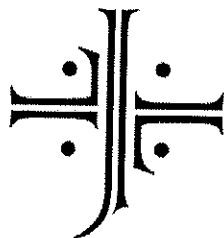


AKCINĖ BENDROVĖ  
"LIETUVOS JŪRŲ LAIVININKYSTĖ"



PUBLIC COMPANY  
"LITHUANIAN SHIPPING COMPANY"

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

2015-02-24      Nr.      (01)-5- 50  
Klaipėda  
I      Nr.      \_\_\_\_\_

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

Following the Rules of Preparation and Submission of Periodic and Supplemental of the Securities Commission of the Republic of Lithuania as well as the Law on Securities of the Republic of Lithuania, Item 22, we hereby confirm that, to the best of our knowledge Financial statements for the ended 31 December 2014, drawn in accordance with the International Financial Reporting Standards, corresponds to the reality and properly reflects the assets, liabilities, financial state, profit or loss and cash flows of Public Company "Lithuanian Shipping Company".

Public Company "Lithuanian Shipping Company"  
General Director

Audronis Lubys

Public Company "Lithuanian Shipping Company"  
Chief Accountant

Arvydas Stropus

**Public Company**  
**Lithuanian Shipping Company**

Financial statements for the  
year ended 31 December 2014

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## **Company details**

### **Public Company Lithuanian Shipping Company**

Telephone: +370 46 393105

Telefax: +370 46 393119

Company code: 110865039

Address: Malūnininkų St.3, Klaipėda

### **Supervisory Council**

Tomas Karpavičius (Chairman)

Ona Barauskienė

Saulius Kerza

Laimutė Tinglum

Gytis Kaminskas

### **Board of Directors**

Saulius Girdauskas

Andrius Šniuolis

Eglė Vyšniauskaitė

Mindaugas Utkevičius

Stepas Telešius

### **Management**

Audronis Lubys, General Director

Arvydas Stropus, Chief Accountant

### **Auditor**

KPMG Baltics, UAB

### **Banks**

AB SEB Bankas

AB DNB Bankas

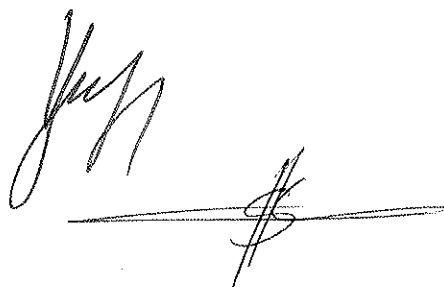
## Statement of financial position

For the year ended 31 December

	Notes	31-12-2014	31-12-2013
<b>ASSETS</b>			
Property, plant and equipment	1	122.007	142.165
Intangible assets		-	1
<b>Total non-current assets</b>		<b>122.007</b>	<b>142.166</b>
Inventories	3	3.364	4.101
Prepayments		562	833
Trade and other receivables	4	4.876	4.065
Cash and cash equivalents	5	371	1.602
Assets held for sale	2	-	10.327
<b>Total current assets</b>		<b>9.173</b>	<b>20.928</b>
<b>TOTAL ASSETS</b>		<b>131.180</b>	<b>163.094</b>
<b>EQUITY</b>			
Share capital	6	82.867	200.901
Accumulated losses		(22.847)	(119.081)
<b>TOTAL EQUITY</b>		<b>60.020</b>	<b>81.820</b>
<b>LIABILITIES</b>			
Non-current employee benefits	8	370	414
Loans and borrowings	7	-	-
<b>Total non-current liabilities</b>		<b>370</b>	<b>414</b>
Loans and borrowings	7	45.864	52.819
Trade and other payables	10	20.167	21.544
Employment related liabilities	9	4.706	6.431
Income tax liabilities	17	53	66
<b>Total current liabilities</b>		<b>70.790</b>	<b>80.860</b>
<b>Total equity and liabilities</b>		<b>131.180</b>	<b>163.094</b>

The notes set out on pages 6 – 32 form an integral part of these financial statements.

