predicted for the vessels that are on a special survey repair, and 25 days downtime for the vessels on dock survey repair.
4. Costs for 2013 have been estimated based on the data of the year 2012 and subsequent economic forecasts from *Drewry publishing research*, which anticipate cost increase by 2.5 - 3 per cent per year.
5. No additional investments into vessels have been planned, except for the costs necessary for proper maintenance of the vessels.
6. Cash flows are discounted applying the average weighted capital rate, assuming that the owners capital and the leverage ratio over the period will make 65 and 35 per cent respectively. Consequently, the estimated average weighted capital rate is 7.6 per cent.

Valuation results of the vessel recoverable amount revealed an impairment of four smaller vessels (ml „Asta“, ml „Akvilė“, ml „Audra“ and ml „Daina“) by 25.2 – 30.9 per cent from the carrying amounts (including an impairment of 9.072 million LTL presented in the financial statements as at 31 December 2011). The recoverable amounts of m/v „Skalva“ and ml „Raguva“ exceeded their carrying amounts, therefore no impairment of these vessels has been recognised. Impairment of the vessels in the group over 10.000 DWT amounts to 3.6-12.2 per cent. Total impairment of the vessels makes 12.7 per cent of the vessel value.

23 Correction of errors and changes in accounting policy (cont'd)

Name of vessel	Restated carrying amount 31-12-2011, thousand LTL	Carrying amount at 31-12-2011 after valuation allowance, thousand LTL	Difference (valuation allowance), thousand LTL	Impairment in %
Asta	13.466,7	10.068,8	3.397,9	25,2%
Audrė	15.144,8	11.053,1	4.091,7	27,0%
Akvilė	15.192,8	11.171,8	4.021,0	26,5%
Daina	16.562,4	11.445,4	5.117,0	30,9%
Alka	14.059,2	11.040,9	3.018,3	21,5%
Skalva	3.662,0	3.662,0	0,0	0,0%
Deltuva	24.645,2	23.758,4	886,8	3,6%
Raguva	22.980,2	22.980,2	0,0	0,0%
Romuva	32.937,8	28.923,3	4.014,5	12,2%
Voruta	31.474,7	28.412,1	3.062,6	9,7%
Venta	39.971,2	38.461,6	1.509,6	3,8%
Total:	230.097,0	200.977,6	29.119,4	12,7%

24 Contingencies

There is an ongoing legal proceeding regarding compensation of pecuniary and non-pecuniary damage. The Company is being claimed an amount of 411 thousand LTL. The action has been raised regarding the death of captain J. Smirnovas in 2005.

There is an ongoing legal proceeding with the former employee of the Company regarding compensation of pecuniary and non-pecuniary damage; the claim amount is approximately 140 thousand LTL. The claim against the Company was raised in relation to acknowledgement of termination of the labour contract as invalid.

The tax authorities have not performed a full scope tax review of the Company for the period 2008 to 2012. According to prevailing tax legislation the tax authorities have the right to check accounting registers and records of the company for 5 years prior to the current accounting period and may charge additional taxes and penalties. The management of the Company is not aware of any circumstances due to which additional material tax liabilities could be imposed on the Company.

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

25 Fair value of financial instruments

Fair value is defined as the amount at which the instrument could be exchanged 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 and discounted cash flow models as appropriate. The Company's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings. The management of the Company is of the opinion that the carrying amounts of the financial instruments approximate their fair value, as borrowings bear an interest rate related LIBOR, and other financial assets and liabilities are short-term therefore the volatility of their fair value is not significant.

26 Going concern

As at 31 December 2012 the current liabilities, reflected in the Company's financial statements, exceed the current assets by 35 million LTL. The major part of the current liabilities, in amount of 18 million LTL represent bank loan.

In 2013 the Company is planning to sell one or two least profitable vessels. The expected proceeds from disposal of these vessels would amount to approximately 16 million LTL.

At present, the Company is negotiating with the bank regarding extension of the loan repayment terms and is expecting to reach a positive agreement with the bank in the near future.

As to estimation of the Company, the remaining current liabilities will be covered by cash flows from main activity.

The management believes that improving shipping market in the second half of 2013 will have a positive effect on the Company's stability and continuity. These financial statements have been prepared on the going concern basis. They do not reflect any adjustments, which might be required if the Company is unable to continue as a going concern.

General Director



Audronis Lubys

Chief Accountant



Arvydas Stropus



**PUBLIC COMPANY
LITHUANIAN SHIPPING COMPANY**

ANNUAL REPORT FOR THE YEAR 2012

Klaipėda, February 2013

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I. GENERAL COMPANY INFORMATION

1.1. Reporting Period Covered in the Annual Report

The Annual Report is prepared for the year 2012. In addition to the Annual Report, the Company has prepared a Set of Financial Statements for 2012, which includes the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity and Notes to the Financial Statements (Explanatory Notes). Herein, the Public Company Lithuanian Shipping Company may also be referred to as the Enterprise, the Company, the Issuer, Lithuanian Shipping Company.

1.2. Company Contact Information

Table 1

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

1.3. Shareholders of the Company

As of 16 November 2012 there were 2,261 shareholders in the Company. The shareholders who own or hold over 5 percent of the Company's authorized capital are listed in the Table 2.

Table 2

Name	Identification number	Address	Number of shares	Portion of ownership (%)
MINISTRY OF TRANSPORT AND COMMUNICATIONS OF THE REPUBLIC OF LITHUANIA	188620589	GEDIMINO PR. 17, VILNIUS, LITHUANIA	113.833.000	56,66
SWEDBANK AS (ESTONIA)	10060701	LIIVALAIA 8, 15040 TALLINN, ESTONIA	11.437.444	5,61
DFDS TOR LINE A/S	LJL1419471	SUNDKROGSGADE 11, DK-2100 COPENHAGEN, DENMARK	11.108.420	5,53

The shares of the Company grant equal rights to the owners thereof (shareholders). The competence of the General Shareholders' Meeting, property and non-property rights of the

shareholders and their realization thereof are provided in the Articles of Association of the Company and the Law on Companies of the Republic of Lithuania.

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

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

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

1.5. Data Related to Trading of Securities on Regulated Markets

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

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

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

None of the third parties has submitted an official offer to acquire the Issuer's securities. The issuer has not submitted an official offer to acquire any securities issued by a third party.

1.6. Structure of Authorized Capital

The authorized capital is equal to the total nominal value of the subscribed shares.

The authorized capital of the Company amounts to 200.901.296 Lit.

The authorized capital of the Company is divided into 200.901.296 ordinary shares at par value of 1 Lit.

All the shares of the Company are of one class – ordinary registered shares.

ISIN code – LT0000125999.

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

1.7. Information on Restrictions on Transfer of Securities

There are no restrictions on the transfer of securities.

1.8. Information on Restrictions on Voting Rights

There are no restrictions on the voting rights.

2. INFORMATION ON COMPANY'S ACTIVITIES

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

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

Strategic objectives of the Company:

- 1 *Improvement of operating efficiency:*
- 2 *Effective, secure and profitable management of vessels.*

2.2. Activities and Services Rendered by the Company

The main activity of the Company is marine and coastal water transport.

In 2012, the Company operated 11 vessels as listed in the Table 3:

Table 3

General information about vessels			
No.	Vessel	Year of construction	DWT
1	Asta	1996	5820
2	Audrė	1997	5820
3	Akvilė	1997	5820
4	Daina	1998	5820
5	Alka	1994	7346
6	Skalva	1985	9498
7	Raguva	1995	16883
8	Deltuva	1994	16906
9	Romuva	1998	17504
10	Voruta	1998	17504
11	Venta	1995	24202

An analysis of advantages and disadvantages of the motor vessels up to and above 10 thousand DWT is provided in the table below:

Table 4

	Asta, Audrė, Akvilė, Daina, Alka, Skalva	Raguva, Deltuva, Romuva, Voruta, Venta
Advantages	1. Lower need for working capital; 2. Greater possibilities to get freight under weak market conditions where freight volumes are lower; 3. More frequent voyages allow avoiding major fluctuations in the market.	1. Greater possibilities to get a more profitable voyage charter; 2. More stable and easier to forecast freight flows; 3. A more efficient operation in terms of vessel speed and fuel consumption; 4. Due to stevedoring operations a vessel stands longer in ports and the crew has enough time to attend to the vessel's technical condition.
Disadvantages	1. When the market is weak, these vessels often earn just enough to cover operational costs; 2. These vessels are less efficient in terms of speed and fuel consumption; 3. A shorter stand up in the port (the lower tonnage vessels are loaded faster) does not allow the crew to perform current technical inspections and repair of the vessel.	1. A larger vessel requires more working capital; 2. One unprofitable voyage may have impact on the annual operating result of the vessel. 3. More strict requirements for operation standards (Rightship, Port State Controls in various areas, Charterers Wetting Systems) require additional investments.

Changes in the usage of freight vessels and cargo quantities during 2010-2012 are presented below in the Table 5. During the reporting period the number of the vessels employed and their dead weight remained the same, however due to external factors the cargo quantities have decreased.

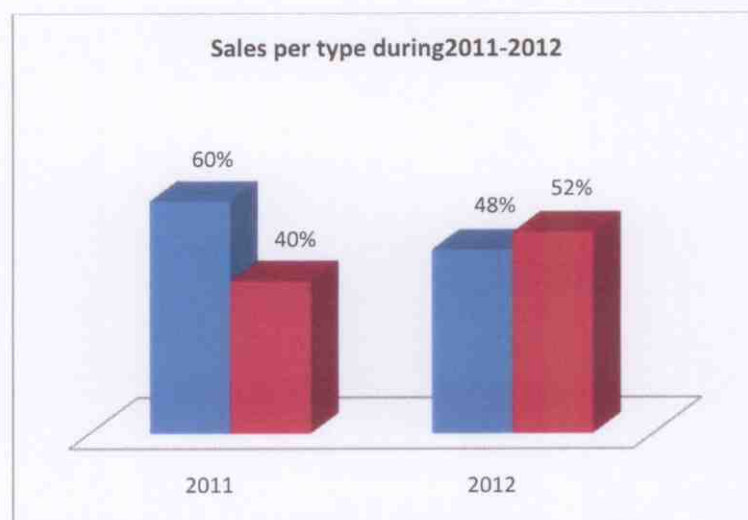
Table 5

Employment of cargo vessels and cargo quantities carried during the year

Indicator	2010	2011		2012	
	Value	Value	Change	Value	Change
Number of vessels employed	10	10,3	+3%	10,3	0%
Deadweight, thousand tons	135,17	133,4	-1,3%	133,4	0%
Cargo carried, thousand tons	1.429	1.379	-3,5%	1.157	-16,1%

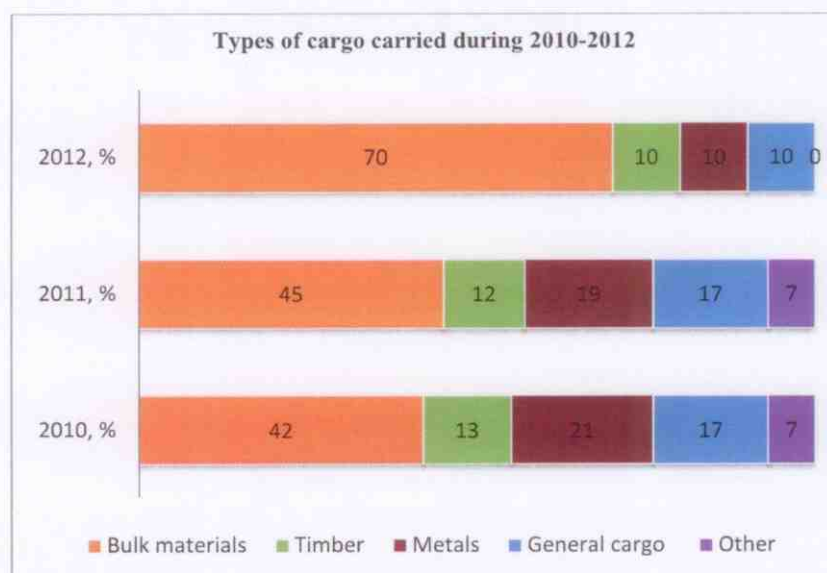
Owners employ their vessels as to *time-charter* or *voyage-charter* agreements. The Company aims to retain an optimal balance of the vessels in the market employed under *time-charter* and *voyage-charter* agreements. As the time-charter agreements ensure stability and guarantee the expected cash flows, the major part of the vessels (60-70%) are employed under such agreements. However, due to reduced volumes of freight and a sharper competition of freight transportation by sea in 2012, the revenue from the above mentioned agreements has decreased from 60 to 48 % of the total revenue (figure 1).