General Director  
 Chief Accountant



Audronis Lubys  
 Arvydas Stropus

## Statement of profit or loss and other comprehensive income

For the year ended 31 December 2014

	Notes	2014	2013	2014 October- December	2013 October- December
Revenue	12	70.038	92.337	16.376	20.208
Cost of sales	13	(76.993)	(102.981)	(16.861)	(23.316)
<b>Gross result</b>		<b>(5.955)</b>	<b>(10.644)</b>	<b>(485)</b>	<b>(3.108)</b>
Administrative expenses	14	(5.095)	(4.559)	(1.829)	(1.664)
Impairment of vessels	14	(2.447)	(26.141)	(2.447)	(26.141)
Selling expenses	14	(8)	(11)	(4)	(6)
Other operating income	15	534	677	1.702	4.494
Other operating expenses	15	(489)	(238)	(284)	(4.058)
<b>Operating result</b>		<b>(13460)</b>	<b>(40.916)</b>	<b>(1.418)</b>	<b>436</b>
Finance income	16	-	2.083	-	1.076
Finance expenses	16	(8.331)	(2.141)	(2.695)	(572)
<b>Net finance costs</b>		<b>(8.331)</b>	<b>(58)</b>	<b>(2.695)</b>	<b>504</b>
<b>Profit (loss) before tax</b>		<b>(21.791)</b>	<b>(40.974)</b>	<b>(6.042)</b>	<b>(29.979)</b>
Income tax expenses	17	(53)	(66)	(53)	(66)
<b>Profit (loss) for the year</b>		<b>(21.844)</b>	<b>(41.040)</b>	<b>(6.095)</b>	<b>(30.045)</b>
<b>Change in employee benefits</b>	8	<b>44</b>	<b>109</b>	<b>44</b>	<b>109</b>
<b>Total comprehensive income</b>		<b>(21.800)</b>	<b>(41.149)</b>	<b>(6.051)</b>	<b>(29.936)</b>
Basic and diluted earnings (loss) per share (in Litas)	18	(0.13)	(0.20)	(0,07)	(0.15)

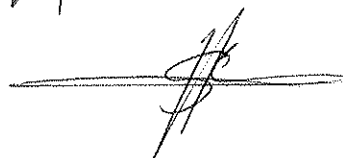
The notes set out on pages 6- 32 form an integral part of these financial statements.

General Director



Audronis Lubys

Chief Accountant



Arvydas Stropus

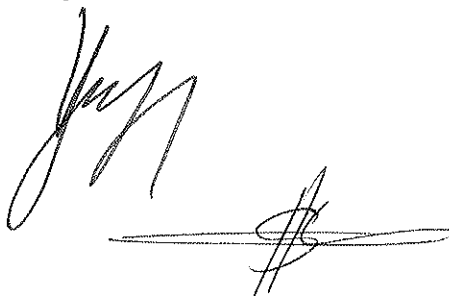
## Statement of changes in equity

For the year ended 31 December

	Share capital	Retained earnings (losses)	Total
<b>Balance at 31-12-2012</b>	<b>200.901</b>	<b>(77.932)</b>	<b>122.969</b>
<b>Other comprehensive income</b>			
Net profit (loss) for 2013	-	(41.040)	(41.040)
Other comprehensive income for 2013	-	(109)	(109)
<b>Total other comprehensive income:</b>	<b>-</b>	<b>(41.149)</b>	<b>(41.149)</b>
<b>Balance at 31-12-2013</b>	<b>200.901</b>	<b>(119.081)</b>	<b>81.820</b>
Net profit (loss) for 2014	-	(21.844)	(21.844)
Other comprehensive income for 2014	-	44	44
<b>Total other comprehensive income:</b>	<b>-</b>	<b>(21.800)</b>	<b>(21.800)</b>
<b>Transactions with shareholders</b>			
Reduction in shares	(118.034)	-	118.034
<b>Total transactions with shareholders:</b>	<b>(118.034)</b>	<b>118.034</b>	<b>-</b>
<b>Balance at 31-12-2014</b>	<b>82.867</b>	<b>(22.847)</b>	<b>60.020</b>

The notes set out on pages 6 – 32 form an integral part of these financial statements.