Figure 1



The Company's vessels have the capacity to carry approximately 65% of all cargo types in the world, i.e. general cargo, grain, coal, iron ore, chemical products. Structure of the cargo is presented below (figure 2):

Figure 2



The major portion of cargo flows consists of bulk cargo which has increased even more during the reporting period (from 45 % in 2011 to 70 % in 2012).

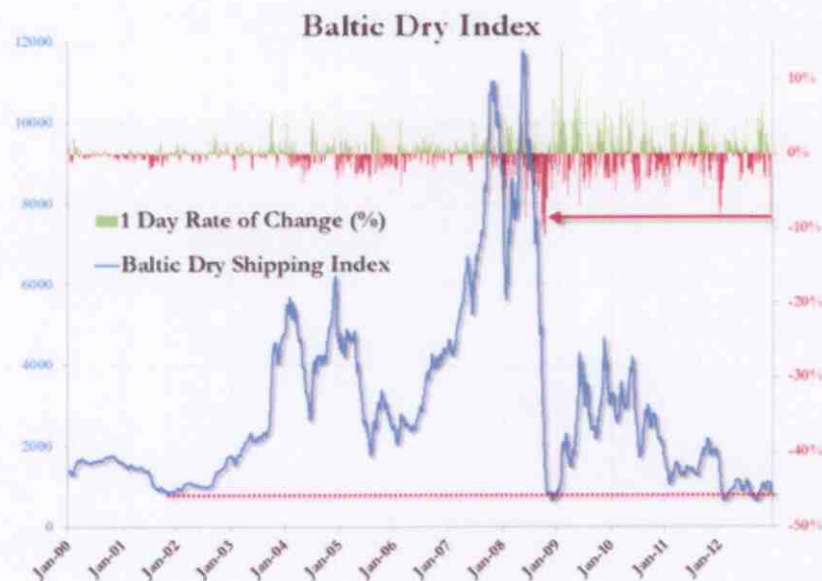
2.3. Operating Markets and Competitors of the Company

The Company is mainly operating in the following markets:

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

By the end of the reporting period, freight volumes of the dry-bulk carriers were less by 50-60%, compared to the previous period. In 2012 the market was supplemented by a solid number of new vessels with 82,8 million dwt., whereas the part of ships for demolition made 24,1 million dwt. These factors substantially influence the shipping business – at the end of 2012 the BDI index reached 669 points whereas in 2011 it was 1.783 points (figure 3).

Figure 3

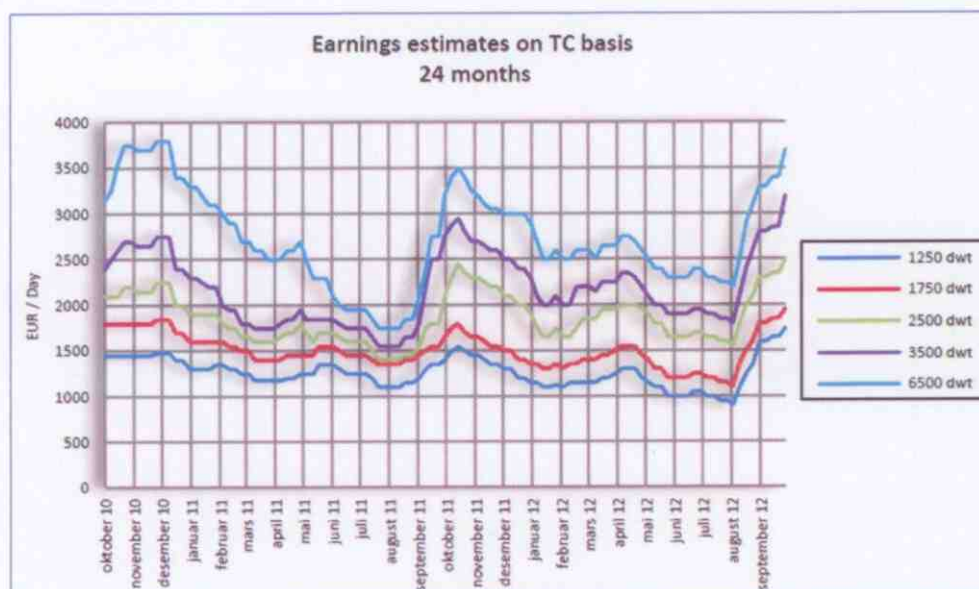


Source: The Baltic Exchange

The Company managed to avoid major losses caused by the downturn during the period as it anticipated the possibility of a downturn and in due time concluded time-charter agreements at a relatively optimal price for a period of 6-12 months. This fact guaranteed stable revenue for the Company. Motor vessels operating under *Voyage-charter* contracts were employed at an average level in the market.

One day *Time-charter* equivalent of motor vessels with a capacity up to 6.500 DWT (such as Asta, Audrè, Akvilè, Daina) amounted to 2.500-3.000 USD (figure 4).

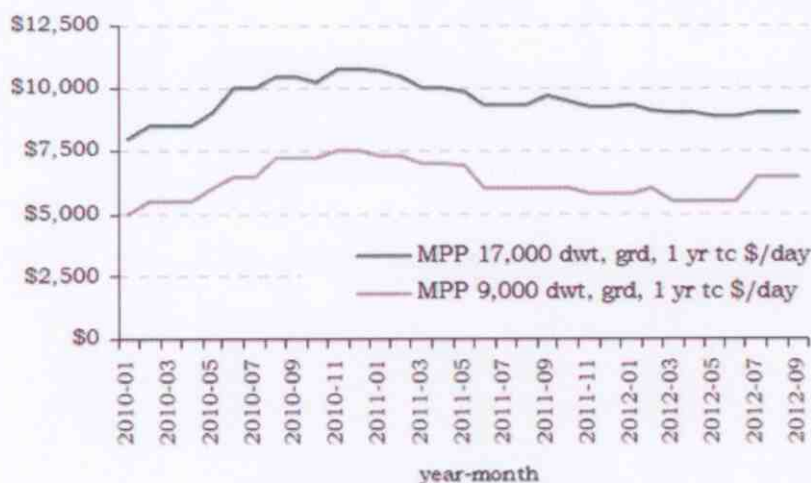
Figure 4



Source: Norbroker Shipping and Trading A/S

One day *Time-charter* equivalent of motor vessels with a capacity over 17.000 DWT (such as Deltuva, Raguva, Romuva, Voruta, Venta) amounted to 7.800 USD per day (figure 5):

Figure 5

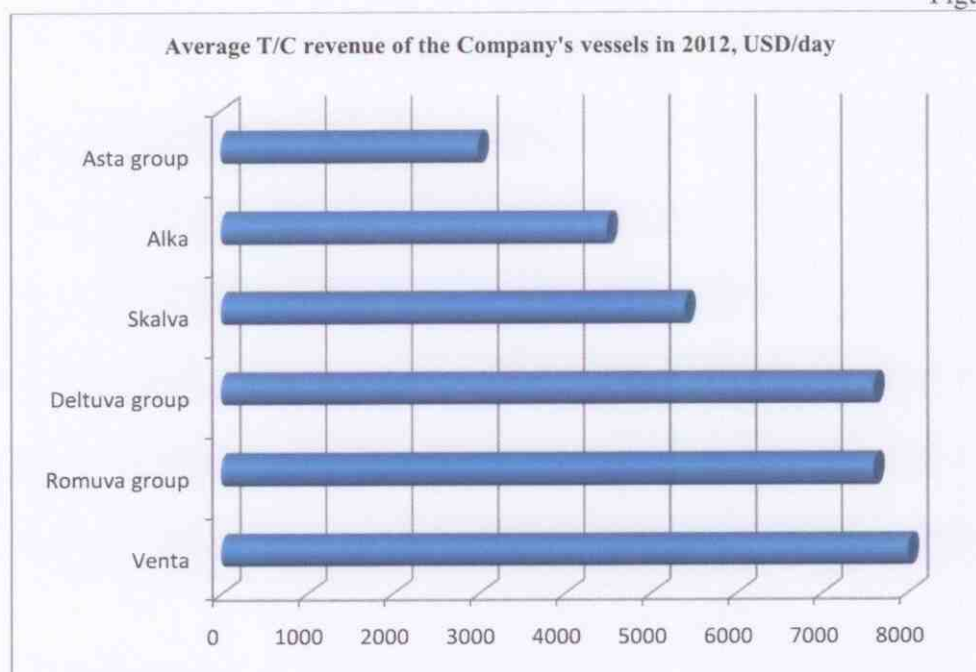


Source: Toepfer Transport GmbH

The average amounts of the Time-charter equivalents for the Company's vessels are presented in figure 6. The scheme shows that revenues of the Company's vessels were not

lower than those in the market. The Asta-type motor vessels used to earn approximately 3.000 USD per day, larger vessels – approximately 7.500 – 8.000 USD per day.

Figure 6



In 2012 the shipping market was influenced mainly by the following factors:

1. *Growth of shipped cargo volumes was slower than the growth of the fleet tonnage;*
2. *Very low demolition rate of the vessels;*
3. *Vessel conversion.*

In 2012 the gross tonnage of dry-bulk vessels in the world increased by approximately 15% due to release of new vessels in the market and the decrease in the number of demolished vessels (table 6). The most complicated situation is observed in the sectors “Capesize” and “Post-Panamax”, where an increase in tonnage for 2012 amounts to 22.1 % and 70.5 % respectively, and the fleet, by an average age, is very young. A similar situation is in the segment “Handymax/Supramax” – an increase in tonnage is 14.6%. The best situation is currently observed in the “Handysize” type segment, in which LSC operates its vessels because of an increasing number of demolished ships, the lowest number of new vessels released in the market and the decline of gross tonnage amounted to 2.5 % during the year. If the fleet tonnage continues increasing in the market, this will have a further effect on the freight volumes.

Table 6

Dry bulk fleet development in mill dwt

	Deliveries* 2012 YTD	Removals 2012 YTD	Fleet end Sep 2012	YoY in %
Capesize	34.3	9.6	266.2	22.1
Post Panamax	8.7	0.6	42.6	70.5
Panamax/Kamsarmax	16.1	3.0	137.1	5.1
Handymax/Supramax	15.9	5.8	135.7	14.6
Handysize	7.8	5.1	85.5	-2.5
Total dry bulk fleet	82.8	24.1	667.2	15.1

* Including conversions

Source: RS Platou

The vessels of 10 - 40 thousand DWT have easily survived the market fluctuations and this market segment will have the highest growth potential in the future, because that particular segment contains the oldest fleet, i.e. 30% of the vessels are older than 25 years and should be removed from the market (demolished) in the near future. Orders regarding new vessels are lower than the market average.

Table 7

SSY Fleet Database

Bulk Carrier Fleet, as at end September 2012												
Existing	10-39,999		40-59,999		60-99,999		100-219,999		220,000+		Total	
	No.	MDWT	No.	MDWT	No.	MDWT	No.	MDWT	No.	MDWT	No.	MDWT
Pre-1988	882	24.0	245	10.8	148	9.9	20	3.4	6	1.8	1,301	49.9
1988/92	118	3.2	97	4.3	119	8.6	77	12.1	33	8.7	444	36.9
1993/97	311	7.9	307	14.1	277	19.9	170	27.2	39	11.0	1,104	80.2
1998/02	295	7.9	341	16.7	357	26.8	116	19.6	3	0.7	1,112	71.6
2003/2007	307	8.6	428	22.8	388	30.5	226	40.8	6	1.5	1,355	104.2
2008/12	1,063	32.7	1,190	66.7	939	76.3	722	124.5	88	26.4	4,002	326.6
Total	2,976	84.2	2,608	135.5	2,228	172.0	1,331	227.6	175	50.0	9,318	669.4
New buildings												
2012	108	3.3	127	6.8	218	17.2	53	9.1	13	4.3	519	40.8
2013	228	7.6	167	9.1	332	25.8	104	18.9	21	7.0	852	68.3
2014+	109	3.8	45	2.4	128	10.0	30	5.6	8	2.1	320	23.8
Total	445	14.6	339	18.3	678	52.9	187	33.7	42	13.4	1,691	132.9

Source: SSY

Another advantage of the segment is that it does not contain big companies governing the major part of the market. Most often 4 to 7 vessels of the size operated by LSC, are engaged in the markets, in which the Company operates. This allows to name such competition existing in the market as „perfectly competitive“. The main competitors of the Company, operating the vessels of similar type and age, are listed below (as to information received from brokers and the World Vessel Register):

1. “Wagenborg” – Holland, 16 MPP expensive and specially equipped vessels of 15000-20000 DWT capable to transport containers and non-standard cargo;
2. “BBC Chartering” – Germany, 23 MPP vessels of 15000-25000 DWT capable to transport non-standard, big-size and big-weight cargo;
3. “Spliethoff” – Holland, 28 MPP vessels of 15000-20000 DWT capable to transport containers, non-standard semi-heavy cargo;
4. “Hansa Heavy Lift”, Germany – 12 MPP vessels of 15000-17000 DWT capable to transport cargo of non-standard size and weight.
5. Hellas Marine Services Ltd – 8 vessels of 18000 DWT, which are very similar to the Company's vessels.

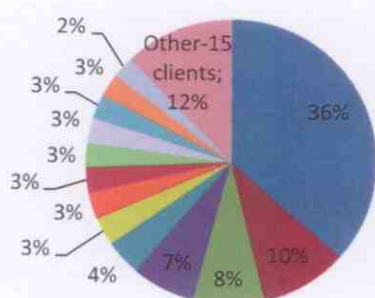
Other companies carry cargo in the markets in which the Company does not operate, therefore they are not considered as competitors.

2.4. Company's Customers and Their Main Groups

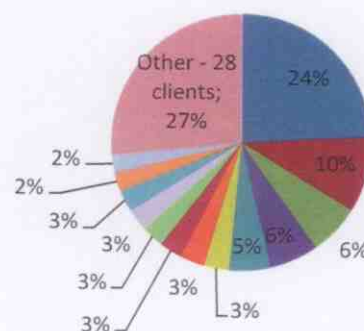
The main clients of the Company are charterers with whom the Company has a rather long-term cooperation. Changes in the client structure during 2011-2012 are presented in the diagrams below. In 2011 the Company had 28 clients, 4 of whom made 61% of the sales. In 2012 there were 41 clients, 4 of whom made 46% of the sales. A sharper competition in the market and the decreased freight rates have reduced the possibilities for the Company to operate the vessels under time-charter contracts. Therefore, LSC itself searched for cargo flows in the SPOT market thus increasing the number of counterparties. Company made a better diversification of the client portfolio and became less dependent on a few key clients.

Figures 7,8

Client structure in 2011



Client structure in 2012



The Company's clients may be grouped according to the type of agreement, i.e. into *time-charter* and *voyage-charter* clients. In 2012 the *time-charter* made up 48% (2010 – 60%), and the *voyage-charter* – 52% of all the clients (2010 – 40%).

2.5. Information Related to Personnel Matters

The organizational structure as at the end of the reporting year is presented in Figure 9. In 2012 the structure was changed due to structural changes in the administration.

Figure 9

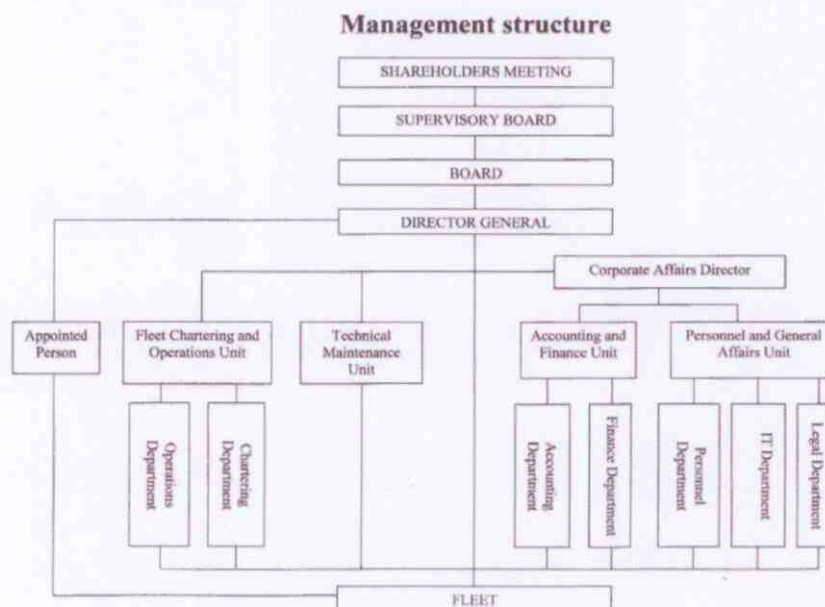


Figure 10

Employee turnover during 2010-2012



A comparison of the general number of employees for the years 2010 and 2011 shows a downward tendency (figure 10). In 2012 the number of working places in the Company decreased by 6.8% compared to 2010 and by 3.1% compared to 2011. The number of seafarers changed insignificantly - a decrease by 4-5 working places, which occurred mainly due to redistribution of functions in the fleet. The change in the number of administrative staff was significant: in 2012 the number of specialists decreased by 34.8%, compared to 2010, and by 18.9 % compared to 2011. During the reporting period revenue per one administration employee amounted to 2.822 thousand Litas, in 2011 – 2.117 thousand Litas and in 2010 – 1.351 thousand Litas. The number of administration staff in the total number of employees is as follows: in 2010 – 12.6%, in 2011 – 10.5%, in 2011 – 8.8%. This fact suggests that the Company operates more efficiently and is able to manage the same amount of vessels by the reduced number of administration staff.

Grouping of employees:

1. By education:

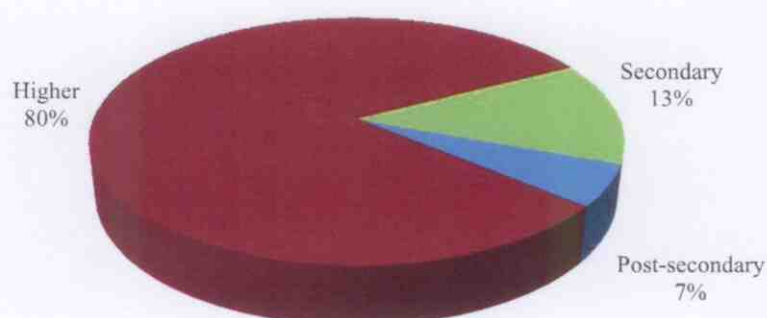
Table 8

Breakdown of personnel by education for 2010-2012

Educational background	Percentage of employees		
	2010 m.	2011 m.	2012 m.
University education	32,1	32,6	33,4
College education	2,5	2,2	2,3
Secondary education	26,6	29,0	28,7
Maritime academy	9,6	9,2	8,8
Post-secondary education	29,2	27,0	26,8

Figure 11

Breakdown of education of onshore employees, 31-12-2012



The number of employees with higher education makes up one third of all the employees and has not changed significantly during the analyzed period (an increase by approx. 0.8% per year). No other significant changes have been identified. The breakdown of education of onshore employees is illustrated in Figure 11, according to which 80% of employees hold higher education.

2. Breakdown by amounts calculated to employees:

Table 9

Group of employees	Annual amounts calculated to the employees fund, LTL				
	2010	2011		2012	
	Amount, LTL	Amount, LTL	Change, %	Amount, LTL	Change, %
Executives	704.153	807.419	14,67	638.475	-20,92%
Specialists	3.693.305	3.311.590	-10,34	3.764.087	13,66%
Workers	5.943.366	5.881.221	-1,05	5.871.099	-0,17%
Total	10.340.824	10.000.230	-3,29	10.273.661	2,73%

During the reporting period, the total gross salaries to employees did not change. The amounts calculated to management have decreased as they are not calculated during the management replacement period. The amounts calculated to specialists were increasing based on the globally increased wages of qualified seafarers (ship pilots, engineers).

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

Table 10

Group of employees	Average conditional number of employees			Average earnings per month, LTL		
	2010	2011	2012	2010	2011	2012
Executives	9,0	9,3	6,2	6.275	6.793	6.999
Specialists	173,0	157,2	147,0	2.792	3.034	3.468
Workers	163,0	153,2	157,8	1.753	1.862	2.136
Total	345,0	310,5	311,0	2.388	2.492	2.910

During the reporting year, the average monthly salary has increased by 16.8% compared to 2011, mostly due to the Collective Agreement, effective as of the beginning of the year, prescribing new salary calculation procedure resulting in an increase of actual salaries of seafarers, the vacation reserve and social security contributions.

4. Breakdown by the average wages in subdivisions:

Table 11

Subdivision	Average earnings per month, LTL				
	2010 m.	2011 m.		2012 m.	
	Amount, LTL	Amount, LTL	Change, %	Amount, LTL	Change, %
CEO unit	9.372	6.142	-34.46	5.839	-4.93%
Fleet management department	7.477	6.129	-18.03	5.962	-2.72%
Technical management department	5.031	6.606	31.31	5.525	-16.36%
Safety management department	4.647	4.632	-0.32	-	
Information technologies department	3.621	4.824	33.22	3.914	-18.86%
Accounting and finance department	3.213	3.835	19.36	3.656	-4.67%
Personnel department	2.268	3.068	35.27	2.588	-15.65%
Fleet	1.953	2.038	4.35	2.666	30.81%

Average monthly wages of employees in all administrative units have decreased during the analyzed period. The largest decrease in average salaries occurred in the departments of Technical management, Information technologies and personnel. Meanwhile, salaries of the seafarers on ships increased by almost 31%, mainly due to the Collective Agreement, effective as of the beginning of the year, prescribing new salary calculation procedure, resulting in an increase of actual salaries of seafarers, the vacation reserve and social security contributions.

2.6. Information Related to Environmental Issues

In 2012, the Safe Navigation Control Service performed 8 planned inspections of the Company and its vessels in accordance with the ISM code requirements. The Vessel Safety Management Certificate was extended/renewed, and the Company was granted a new 5-year Compliance Document. No significant remarks have been received in relation to environmental protection on ships.

In 2012 the Company's vessels did not experience any environmental incidents or pollution; the vessels were operated in accordance with MARPOL convention requirements No. 73/78.

Environmental projects undertaken and pending during and after the reporting year are as follows:

As of 1 January 2011, each vessel after repair should be supplemented with a separate piping system / pump for removal of accumulated separated oil waste – sludge, and for its commissioning to the ports' reception facilities. Such a system was implemented in 2012 on all the Company's repaired vessels.

For the decrease of NOx emissions, on 12 August 2011 the S50MC approved method was adopted on the MAN B&W engines, informing the International Marine Organization (IMO) whereof. After the first International Atmosphere Pollution Prevention (IAPP) certificate renewal survey on 12 August 2012, the equipment shall be installed on vessels in accordance with the IMO-approved engine modernization method. Engines of this type are installed on M/V Raguva, Deltuva, and Venta. Engine modernization on these vessels according to the (IMO) approved Method shall be performed in 2014 - 2015. The approximate cost of modernization of a single engine is about 10.000 EUR.

Very important environmental factors occurred and are still anticipated for the period 2012-2014, as the new International Marine Organization MARPOL requirements have come and/or shall come into effect:

Effective as of 1 August 2012, in the North American emission control area sulphur quantities contained in fuel should not exceed 1.0%.

Effective as of 1 January 2012, on the global scale, where other restrictions are not applicable, sulphur quantities contained in fuel should not exceed 3.5%. Currently, the allowed sulphur concentration in the area is 4.55%, but this kind of fuel is scarcely used. From 1 January 2014, USA dominions in the Caribbean region (Puerto Rico, Virgin Island) are announced as an exceptional area of protection. Starting 1 January 2015, the sulphur quantity in fuel in this territory should not exceed 0.1%. Depending on the bunker port, 1.0% sulphur fuel is more expensive by approximately 20 – 50 USD/ton than the fuel containing 3.5% of sulphur.

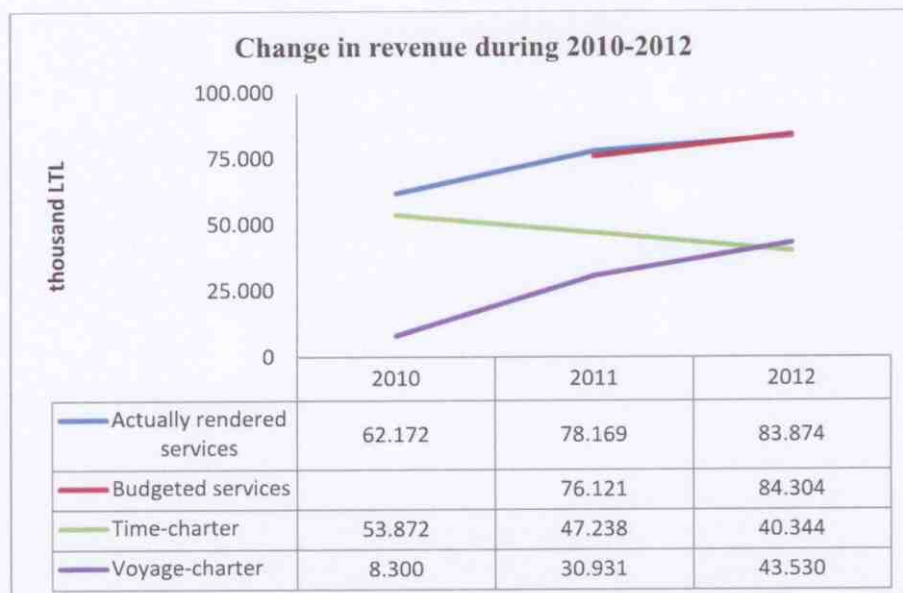
A new waste disposal requirement came into force as of 1 January 2013, prescribing that all kinds of waste disposal into the sea are prohibited with an exception of particular reservations (food waste, cargo leavings, water after bilge/deck wash using detergents). The requirements are being changed for waste arrangement plans as well as waste operations record book form.