General Director  
 Chief Accountant



Audronis Lubys  
 Arvydas Stropus

## Statement of cash flows

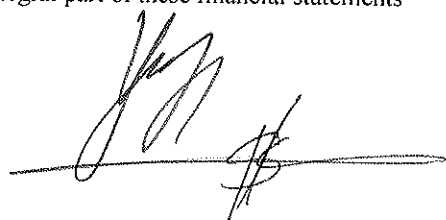
For the year ended 31 December

Thousand LTL	Notes	2014	2013
<b>Cash flows from operating activity</b>			
Profit (loss) for the year		(21.844)	(41.040)
Adjustments for:			
Depreciation and amortization	1	13.277	18.472
Effects of exchange rate changes on loan	7	5.473	(2.022)
Gain (loss) on disposal and write down of property, plant and equipment		489	160
Impairment losses on vessels	1	-	22.100
Impairment of assets held for sale	1, 2	2.447	3.936
Interest income/expenses, net	16	2.032	2.141
Income tax expense	17	53	66
<b>Operating cash flows before changes in working capital</b>		<b>1.927</b>	<b>3.813</b>
Decrease (increase) in receivables	4	(661)	(1.432)
Increase (decrease) in payables	10	(3.102)	3.006
Decrease (increase) in inventories	3	737	1.034
<b>Cash flows generated from operating activities</b>		<b>(1.099)</b>	<b>6.421</b>
Interest received (paid), net		(2.194)	(1.947)
Income tax paid	17	(66)	(66)
<b>Net cash from operating activities</b>		<b>(3.359)</b>	<b>4.408</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	1	(2.334)	(5.248)
Proceeds from sale of property, plant and equipment	1, 2	16.728	3.824
<b>Net cash used in investing activities</b>		<b>14.394</b>	<b>(1.424)</b>
<b>Cash flows from financing activities</b>			
Repayments of loan	7	(12.266)	(1.690)
<b>Net cash flow from financing activities</b>		<b>(12.266)</b>	<b>(1.690)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(1.231)</b>	<b>1.294</b>
Cash and cash equivalents at 1 January		1.602	369
Effect of change in exchange rates on cash held		-	(61)
<b>Cash and cash equivalents at 31 December</b>	5	<b>371</b>	<b>1.602</b>

The notes set out on pages 6 – 32 form an integral part of these financial statements

General Director

Chief Accountant



Audronis Lubys

Arvydas Stropus



## Notes to the financial statements

### I. Reporting entity

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

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

As at 31 December 2014 there were 258 employees in the Company, 24 of them working in management divisions and 234 in the fleet. As at 31 December 2013 there were 340 employees, 28 of them working in management divisions and 312 in the fleet.

The shareholder structure as at 31 December 2014 was as follows:

	31-12-2014		31-12-2013	
	Number of shares	Ownership percent	Number of shares	Ownership percent
Ministry of Transport and Communications of the Republic of Lithuania	46.953.515	56,66	113.833.000	56,66
DFDS TOR LINE A/S	4.581.970	5,53	11.108.420	5,53
Other minor shareholders	31.331.715	37,81	75.959.876	37,81
<b>Total:</b>	<b>82.867.200</b>		<b>200.901.296</b>	

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

### II. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by EU (IFRS). These statements were authorized for issue by the Management on 23 February 2015 and are subject to the approval of the shareholders. The shareholders of the Company have the power to reject these financial statements and request for the new ones to be prepared. All figures presented in the financial statements are rounded to the nearest thousand, unless stated otherwise.

### III. Functional and presentation currency

The financial statements are presented in the Lithuanian national currency Litas (LTL), which is the Company's functional currency. The Company has decided to use LTL as a functional currency considering the structure of revenue, costs, equity, and debt instruments.

The major part of the sea freight income for the convenience of trade and consistency in pricing is historically and globally denominated in USD. The exchange rate of USD against LTL does not have a direct impact on shipment prices. The sea freight market is affected by the balance between demand and supply of the services on international level. The bank loan used for the purchase of vessels is also denominated in USD.

However, the major part of the Company's costs comprise the expenditures in Litas such as salaries, social security, taxes, daily allowances, and the main technical supply for vessels, dock repair and other expenses. The management uses LTL to forecast and measure performance of the business.

#### **IV. Going concern**

For preparation of the financial statements as at 31 December 2014, management has concluded that it is appropriate to continue to prepare the financial statements based on the going concern principle, assuming that the Company will be able renegotiate the terms of the loan repayment so that contractual cash flows could be met by the Company.

The current liabilities, reflected in the Company's financial statements as at 31 December 2014, exceed the current assets by 62 million LTL (31 December 2013: current liabilities exceeded current assets by 60 million LTL). The Company has also incurred operating losses of 13 million LTL in 2014 (41 million LTL operating loss in 2013). The Company also has loan obligations as at 31 December of 45,9 million LTL due and payable by 27 February, 2015. As at the date of this report the Company has not yet formally agreed an extension of these loan facilities. . These circumstances indicate significant uncertainty regarding the Company's ability to continue as a going concern.