It is expected that after the first renewal of the vessels or after an interim survey as of 1 January 2013, an International Energy Efficiency Certificate will be obtained, as the 62nd session of MEPC has adopted a new amendment to Annex VI regarding an efficient usage of energy on vessels enhancing to reduce gas emissions that cause the greenhouse effect. A requirement has been adopted for vessels to have the Ship Energy Efficiency Management Plan (SEEMP). However, the Administration can reschedule the enactment of the requirement to a 4 year period.

2.7. Significant Events during the Financial Year

Changes in the shipping market have influenced the breakdown of revenue by type of contracts and also affected gross income (figure 12). Revenue was continuously increasing during the reporting period: in 2011 – 25.7 %, compared to 2010, and in 2012 – 7.3 %, compared to 2011. This was achieved not due to an actual growth of income from ships but to an increasing number of voyage-charter contracts including the growth of related income and costs (fuel, port fees and loading fees). Revenue from *Voyage-charter contracts* has increased from 13.3% to 51.8% during the reporting period.

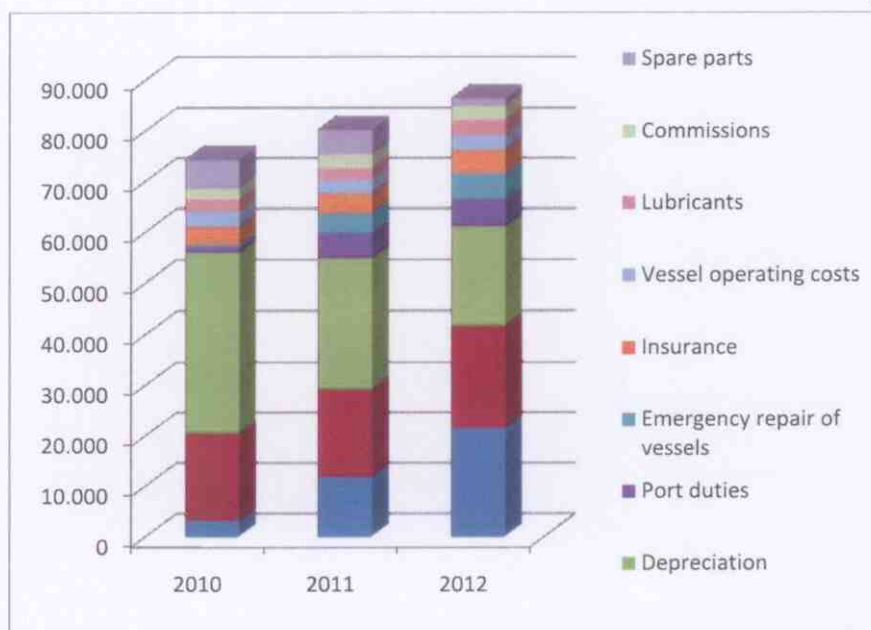
The Company's revenue was negatively affected by the fact that 7 vessels have been repaired instead of 5 as prescribed by the SS/DS requirements. Figure 12



As the number of short-term *voyage-charter* agreements was continuously increasing during the reporting period (from 13% in 2010, 40% in 2011 to 52% in 2012), it is natural that there was an increase in such costs as fuel (more than 6 times, compared to 2010, and almost 2 times compared to 2011). Other costs (port fees, stevedoring) related to administration of short-term agreements did not change significantly, however it was this cost group (fuel, port fees, stevedoring) which substantially determined the total growth of cost.

Cost of sales, thousand LTL	2010	2011	2012
Fuel	3.446	12.084	21.798
Crew costs	17.307	17.344	20.181
Depreciation	35.418	25.643	19.363
Port duties	1.196	5.056	5.428
Emergency repair of vessels	388	3.851	5.131
Insurance	3.510	3.863	4.495
Vessel operating costs	3.045	2.716	3.043
Lubricants	2.394	2.277	2.984
Commissions	2.038	2.720	2.803
Spare parts	5.719	4.874	1.412
Other costs of vessels	5.797	5.553	2.564
	80.258	85.981	89.202

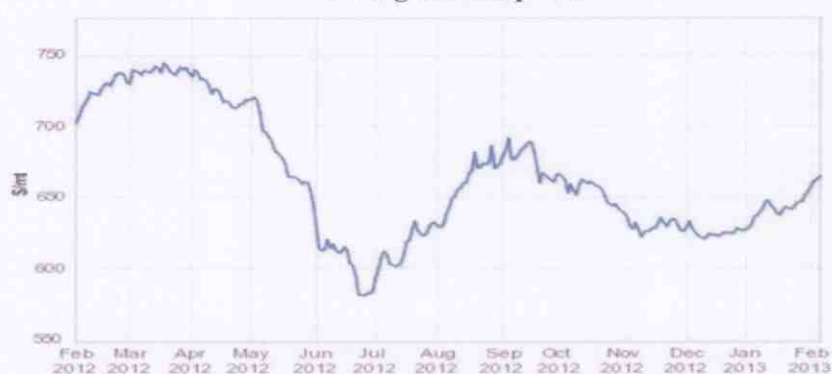
Figure 13



The growth of cost in 2012 was mainly destined by an increase in fuel prices. As shown, fuel prices in the market are very unstable and have a direct impact on the Company's final results. Therefore, employment of the major part of the vessels under short-term contracts and acquisition of fuel at the same time cause a risk of loss-making voyages. However, on the other hand, an increase in the raw material prices in the market gives a signal of positive expectations and an eventual recovery of the market.

Figure 14

Change in fuel prices



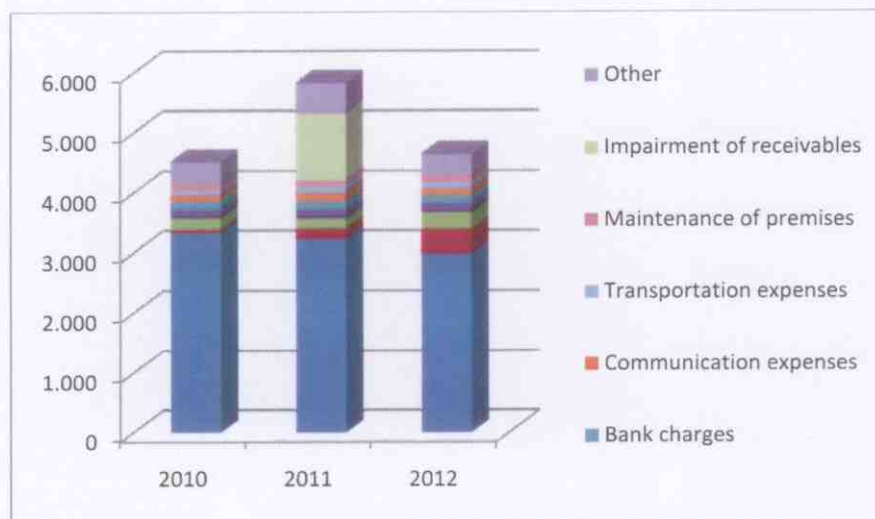
www.bunkerworld.com

The figure presented below illustrates the structure of administrative expenses.

Administrative expenses, thousand LTL	2010	2011	2012
Staff costs	3,349	3,243	3,001
Consultations, legal services	45	170	407
Amortisation and depreciation	204	181	285
Business maintenance costs	143	148	157
Bank charges	139	140	130
Communication expenses	100	137	109
Transportation expenses	76	114	106
Maintenance of premises	104	94	101
Impairment of receivables	0	1,113	0
Other	369	508	361
	4,529	5,848	4,657

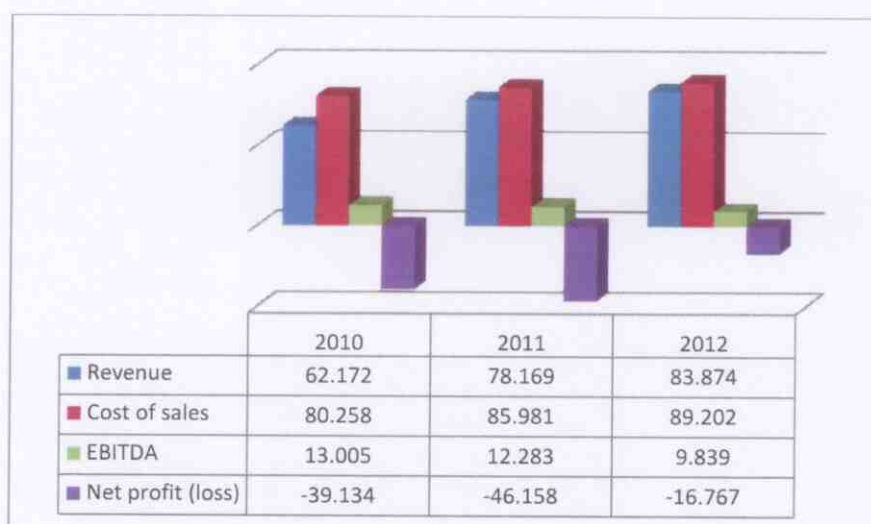
The total amount of operating costs remained almost unchanged. The Company attempts to use the resources more efficiently and to optimize its activities. Therefore, in 2012 the Company's operating costs, excluding impairment of receivables, made up 5.6 % of sales, whereas in 2011 it was 5.6. % and in 2010 – 7% of the total sales amount.

Figure 15



The loss for 2010 was incurred due to disposal of vessels, in 2011 due to impairment of vessels, and in 2012 the result was influenced by repair costs in relation to 7 vessels:

Figure 16



2.8. Investment Projects of the Company

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

In 2012 investments from own resources amounted to 10.790 thousand LTL, out of which 10.677 thousand LTL (99 %) were dedicated to repair of vessels (7 motor vessels), 47 thousand LTL – to vessel modernization, and the remaining part of 69 thousand LTL – to acquisition of software, computers, and other assets for the vessels.

2.8.2. Major ongoing and planned financial projects

Currently, no investment projects are being carried out.

2.8.3. Plans and Forecasts of the Company's Activities

Growth and development opportunities of the Company depend on recovery of the shipping market. The development of the shipping market is limited by two major factors – slow economic recovery and excess ship tonnage in the market. It is not expected that the market will experience any substantial recovery in the beginning of 2013, since it is likely that the majority of owners will try to survive by offering low prices.

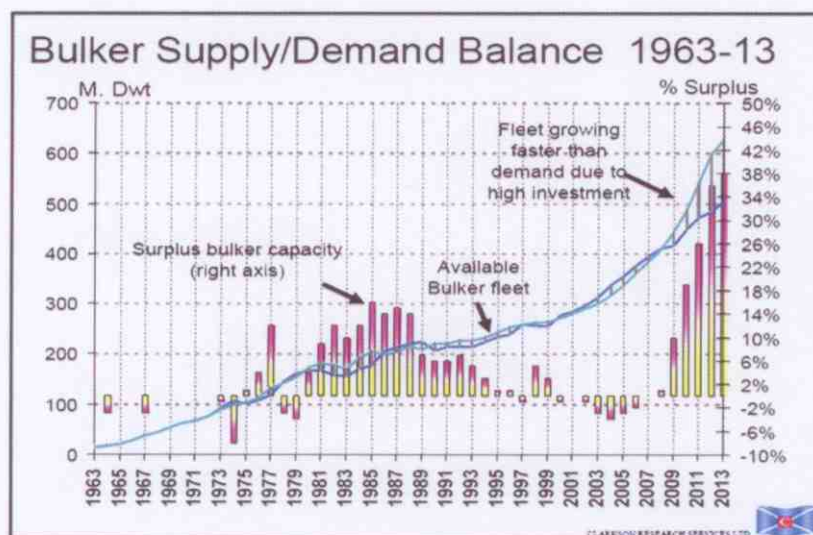
In any case, some signs of recovery can be expected due to an increase in demand, because it is anticipated that the two leading economies of the world – USA and China – will grow. Based on the World Bank's forecasts for 2013, we expect a stabilization period in the economy. The forecasts say that the global GDP will increase by 3%. A similar growth rate should be sustained until 2018.

Figure 17



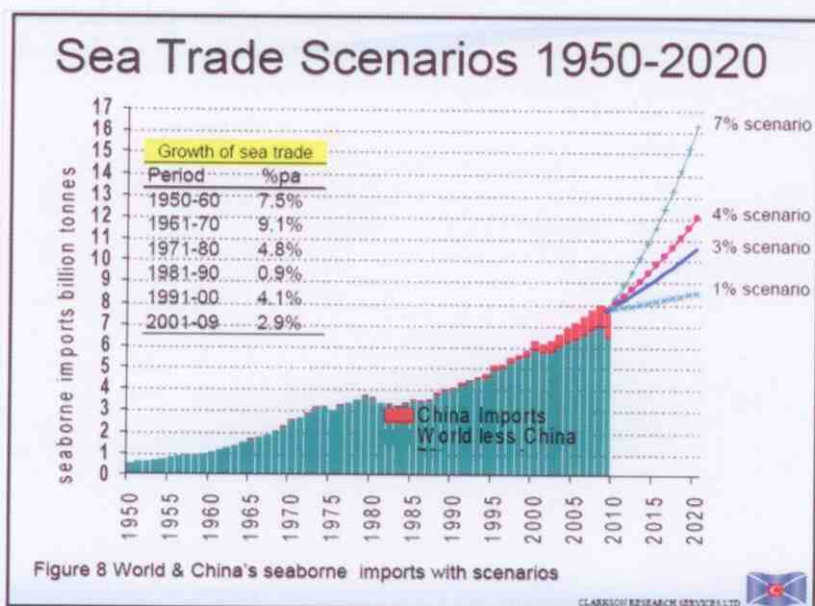
During the period 2009-2013 the supply of services significantly exceeded the demand. Such a situation was determined by two main reasons – high number of orders for new ships and a low number of demolished vessels. The segment of dry-bulk carriers up to 40,000 DWT contains ships with the largest age average, therefore it is probable that the number of vessels in the segment will stabilize. Furthermore, there are fewer orders for construction of new ships, and a number of accepted orders have been recalled or postponed to a later date due to more strict financing conditions.

Figure 18



The Company's management is of the opinion that better results can be anticipated in the second half of this year. Various development scenarios are being predicted for subsequent years (Figure 18).

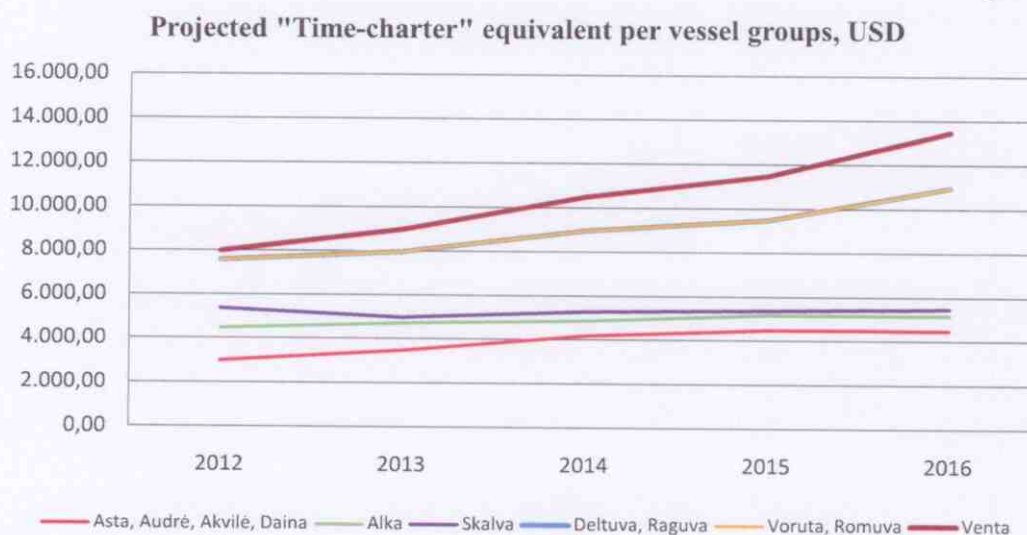
Figure 19



Source: Clarkson research services Ltd

Variation of the *time-charter* net equivalent has been forecasted by LSC. A more significant growth is forecasted for vessels with larger tonnage.

Figure 22



As the current situation in the market does not allow to expect any larger growth in the near future, the main strategic goal for the period is **to increase operational efficiency**. For realisation of this goal the Company has set the following objectives:

1. To refuse operating the vessels of low efficiency and to focus more on the segment of vessels having 17-25 thousand DWT, in which the achieved results are better;
2. More tough control of maintenance costs;
3. Additional motivation of crews in order to reduce the unplanned repair and off-hire costs.

The Company has determined the following key measures in order to reach the set objectives:

1. One of the options is to dispose 3 Asta-type vessels (3*5.820, in total 17.460 DWT) and Skalva (9.498 DWT), and to acquire one Deltuva-type vessel (17.000 DWT). Additional financing is not planned.
2. To apply more rigorous assessment of deviations from the planned technical costs and be more careful when choosing technical service providers;
3. To allot additionally up to 55.000 LTL per year to each crew, provided the vessel has not experienced breakage and off-time; and has not received comments on the technical condition from foreign port guards;
4. Vessels operating under long-term agreements should use derivative instruments to hedge the foreign exchange risk.

Another important strategic goal is **effective, secure and profitable management of vessels**. This goal is basically associated with the first goal. For its implementation it is necessary to:

1. focus more on one market segment. This is inevitable as the Company has a relatively large fleet. Current business contracts, knowledge of business markets and forecasts of cargo flows dictate the need to focus on vessels of 17-25 thousand DWT.
2. retain an acceptable balance between long-term and short-term contracts. In the most optimal case, the proportion of such contracts and the revenue should spread equally.

2.9. Assessment of the Company's Position and Performance

An analysis of and comments on financial ratios that best reflect the Company performance results are provided in the Table 12.

Table 12

Financial ratio analysis				
Title, thousand LTL	Fact			Comment
	2010	2011	2012	
Required (employed) capital	239.052	205.369	178.509	An increase in net working capital indicates that part of operations, financed by the Company due to deferral payments to suppliers, is constantly increasing.
Tangible non-current assets	239.318	210.378	195.780	
Net working capital	(266)	(5.009)	(17.271)	
Sources of financing	239.052	205.185	178.212	31% of the employed capital is being financed by borrowed resources, and the other part - by own resources.
Financial debt	76.002	66.603	56.398	
Grants and subsidies				
Provisions and deferred taxes				
Authorized capital	200.901	200.901	200.901	
Retained profit (loss) + reserves	(37.851)	(62.320)	(79.087)	In previous periods, the major part of the loss was incurred due to disposal and impairment of vessels. Loss for the current year was incurred due to the number of performed repairs and impairment of the vessels.
Sales	62.172	78.169	83.874	
Net profit (loss)	(39.134)	(46.158)	(16.767)	
EBITDA	13.005	12.283	9.839	
Interest expenses	2.250	2.076	2.196	
Scheduled credit repayments	3.628	10.336	8.829	
EPS, LTL	(0,19)	(0,23)	(0,08)	
Net profit margin, %	(62,95)	(59,05)	(19,99)	
ROE, %	(24,00)	(33,31)	(13,76)	
ROA, %	(15,82)	(21,27)	(5,28)	
Liquidity ratio	0,26	0,14	0,20	The ratio value between 1.2 and 2.0 is considered acceptable.
Gross debt ratio	0,34	0,36	0,40	An approximate ratio value of 0.5 is considered normal (i.e. half of financial resources are borrowed). The situation in the company is better.
Debt-to-equity ratio	1,94	1,77	1,47	The ratio value below 0.5 is considered low, normal- about 1, good- above 2. The ratio values comply with the requirement.
DSCR	2,21	0,99	0,89	Acceptable ratio value- above 1.

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

The major risks and contingencies, encountered by the Company, are as follows:

- US dollar rate fluctuations;
- Creditor's refusal to extend the term of loan payment;
- Insufficient freight rates on a global scale;
- Ageing of the fleet;
- Detention of vessels due to commercial, technical and other claims against one of the Company's vessels respectively decreases income and credibility of the Company among the partners;

- The lack of professionals and declining popularity of maritime professions is directly dependent on the possibility to receive a competitive salary on vessels sailing under Lithuanian flag;
- *Force majeure* circumstances and reasons independent on the Company's will, which cannot be foreseen and avoided.

The SWOT analysis is presented in the Table 13 below:

Table 13

Strengths	Weaknesses
<ol style="list-style-type: none"> 1. Good relations with freighters, cargo suppliers, insurers, and other partners of the Company. 2. Regular analysis of freight changes and market monitoring. 3. Transition to vessel operation by Company's own resources. 4. Strong orientation to a particular market segment. 5. Flexibility, i.e. ability to carry miscellaneous cargoes. 6. Image of the Company. 7. Transparent financial activity, based on modern management systems. 8. Most captains, chief engineers have high professional qualifications and many years of service. 9. Low employee turnover. 10. Effective functioning of the renovated technical vessel management system. 11. Compliance with environmental and technical requirements. 	<ol style="list-style-type: none"> 1. A major part of the so called standard cargo flows are not stable. 2. An aging fleet. 3. Substantial vessel repair and maintenance costs. 4. Losses due to vessel detention in foreign seaports and vessel accidents. 5. The Lithuanian requirement for a minimum number of seafarers on board is higher, compared to international competitors. 6. Low wages of seafarers, compared to foreign fleets, due to which the Company experiences lack of specialists. 7. Poor knowledge of foreign languages by seamen. 8. High average age of the seafarers.
Opportunities	Threats
<ol style="list-style-type: none"> 1. An improving reputation amongst major freighters. 2. Fleet renovation and persistence in the multipurpose vessel segment. 3. Search for new markets, new cargo flows due to global re-distribution of changes in the economy growth. 4. Implementation and development of new technologies. 5. Future increase in the number of demolished vessels on a global scale. 6. Reduction of orders for new vessels. 7. Attraction of young, active, motivated employees. 	<ol style="list-style-type: none"> 1. Decreasing freights. 2. Unstable USD rates. 3. Political disturbances. 4. Passive fiscal policy of the Government. 5. Stricter environmental requirements. 6. Excess of vessels in the market. 7. Piracy.

2.11. Financial Risk Management

The Company pays exceptional attention to activity planning and performance monitoring and therefore prepares annual budgets and reconciles actual monthly data to the planned data. The Company analyzes the reasons for failed performance and tries to eliminate them. The working capital flows are planned to avoid the liquidity problem.

The major part of the vessels is employed under time-charter agreements. Thus, an impact of fluctuations in freight rates is reduced and cash flows can be planned more easily.

In 2012, the Company, as a ship owner, insured against civil liability (*Protection&Indemnity Insurance*) with Skuld Company, whereas all the vessels have the Hull & Machinery insurance issued by insurance companies having at least B+ A. M. Best company rate and at least BBB STANDARD & POOR'S company rate or other similar rate.

The Company does not use any derivative financial instruments to hedge the currency risk.

2.12. Branches and Representative Offices

The Company does not have any branches or representative offices.

2.13. Significant events after the year end

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

2.14. Research and Development Activities

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

2.15. Social Initiatives and Policy

One of the main spheres of the Company's social policy is social partnership. Social partnership is a system of relationships among Lithuanian Shipping Company's employees and their partners, which is used to align the interests of individuals in labour relations.

The parties of social partnerships (social partners) are representatives of the Trade Union and the Company.

The Social partnership is based on the following principals:

1. free collective negotiations;
2. volunteerism and autonomy by undertaking bounding obligations;
3. non-violation of the valid legal system;
4. fulfilment of commitments;
5. provision of objective information;
6. reciprocal control and responsibility;
7. equality of parties, goodwill and respect for legitimate mutual interests.

Social partnership is implemented through communication, consultation, and collective negotiation procedures on equality basis.