In 2014, the tonnage increase observed in the mini Handysize segment, in which LSC operates its vessels, was the lowest comparing to other shipping segments, however the decrease of transportation prices resulted in a drop of vessel construction orders and an increase of the number of vessels for demolition. According to the Drewry publishing research the charter rates will be increasing starting from 2015 and onwards. Also, according to the Company's business plan for 2015-2018, the Company is planning to sell two inefficient smaller vessels (m/v Audre and m/v Akvile) and Company's fleet will comprise solely of the mini Handysize type vessels. Consequently, the management expects that in the long run the growth of the global shipping rates and concentration of the fleet in the more profitable mini Handysize segment will positively affect the financial stability and business continuity of the Company.

Management expects that the rescheduling of the loan will occur and that the agreement regarding favourable loan repayment schedule will be reached with the bank. It also estimates that the proceeds from the vessel sales as described above will be sufficient to meet the new repayment requirements. Management anticipates that any additional repayments required will be met out of operating cash flows.

Management acknowledges that uncertainty remains over the Company's ability to meet its funding requirements and to repay its loan as it falls due. However, as described above, management has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. These financial statements have been prepared on the going concern basis and do not reflect any adjustments that might be necessary if the Company were not able to continue as a going concern.

#### **V. Use of judgements and estimates**

The preparation of the financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about assumptions and estimation uncertainties in applying accounting policies that have the most significant effect and significant risk of resulting in a material adjustment on the amounts recognized in the financial statements is included in the following notes:

- Note 1 Property, plant and equipment – key assumptions underlying measurement of the value in use and fair value less costs to sell in the impairment test.
- Note 1 Property, plant and equipment – estimates of the useful lives of the items of property, plant and equipment.

## **V. Use of judgements and estimates (continued)**

- Significant accounting policy "Revenue" – estimates of voyage charter time used in the calculation of percentage of completion..

Information about critical judgements in applying accounting policies that have the most significant effect and significant risk of resulting in a material adjustment on the amounts recognized in the financial statements is included in the following notes:

- Note 2 Assets held for sale – classification of the non-current assets as held for sale.

## **VI. Measurement of fair values**

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

On initial classification as held-for-sale property, plant and equipment are measured at the lower of their:

- carrying amount; and
- fair value less costs to sell (or costs to distribute, as applicable).

Incremental, directly attributable costs, excluding finance costs and income tax expense, are included in costs to sell. Impairment losses on initial classification of a property, plant and equipment as held-for-sale are included in profit or loss even if the asset had been previously measured at a revalued amount. The same applies to gains and losses on subsequent remeasurement. Subsequent to initial classification as held-for-sale, non-current assets that are measured at their fair value less costs to sell are subject to a limit on the amount of any gain that can be recognised as a result of an increase in fair value less costs to sell before disposal. The maximum increase (and therefore gain) that can be recognised is the cumulative amount of impairment losses recognised in accordance with IFRS 5 and previously in accordance with IAS 36. Gains and losses on subsequent remeasurement to fair value less costs to sell are included in profit or loss regardless of whether the asset was previously measured based on revalued amounts.

Any gain or loss not recognised before the date of sale is recognised on the derecognition of the property, plant and equipment. Property, plant and equipment and disposal groups are reclassified from held-for-sale or from held-for-distribution to held-for-use if they no longer meet the criteria to be classified as held-for-sale or held-for-distribution. On reclassification as held-for-use, a property, plant and equipment is remeasured at the lower of its recoverable amount and the carrying amount that would have been recognised had the asset never been classified as held-for-sale or held-for-distribution. The calculation of this carrying amount should include any depreciation that would have been recognised had the asset not been classified as held-for-sale or held-for-distribution.

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

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models as appropriate.

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

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

## **VI. Measurement of fair values (continued)**

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

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

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

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

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

## **VII. Significant accounting policies**

Except for the effect of new standards, interpretations and amendments of IFRS, the Company has consistently applied the accounting policies to all the periods presented in these financial statements.