2.16. Information on Compliance with Transparency Policy Provisions

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

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

3. INFORMATION ON COMPANY'S SHARES AND SHAREHOLDERS

3.1. Shareholders' Rights

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

Property rights of the shareholders:

1. to receive a share of the Company's profit (dividends);
2. to receive a share of the Company's funds when the authorized capital is reduced;
3. to receive shares free of charge when the authorized capital is increased by the Company's funds, except the cases specified in the Law on Companies of the Republic of Lithuania;
4. to have the pre-emptive right in acquiring the shares or convertible debentures issued by the Company, except the case when the general shareholders meeting decides to withdraw the pre-emption right for all the shareholders according to the procedure specified by the Law on Companies of the Republic of Lithuania;
5. to lend to the Company in the manner prescribed by law; however, when borrowing from its shareholders, the Company cannot pledge its assets to the shareholders. When the Company borrows from a shareholder, the interest may not be higher than the average interest rate offered by local commercial banks in the creditor's place of business or residence, and which is effective at the moment the loan agreement is signed. In such a case, the Company and the shareholders shall be prohibited from negotiating a higher interest rate;

6. to receive part of the Company's assets in the event of liquidation;
7. other property rights established by the Law on Companies and other laws of the Republic of Lithuania..

Non-property rights of the shareholders:

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

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

1.2. Arrangements among Shareholders

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

1.3. Acquisition of Treasury Shares

During the year 2012 the Company did not acquire, transfer nor currently holds any treasury shares. No authorizations on behalf of the Issuer's managing bodies have been given for the issue or purchase of the Issuer's shares.

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

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

1.4. Dividend Policy

The Company did not pay any dividends during the financial years 2012 and 2011.

4. INFORMATION ON THE COMPANY'S MANAGEMENT BODIES

4.1. Supervisory Board

Table 14

Members of the Supervisory Board

Item No.	Full name	LSC shares	Term of office	Activity area
1	Tomas Karpavičius (Chairman)	N/A	Since 28/11/2011 Chairman since 22/12/2011	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Ona Barauskienė	N/A	Since 19/11/2009	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Evaldas Zacharevičius	21081 = 0.01% of vote	Since 19/11/2009	Employee of Lithuanian Maritime Safety Administration
4	Gytis Kaminskas	N/A	Since 27/04/2012	Attorney - partner of the Lawyers professional union Baltic Legal Solutions Lietuva
5	Laimutė Stasytienė Tinglum	N/A	Since 27/04/2012	Partner, director and auditor of UAB Skandinavian Accounting and Consulting

Rolandas Bražinskas – member of the Supervisory Board from 19.11.2009 until 28.11.2011; does not own any shares of Lithuanian Shipping Company; an employee of the Ministry of Transport and Communications of the Republic of Lithuania.

Kazimieras Gimbutis - member of the Supervisory Board from 19.11.2009 until 27.04.2012, 2000 shares = 0.0009 % of vote, representative of minority.

Helena Rogoža – member of the Supervisory Board from 19.11.2009 until 27.04.2012, does not have any shares of the Company.

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

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

management bodies.

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

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

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

4.2. Board of Directors

Table 15

Members of the Board

Item No.	Full name	LSC shares	Term of office	Activity area
1	Arūnas Štaras (Chairman)	N/A	Since 10/03/2009 Chairman since 20/03/2009	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Andrius Šniuolis	N/A	Since 13/09/2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Eglė Vyšniauskaitė	N/A	Since 13/09/2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
4	Stepas Telešius	N/A	Since 07/06/2012	Co-owner, director and member of the boards of ACMEgroup companies
5	Mindaugas Utkevičius	N/A	Since 07/06/2012	Partner of AS LHV Capital

Vidutė Šarkienė – member of the Board from 21.10.2005 until 22.12.2011; does not own any shares of LSC; employee of the Ministry of Communications of the Republic of Lithuania until 2011.

Jelena Antonevič - member of the Board from 21.10.2005 until 07.06.2012, does not own any shares of LSC, employee of the Ministry of Communications of the Republic of Lithuania.

Arvydas Bogočionkas – member of the Board from 15.11.2010 until 07.06.2012, does not own any shares of LSC, the general director until May 2011.

Juozas Darulis – member of the Board from 10.03.2009 until 13.09.2012, does not own any shares of LSC, employee of the Ministry of Communications of the Republic of Lithuania.

Rolandas Bražinskas – member of the Board from 22.12.2011 until 13.09.2012, does not own any shares of LSC, employee of the Ministry of Communications of the Republic of Lithuania.

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

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

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

The Board discusses and approves:

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

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

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

The Board shall adopt:

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

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

1. implementation of the operating strategy of the Company;
2. organization of the Company's activities;
3. financial position of the Company;
4. performance results, income and expenditure estimates, accounting information on physical stock counting and asset movements.

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

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

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

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

4.3. Management

Table 16

CEO of the Company

Full name	LSC shares	Term of office	Activity area
Audronis Lubys	N/A	Since 01.08.2012	General Director

Arvydas Bogočionkas – the general director from 24.05.2010 until 18.05.2012, does not hold any shares of LSC.

Aleksandrs Lisickis – acting general director from 19.05.2012 until 31.07.2012, does not hold any shares of LSC, the Fleet Management Director of the Company.

Table 17

CFO of the Company

Full name	LSC shares	Term of office	Activity area
Arvydas Stropus	N/A	Since 27.06.2001	Chief Financial officer

Information presented in the Table 18 discloses the following: total amounts calculated at Lithuanian Shipping Company over the accounting period, other assets transferred, guarantees granted to the persons listed in the tables, average amounts, falling to a single member of the Supervisory Board or Board member of the Company, as well as to CEO and CFO of the Company.

Table 18

Remuneration amounts calculated for 2012

	Amount of remunerated money, LTL	Transferred assets, LTL	Provided guarantees
Chief Executive Officer (Member of the Board), Chief Financial Officer	226.138	-	-
Members of the Board	-	-	-

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

There are no agreements implying large compensation amounts.

4.4. Other Information on Management Bodies

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

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

No other committees have been established in the Company.

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

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

There are no related party transactions.

4.5. Procedure for Amending Company's Articles of Association

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

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

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

5. OTHER COMPANY INFORMATION

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

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

5.2. Data on Published Information

An issuer, while executing his liabilities according to the legal acts regulating the stock market that apply to him, publicly announced the following information in 2012:

1. Interim information of twelve months of the year 2011 of AB Lithuanian Shipping Company.
2. General shareholders meeting of AB Lithuanian Shipping Company.
3. Announcement of draft resolutions of the general shareholders meeting of 12 April 2012.
4. Draft resolutions of the general shareholders meeting of 12 April 2012.
5. Information regarding the general shareholders meeting of 12 April 2012.
6. A repeated general shareholders meeting.
7. Draft resolutions of the repeated general shareholders meeting, dated 27 April 2012.
8. Resolutions of the repeated general shareholders meeting, dated 27 April 2012.
9. Annual information on AB Lithuanian Shipping Company for 2011.
10. Appointment of the general director of AB Lithuanian Shipping Company.
11. Operating results of AB Lithuanian Shipping Company for a 3 months period of 2012.
12. Interim information on operating results of AB Lithuanian Shipping Company for a 3 months period of 2012.
13. Recall and election of the Board members of AB Lithuanian Shipping Company.
14. AB Lithuanian Shipping Company has elected the new general director.
15. Regarding announcements in press.
16. Operating results of AB Lithuanian Shipping Company for a 6 months period of 2012.
17. Interim information on operating results of AB Lithuanian Shipping Company for a 6 months period of 2012.
18. Recall and election of the Board members of AB Lithuanian Shipping Company.
19. Extraordinary shareholders meeting of AB Lithuanian Shipping Company.
20. Draft resolution of the extraordinary general shareholders meeting.
21. Supplemented agenda of the extraordinary general shareholders meeting of AB Lithuanian Shipping Company.
22. Resolutions of the extraordinary general shareholders meeting of AB Lithuanian Shipping Company.
23. Operating results of AB Lithuanian Shipping Company for a 9 months period of 2012.
24. Interim information on operating results of AB Lithuanian Shipping Company for a 9 months period of 2012.

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

The Corporate management code is provided in Appendix 3

ENCLOSURE:

1. Securities sold by automatically matched transactions, results for last 12 quarters (for each one). 1 page.
2. Trading the issuer's securities outside the stock exchange in 2010-2012. 1 page.
3. Announcement on disclosure of compliance with the Company Management Code of the Public Company Lithuanian Shipping Company, listed on the regulative market, 30 pages.

General Director

Chief Accountant

Audronis Lubys

Arvydas Stropus

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

Reporting period		Price			Turnover (LTL)			Last session date	General turnover	
From	Until	Max.	Min.	Last session	Max.	Min.	Last session		(units)	(LTL)
2010.01.01	2010.03.31	0,49	0,32	0,34	557,264	0	27,028	2010.03.31	14,540,135	5,306,615
2010.04.01	2010.06.30	0,35	0,24	0,25	151,167	0	18,522	2010.06.30	5,545,214	1,633,435
2010.07.01	2010.09.30	0,33	0,25	0,31	275,744	0	46,035	2010.09.30	4,733,587	1,366,949
2010.10.01	2010.12.31	0,31	0,26	0,28	227,156	0	122,188	2010.12.30	5,522,309	1,603,575
2011.01.01	2011.03.31	0,276	0,166	0,190	648,078,26	0	216,677,62	2011.03.31	20,424,203	4,023,284,79
2011.04.01	2011.06.30	0,193	0,162	0,173	152,392,10	0	22,640,87	2011.06.30	6,907,509	1,195,686,83
2011.07.01	2011.09.30	0,197	0,138	0,138	271,683,70	0	7,544,78	2011.09.30	10,684,969	1,726,476,76
2011.10.01	2011.12.31	0,142	0,110	0,124	144,735,61	0	3,895,10	2011.12.30	10,833,991	1,393,040,82
2012.01.01	2012.03.31	0,131	0,114	0,117	49,886,88	0	10,913,23	2012.03.29	3,434,092	425,559,20
2012.04.01	2012.06.30	0,121	0,097	0,097	50,985,98	0	33,132,61	2012.06.29	2,953,968	312,204,76
2012.07.01	2012.09.30	0,114	0,097	0,100	37,005,52	0	561,94	2012.09.28	2,834,072	293,843,03
2012.10.01	2012.12.31	0,104	0,086	0,090	27,735,03	0	1,032,39	2012.12.28	1,384,744	133,113,62

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

**Trading the Issuer's Securities outside the Stock Exchange
for 2010-2012**

Period	1st quarter of 2010	2nd quarter of 2010	3d quarter of 2010	4th quarter of 2010
Monetary payment				
Turnover, LTL	263.959,73	228.606,01	132,652.66	42,059.14
Turnover, units	1.324.000	1.468.000	988,181	311,000
Minimum price, LTL	0,14	0,11	0,11	0,12
Maximum price, LTL	0,24	0,19	0,16	0,15
Non-monetary payment				
Turnover, units	160.000	55.085	2,230,907	20,540

Period	1st quarter of 2011	2nd quarter of 2011	3d quarter of 2011	4th quarter of 2011
Monetary payment				
Turnover, LTL	148.394,78	39.685,26	173.918,39	55.835,48
Turnover, units	1.171.719	371.362	5.897.237	695.496
Minimum price, LTL	0,09	0,08	0,02	0,07
Maximum price, LTL	0,16	0,13	0,13	0,12
Non-monetary payment				
Turnover, units	3.854.509	43.373	5.641.390	22.700

Period	1st quarter of 2012	2nd quarter of 2012	3d quarter of 2012	4th quarter of 2012
Monetary payment				
Turnover, LTL	17.889,30	6.591,00	210.057,48	195,09
Turnover, units	263.000	54.931	1.901.526	2.787
Minimum price, LTL	0,07	0,12	0,10	0,07
Maximum price, LTL	0,07	0,12	0,11	0,07
Non-monetary payment				
Turnover, units	31.471	2.921	20.193	8.418

Source: information about transactions outside the stock exchange, published in the topicalities of www.csd.lit

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

2012

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

		by the general meeting of the shareholders. All the management bodies of the company, being in solid cooperation, aim at the highest possible benefits for the shareholders of the Company.
1.4. The supervisory and management bodies of the Company should ensure that a proper respect is given not only to the rights and interests of the company shareholders, but also of other persons, participating in the company activities or related to it (employees, creditors, suppliers, clients, local community).	Yes	
Principle II: The Company management scheme The Company management scheme should ensure strategic management of the company, effective supervision of the company management bodies, proper balance and functional distribution among management bodies of the company, protection of the shareholders' interests.		
2.1. Besides the indispensable bodies regarding the Law on Companies of the Republic of Lithuania – general meeting of shareholders and the manager of the company – it is recommended to form both collegial supervisory body and collegial management body in the company. Setting-up the bodies of collegial supervisory and management assures clear differentiation between the functions of management and supervisory in the company, accountability of the company manager and control. Such kind of formation, in turn, determines more effective and fair process of company management.	Yes	The Company respects this recommendation. Management bodies of the company are general shareholders' meeting (the supreme body), the supervisory board (the collegial supervisory body, supervising Company activities), the board (the collegial management body), manager of the company – Director General (a single-person management body of the Company).
2.2. Collegial management body is responsible for strategic management in the company, and it also pursues other essential functions of company management. The collegial supervisory body is responsible for effective supervision of work in relation to the bodies of company management.	Yes	The board is a collegial body of management of the Company.
2.3. If a company decides to form only one collegial body, it is recommended to form a supervisory body, i.e. supervisory board. In this case, supervisory board is responsible for effective function supervision exercised by a company manager.	Not applicable	The Company has the supervisory board and the board.
2.4. Collegial supervisory body chosen by the general meeting of stockholders should be formed and should operate under the order stated in principles III and IV. If a company decides not to form collegial supervisory body, but forms collegial management body – the board instead, principles III and IV should be applied to the board to the extent, which does not contradict to the essence and purpose of this body. ¹	Yes	

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

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

stockholders selected by the collegial body independence from the bodies of company management, is applied to the extent, which is related to the independence from the head of the company.

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

III principle: Formation order of the collegial body, elected by the general meeting of shareholders.

The formation order of the collegial body, elected by the general meeting of shareholders, should ensure representing of interests of minority shareholders of the company. Accountability of this body towards the shareholders and objective supervision of the company activities and its management bodies³.

3.1. The formation mechanism of the collegial body (hereinafter referred to as the collegial body), elected by the general meeting of shareholders, should ensure that an objective supervision of the company management bodies shall be executed. Also proper representation of the interests of minority shareholders.	Yes	General meeting of the shareholders (GMS) elects the supervisory board, which is a collegial body, executing supervision of the Company activities. One of the members of the supervisory board is a representative of the minority shareholders.
3.2. Names, surnames, education information, qualification, professional experience, current occupation, other important professional commitments and potential interest conflicts of the candidates to the members of the collegial bodies should be revealed to the shareholders of the company prior to the general meeting of the shareholders, giving enough time for the shareholders to decide which candidate to vote for. All circumstances, being able to affect candidate's independence, should also be revealed (a sample list is presented in recommendations 3.7). The collegial body should be informed about subsequent changes in the information, listed in this clause. The collegial body should annually accumulate the above mentioned information about its members and to present them in the annual report of the company.	Yes	In accordance with the laws, the annual report of the company, presenting the main information about the members of collegial bodies, is prepared and signed by the Director General of the company, discussed and approved by the board of the Company.
3.3. When it is proposed to appoint a member of the collegial body, the person's particular competence should be stated, which is in direct relation with the work in the collegial body. In order to enable the shareholders and investors to access whether this competence is still appropriate, the collegial body in each annual report of the company should provide information about the body's structure and about each single member's competence, directly related to his work in the collegial body.	Yes	Candidates to the elected bodies inform mandatory to the body, executing the election, where and what occupation he is on now, how his other activity is related to the Company and to other legal entities, related to the Company. The supervisory board members of the company are elected by the general meeting of the shareholders, the supervisory board elects the board members, the board elects the manager of the company. Manager of the company – Director General as per the legal scope of competence is responsible for drafting the annual report, prepares and signs it.
3.4. In order to maintain a proper balance of existing competence of the members of the collegial body, the composition of the collegial body should be determined with respect to the company structure and nature of activities and to be accessed periodically. The collegial body should ensure that its members, as an entire unit, would have versatile knowledge, opinions and experience for proper execution of given assignments. Members of the Auditing committee, as an entire unit, should have the latest knowledge and respective experience in the field of finance and accounting and (or) auditing of the companies, listed	Yes	The portfolio of the company is managed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56,66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise the Supervisory board (3/5) and the majority of the board (4/5). Recommendations to form committees by nature and its essence is solely related to the supervisory board, and to the board of the company, having different purpose and functions as per the Law on Companies, it is not applicable.

on the stock exchange. At least one of the members of the remuneration committee should have knowledge and experience in the field of remuneration policy.		<p>On July 21, 2001, at the meeting of the supervisory board, as documented in minutes of the meeting No. 3, the Auditing committee was formed of 3 members:</p> <ul style="list-style-type: none"> - Jonas Nazarovas, AB DFDS Seaways executive director; - Ligita Mikienė, deputy director of economics and finance at Klaipėda stevedoring company under Concern Achemos grupė; - Dana Cemnolonskienė, the acting head of the internal auditing division of the state enterprise State Property Fund.
3.5. All new members of the collegial body should be offered an individually tailored program focused on introducing a member with the duties, the company organization and activities. The collegial body should conduct an annual review in order to identify the fields where its members need to update their skills and knowledge.	Yes	
3.6. In order to ensure that all essential conflicts of interests, related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient ³ number of independent ⁴ members.	Yes	Two members of the collegial body are independent members.

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

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

<p>3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependent are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The main criteria for identifying whether a member of the collegial body can be considered to be independent are the following:</p> <ol style="list-style-type: none"> 1) He is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations); 4) He is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1); 5) He does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner, shareholder, director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial, legal, counselling and consulting services), major client or organization receiving significant payments from the company or its group; 6) He is not and has not been, during the last three years, partner or employee of the current or former external audit company of the company or associated company; 7) He is not an executive director or member of 	<p>Yes</p>	<p>The major shareholding of the company is governed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise the major part of the Supervisory board (3/5) and the majority of the board (4/5). Two members of the Supervisory board are considered to be independent.</p>
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<p>the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</p> <p>8) He has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above sub-clauses 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p>		
<p>3.8. The content of the concept of independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that, despite a particular member meets all the criteria of independence laid down in this Code, he cannot be considered independent due to certain personal or company-related circumstances.</p>	Yes	
<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	Yes	Refer to clause 3.7.
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	Yes	<p>The major shareholding of the company is governed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise the major part of the Supervisory board (3/5) and the majority of the board (4/5).</p> <p>Members of the collegial body comply with the independence confirmation.</p>

3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's means. ⁶ The general shareholders' meeting should approve the amount of such remuneration.	No	This provision is not applicable to the company governed by the Ministry of Communication.
<p>Principle IV: Duties and liabilities of a collegial body elected by the general meeting of shareholders</p> <p>The company management system should ensure proper and effective functioning of the collegial body, elected by the general meeting of the shareholders, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company management bodies and protection of interests of all the company's shareholders.</p>		
4.1. The collegial body, elected by the general meeting of shareholders (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance. ⁸	Yes	
4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefits and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	To the best knowledge of the Company, all the members of the Supervisory board and of the Board act in good faith towards the Company, are guided by the company interests, and not the third party's or their own, seeking to maintain their independence in decision making.

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

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

4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half ⁸ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	The shareholding of the company is managed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56.66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise the major part of the Supervisory board (3/5) and the majority of the board (4/5). Participation of the members of the collegial bodies in the meetings is documented and reported to the company in the minutes of the meetings.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	The procedure of presenting company documents and other information to the shareholders is defined in the Articles of Association.
4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Yes	There were no transactions.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies ⁹ . Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees. When using the services of a consultant with a view to obtaining information on market standards for remuneration systems, the remuneration committee should ensure that the consultant concerned does not at the same time advise the human resources department, executive directors or collegial management organs of the company concerned.	Yes	The general meeting of the shareholders elects the supervisory body of the company activities – the Supervisory board.

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

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

<p>4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees¹¹. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.</p>	<p>Yes</p>	<p>The board shall elect and recall from office the single-person management body of the Company – the General Director, fixes his salary and sets out other terms of the employment contract, approves his job description, provides incentives for and imposes penalties against him.</p> <p>The board discusses and approves the management structure of the company and the employees' duties and employment positions to which they are recruited through competition.</p> <p>The General Director organizes daily activities of the Company, issues procuracies and authorizations, employs and dismisses people, concludes and terminates employment contracts therewith, provides incentives and imposes penalties. He is also responsible for organization of the activities of the Company as well as implementation of its goals.</p> <p>The Company operates according to the Articles of Association, working regulations of the Supervisory Board and the Board.</p> <p>Recommendations on formation of the auditing committee by nature and essence are solely related to the supervisory board, and are not applicable to the board of the company, having different purpose and functions as per the Law on Companies.</p> <p>On 21 July 2011, the Supervisory Board formed the Auditing committee of 3 members (minutes of the meeting No. 3).</p>
<p>4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should exercise independent judgment and integrity when exercising its functions as well as present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.</p>	<p>Yes</p>	<p>The shareholding of the company is managed by the state, represented by the Ministry of Communication of the Republic of Lithuania (56,66 %). Employees of the Ministry of Communication of the Republic of Lithuania comprise the major part of the Supervisory board (3/5) and the majority of the board (4/5). The company has management bodies, which are provided for in the Articles of Association, and the functions of which are strictly regulated by legislation. Duties of the Audit committee as defined in the Law on Audit of the Republic of Lithuania are partially exercised (executed) by a committee, established as per the decree of the company's chief executive officer, following the conditions of „Terms and conditions of the tender for election of the auditor of PC Lithuanian Shipping Company“. The committee starts functioning 2001-10-22. The Securities Commission of the Republic of Lithuania as well as AB NASDAQ OMX Vilnius have been informed thereon. On 21 July 2011, the supervisory board established the Audit committee of 3 members (minutes of the meeting No. 3).</p>

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

<p>4.9. Committees, established by the collegial body, should normally consist of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that committee membership is refreshed and that undue reliance is not placed on particular individuals.</p>	<p>Yes</p>	<p>Refer to clauses 3.4., 4.7., 4.8.</p> <p>The supreme management body of the company – the general meeting of shareholders elects the Supervisory board.</p> <p>On 21 July 2011, the supervisory board established the Audit committee of 3 members (minutes of the meeting No. 3).</p>
<p>4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its company management structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.</p>	<p>Not applicable</p>	<p>Refer to clauses 3.4., 4.8.</p>
<p>4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.</p>	<p>Not applicable</p>	<p>Refer to clauses 3.4., 4.8.</p>

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. The nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.</p>	<p>Not applicable</p>	<p>Refer to clauses 3.4., 4.8.</p> <p>The nomination committee is not formed.</p>
<p>4.13. The remuneration committee.</p> <p>4.13.1. The main functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; 3) Ensure that remuneration of individual executive directors or members of management body is proportionate to the remuneration of other executive directors or members of management body and other staff members of the company; 4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation; 5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; 	<p>Not applicable</p>	<p>Salaries and other employee benefits in the company are paid out in accordance with the Collective agreement, employment contracts and provisions of remuneration system for on-shore workers of Lithuanian Shipping Company, description of the procedures for remuneration to the General Director, directors and the chief accountant, as approved by the Board.</p> <p>The remuneration committee is not formed.</p>

<p>6) Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors);</p> <p>7) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p> <p>4.13.4. The remuneration committee should report on the performance of its functions to the shareholders and be present at the annual general meeting for this purpose.</p>		
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<p>accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</p> <p>4.14.4. Internal and external auditors should be secured with not only effective working relationship with management, but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.</p> <p>4.14.5. The audit committee should be informed of the internal auditor's work program, and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.</p> <p>4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company, by way of complaints or through anonymous submissions (normally to an independent member of the collegial body), and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.</p> <p>4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months, at the time the yearly and half-yearly statements are approved.</p>		
<p>4.15. Annually the collegial body should conduct the evaluation of its activities. The evaluation should include assessment of collegial body's structure, work organization and ability to perform as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.</p>	<p>Yes</p>	<p>Refer to clauses 1.3., 3.10.</p>

Principle V: The working procedure of the collegial bodies of the company

The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.

5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	Chairman of the Supervisory board – Tomas Karpavičius (since 2011-12-22), Chairman of the board of the company – Arūnas Štaras (since 2009-03-20).
5.2. It is recommended that meetings of the company's collegial bodies should be held according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential company management issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month ¹² .	Yes	<p>The governing bodies of the Company discuss all the issues, assigned to them as provided for in their work regulations.</p> <p>Frequency of the meetings of the bodies depends on the topical issues. The board makes a plan of ordinary meetings. Agendas of extraordinary meetings of the Board are defined by the persons, convening the meeting. The Supervisory board also structures a schedule for meetings. The Supervisory Board meetings are held at least once per quarter.</p>
5.3. Members of a collegial body should be notified about the meeting being held in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	<p>The Supervisory board structures a schedule for meetings, defines the main topical issues, responsible persons and preliminary dates. The meeting agenda is announced not later than 7 days prior to the meeting. The foreseen agenda can be changed only if all the members of the Supervisory board approve. The material of the meeting has to be made available to the members of the Supervisory Board not later than 5 days prior to the meeting.</p> <p>The Board structures a plan of ordinary meetings of the Board. The meeting agenda is defined by the persons, initiating the meeting. The prepared meeting material has to be presented to the chairman of the Board not later than 5 days prior to the Board meeting. The chairman of the Board calls for the board meeting by distributing invitations to the Board members as well as the material for the meeting 3 days prior to the meeting. The agenda can be supplemented irrespective of this term, if all the members of the Board are present, or, in case not all the members</p>

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

		are present, but the ones, who are absent, did not object with regard to such actions, and if none of the present Board members are against.
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of company management. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	The material on the issues, discussed by the Supervisory Board, is prepared by the Company's staff and members of the Board, and, if necessary, by members of the Supervisory Board, using the input of other persons. It is allowed to invite persons, related to the issues under consideration, to the open meetings of the Supervisory Board.
Principle VI: The equitable treatment of shareholders and shareholder rights The company management system should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The company management system should protect the rights of the shareholders.		
6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	The authorized capital of the Company amounts to 200,901,296 litas. The authorized capital of the Company is divided into 200,901,296 ordinary registered shares of one litas nominal value each. The Company's shares are of one class - ordinary registered shares, giving their owners equal rights.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	It is foreseen in the Law on Companies and the Articles of Association of the Company. Only the General Shareholders Meeting shall have an exclusive right to determine the class, number, nominal value and the minimal emission price of the Company's issued shares. The Company publicly announces about convocation of the General Shareholders Meeting in accordance with the Article of Association.

<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting¹³. All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant company issues, including approval of transactions referred to above, are discussed.</p>	<p>Yes</p>	<p>Articles of Association of the Company provide that the Board shall take the following decisions:</p> <ul style="list-style-type: none"> – decisions on the investment, disposal or lease of the fixed assets the book value whereof exceeds 10 million Litas (calculated individually for every type of transaction); – decisions on the pledge or mortgage of the fixed assets the book value whereof exceeds 10 million Litas (calculated for the total amount of transactions); – decisions on offering of surety or guarantee for the discharge of obligations of third parties the amount whereof exceeds 10 million Litas; – decisions on acquisition of fixed assets the price whereof exceeds 10 million Litas; <p>only having received an approval of the General Meeting of shareholders.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.</p>	<p>Yes</p>	<p>The Company informs publicly about convening of the General Meeting of the shareholders in accordance with the Law on Companies (it is informed publicly no more than 21 day before the meeting).</p>
<p>6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	<p>Yes</p>	<p>The order of convocation of General Meeting of shareholders of the Company, procedure of decision making and organizational arrangements are determined by Law on Companies of the Republic of Lithuania and the Articles of Association of the Company, by which the Company is guided.</p> <p>Key events involving also the GSM agenda and decisions, their drafts are announced publicly by electronic means through the news distribution system used by NASDAQ OMX Vilnius, in Lithuanian and English languages. This information is also posted in the Company's website.</p>

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

7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
VIII principle: Remuneration policy of the Company The Company's remuneration policy and procedure for approval, revision and disclosure of directors' remuneration should prevent potential conflicts of interest and abuse in determining remuneration of directors, it should also ensure publicity and transparency both of the remuneration policy in the company and remuneration of directors.		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement) which should be clear and easily understandable. This remuneration statement should be published as a part of the company's annual report as well as posted on the company's website.	Yes	The company announces the average number of employees and monthly remuneration in the annual report as stipulated by the Securities commission of the Republic of Lithuania. This information is available in the Company (Malūnininkų 3, Klaipėda), in the Securities Commission of the Republic of Lithuania (Konstitucijos pr. 23, Vilnius), at NASDAQ OMX Vilnius (Konstitucijos pr. 7, 15th floor, Vilnius), and it is also posted on the websites of the latter companies, where information is open and available to everybody.
8.2. The remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	The report is not being prepared.
8.3. The remuneration statement should at least include the following information: 1) An explanation and a ratio of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance evaluation criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance evaluation criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance evaluation criteria have been fulfilled; 5) Sufficient information on deferment periods with regards to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main criteria and justification for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regards to vesting periods for share-based remuneration, as referred to in clause 8.13 of this Code;	No	The supplementary pension or early retirement schemes are not applicable, neither the right to participate in the share selection transactions, nor rights to shares are applicable.

<p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.5.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial report of the company has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.</p>		
8.6. Where the remuneration policy includes variable components of remuneration, companies should set limits on the variable component(s). The non-variable component of remuneration should be sufficient to allow the company to withhold variable components of remuneration when performance criteria are not met.	Yes	The remuneration of the chief executive officer consists of a non-variable component and a variable component, which depends on the result of each quarter.
8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.	Yes	The variable component of the remuneration depends upon the results of quarterly indicators and their implementation, approved by the Board.
8.8. Where a variable component of remuneration is awarded, a major part of the variable component should be deferred for a minimum period of time. The part of the variable component subject to deferment should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.	No	The calculated remuneration is paid in accordance with the procedure and terms, set in the Company.
8.9. Contractual arrangements with executive or managing directors should include provisions that permit the company to reclaim variable components of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated.	Not applicable	
8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, be not higher than two years of the non-variable component of remuneration or the equivalent thereof.	Yes	Hired employees should not be subject to worse conditions than provided for in the Labour Code of the Republic of Lithuania.

8.11. Termination payments should not be paid if the termination is due to inadequate performance.	Yes	This is provided for by laws. Not always bad performance of the company occurs due to malfunction of the company employees. However, impact of poor, low quality work has to be evaluated on a subjective basis.
8.12. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.	Yes	
8.13. Shares should not vest for at least three years after their award.	No	The remuneration is not based on the award of shares.
8.14. Share options or any other right to acquire shares or to be remunerated on the basis of share price movements should not be exercisable for at least three years after their award. Vesting of shares and the right to exercise share options or any other right to acquire shares or to be remunerated on the basis of share price movements, should be subject to predetermined and measurable performance criteria.	No	Such rights are not granted.
8.15. After vesting, directors should retain a number of shares, until the end of their mandate, subject to the need to finance any costs related to acquisition of the shares. The number of shares to be retained should be fixed, for example, twice the value of total annual remuneration (the non-variable plus the variable components).	No	For implementation of this recommendation, the rights are not granted, property should not be limited, the remuneration is not adequate to the global level.
8.16. Remuneration of non-executive or supervisory directors should not include share options.	No	Not provided in the Articles of Association of the Company.
8.17. Shareholders, in particular institutional shareholders, should be encouraged to attend general meetings where appropriate and make considered use of their votes regarding directors' remuneration.	No	Not provided in the Articles of Association of the Company.
8.18. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.	No	Not provided in the Articles of Association of the Company.

<p>8.19. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.</p>	No	<p>Not provided in the Articles of Association of the Company.</p> <p>No share-based remuneration.</p>
<p>8.20. The following issues should be subject to approval by the shareholders' annual general meeting:</p> <ol style="list-style-type: none"> 1) Grant of share-based schemes, including share options, to directors; 2) Determination of maximum number of shares and main conditions of share granting; 3) The term within which options can be exercised; 4) The conditions for any subsequent change in the exercise of the options, if permissible by law; 5) All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors. 	No	<p>Not provided in the Articles of Association of the Company.</p>
<p>8.21. Should national law or Articles of Association of the company allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.</p>		
<p>8.22. Provisions of clauses 8.19 and 8.20 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the annual general meeting of the shareholders.</p>	No	<p>Not provided in the Articles of Association of the Company.</p> <p>Such models are not applicable.</p>

8.23. Prior to the annual general meeting of shareholders that is intended to consider decision stipulated in clause 8.19. the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms, as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market, hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.	No	<p>Participation in schemes is not provided for by the Articles of Association.</p> <p>Not provided for in the Articles of Association. Draft resolutions are publicly announced as per established procedure and they are available prior to the general meeting of shareholders.</p>
<p>Principle IX: The role of shareholders in the company management</p> <p>The management system of the company should recognize the rights of shareholders as established by law and encourage active co-operation between companies and shareholders in creating the company's prosperity, jobs and financial sustainability. For the purposes of this Principle, the concept "shareholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the specific company.</p>		
9.1. The company management system should assure that the rights of shareholders which are protected by law are respected..	Yes	Laws provide for certain penalties in case of incompliance. The company aims at avoiding any conflicts of interests.
9.2. The company management system should create conditions for the shareholders to participate in company management in the manner provided by law. Examples of mechanisms of shareholder participation in company management include: employee participation in adoption of certain essential decisions for the company; consulting the employees on company management and other important issues; employee participation in the company's share capital; creditor involvement in management in the context of the company's insolvency, etc.	Yes	The company acts as provided by the Law on Companies, and the Articles of Association.
9.3. Where shareholders participate in the company management process, they should have access to relevant information.	Yes	<p>Otherwise, there is no participation in the Company's management process.</p> <p>The Articles of Association provide for this.</p>

Principle X: Information disclosure

The management system of the company should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and management of the company.

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none">1) The financial and operating results of the company;2) Company objectives;3) Persons holding by the right of ownership or in control of a block of shares in the company;4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration;5) Essential foreseeable risk factors;6) Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations;7) Essential issues regarding employees and other shareholders;8) Management structures and strategy. <p>This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list</p>	Yes	<p>It was disclosed in activity reports of the Company, in the prospect-reports (annual, semi-annual), and since 2007 in annual reports.</p> <p>Information on how the listed clauses are respected is disclosed as per current laws, legal regulations, as per specified procedure and terms of the securities commission of the Republic of Lithuania and the Stock exchange AB NASDAQ OMX Vilnius, as per current order and practice in the Company. Public interest of the shareholders is regulated by the Law on Companies, Articles of Association, documents and rules of the securities market, which are mandatory to and are followed by the Company.</p> <p>Information to the market is disclosed in Lithuanian and in English via NASDAQ OMX news distribution system, announcing the main events, posting on the Company's website in the section for investors. In addition, there is an equal possibility granted to get information about the company, which is listed on the stock exchange, thus all the shareholders can take decisions on their own regarding purchasing-selling of the shares.</p> <p>There is no group of companies.</p>
<p>10.2. It is recommended to the company, which is the parent of other companies, that consolidated results of the whole group to which the company belongs should be disclosed when information specified in clause 1 of Recommendation 10.1 is under disclosure.</p>	Yes	Refer to clause 10.1.
<p>10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in clause 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.</p> <p>10.4. It is recommended that information about the links between the company and its shareholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in clause 7 of Recommendation 10.1 is under disclosure.</p>	Yes	<p>This is regulated by the legal system, Articles of Association as well as contractual obligations. While committing to it, the aim was to avoid conflicts of interests, granting the shareholders the right to choose.</p>

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	Refer to clause 10.1. However, in the first place, interests of the shareholders, and of the main shareholder should not be violated and (or) under violation with regard to the interests of the future investor.
10.6. Channels for distributing information should provide for fair, timely and cost-efficient or in cases provided by the legal acts free of charge access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Refer to clause 10.1.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	Refer to clause 10.1. Information on the changes in the price of the Company's shares is public, and it is posted on the Stock Exchange (NASDAQ OMX Vilnius) website.
Principle XI: The selection of the audit firm for the Company The mechanism of selection of the company auditors should ensure independence of conclusion and opinion of the firm of auditors.		
11.1. An annual audit of the company's financial reports and interim reports should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	Audit of annual financial statements is provided by the law. Interim financial statements are not audited by an independent auditor as it is not provided by the law.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	The auditing firm is selected in accordance with the provisions for selection of an auditing firm, approved by the Board of the Company. The winner of the tender is presented to the general meeting of shareholders in order to approve the elected auditor. As prescribed by the Law on Companies of the Republic of Lithuania and the Articles of Association, only the general meeting of shareholders has an exclusive right to elect and to cancel the auditing firm, to define remuneration provisions for the services rendered. Such a right to make proposals is not provided by the law.

11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	The audit company has never received fees from the Company for non-audit services. This information was stated in the letter, dated 23 November 2011, issued by the head of the company „Regarding confirmation of independence of UAB „KPMG Baltics“, to the Authority of Audit and Accounting and to the Company.
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The attention of the readers is drawn to the fact that the Code of NASDAQ OMX Vilnius is prepared on the basis of the analysis of the global good practice in company management and the latest EU recommendations in the field of company management, and it is given as a guidance – in case some provisions and concepts are in conflict with the provisions of legal acts of the Republic of Lithuania, the disclosure of compliance as per set procedure, should be seen and assessed from the latter position.