### **Foreign currency**

Transactions in foreign currencies are translated into functional currency of the Company at the exchange rates set by the Bank of Lithuania at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences are generally recognized in profit or loss.

Exchange rates as of 31 December 2014 and 31 December 2013 were as follows:

	<b>31-12-2014</b>	<b>31-12-2013</b>
<b>LTL/EUR</b>	3,4528	3,4528
<b>LTL/USD</b>	2,8387	2,5098
<b>LTL/GBP</b>	4,4080	4,1391
<b>LTL/SEK</b>	0,3625	0,3849

### **Property, plant and equipment**

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.

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such item when that cost is incurred and when it is probable that the future economic benefits embodied with the item will flow to the Company, and the costs of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

Costs incurred during regular inspections and overhauls of vessels are recognised in the carrying amount of the vessels. Any remaining carrying amount of the cost of previous inspection or overhaul is derecognized.

## **VII. Significant accounting policies (continued)**

### **Property, plant and equipment (continued)**

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The estimated cost of regular inspection or overhaul of the vessels is considered as a separate component of the vessel. At the initial recognition of the vessel, the carrying amount of the inspection or overhaul is determined by reference to current market prices of the inspection or overhaul.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized within other operating income/other operating expenses in profit or loss.

Depreciation is started when the asset is available for use. Depreciation is based on the cost of an asset less its estimated residual value and it is charged to the statement of profit or loss and other comprehensive income on own assets and assets leased under finance lease terms on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. The cost of inspection and overhaul is depreciated over the expected period to the next inspection (overhaul).

The Company capitalises borrowing costs directly attributed to the acquisition, construction or production of a qualifying asset as a part of the cost of that asset. The Company ceases capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Borrowing costs were not capitalised in 2014 and 2013 because the Company did not carry out any acquisition, construction or production of assets.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

<b>Property group</b>	<b>Useful lives (in years)</b>
Vessels	30 (years since construction)
Machines and equipment	7 – 16
Dock surveys	2 – 3
Buildings and plant	15
Other vehicles	6 – 10
Other non-current assets	4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Residual values of the vessels are estimated as the value of the vessels' net weight at the scrap price.

### **Assets held for sale**

Property, plant and equipment, 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 measured in accordance with applicable IFRSs. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Once classified as held-for-sale, items of property, plant and equipment are no longer depreciated.

## **VII. Significant accounting policies (continued)**

### **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.

### **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.

### **Financial instruments**

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale assets.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

#### ***Non-derivative financial assets and financial liabilities – Recognition and derecognition***

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends to settle them on a net basis or to realize the asset and settle the liability simultaneously.

## **VII. Significant accounting policies (continued)**

### **Financial instruments (continued)**

#### ***Non-derivative financial assets – Measurement***

##### ***(a) Financial assets at fair value through profit or loss***

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

##### ***(b) Held-to-maturity financial assets***

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The effective interest rate is determined as the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

##### ***(c) Loans and receivables***

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

##### ***(d) Available-for-sale financial assets***

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments are recognized in other comprehensive income and accumulated in the fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

#### ***Non-derivative financial liabilities – Measurement***

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

### **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.

### **Impairment**

#### ***Non-derivative financial assets***

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- indications that a debtor will enter bankruptcy;

- any other observable data indicating that there is a measurable decrease in the expected cash flows.

## **VII. Significant accounting policies (continued)**

### **Impairment (continued)**

#### **Financial assets measured at amortized cost**

The Company considers evidence of impairment for these assets at an individual asset level. All assets are individually assessed for impairment.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in the allowance account. When the Company obtains a conclusive evidence that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

#### ***Financial assets available-for-sale***

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss.

#### ***Non-financial assets***

At each reporting date the Company reviews the carrying amounts of its non-current assets, except for inventories, to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated.

For 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 (the "cash-generating unit, or CGU"). For example, each vessel is considered a separate CGU.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment loss is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.



## **VII. Significant accounting policies (continued)**

### **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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance expenses.

### **Employee benefits**

Short-term employee benefits are expensed as the related service is provided. These include salaries and wages, social security contributions, vacation payouts, compensation for the first two days of illness, bonuses, allowances, severance payments, vacation accruals, which are recognized as costs when an employee has fulfilled his duties in exchange to the received allowance.

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

Post-employment defined benefit plan obligation is calculated annually by a qualified actuary using projected unit credit method. The projected unit credit method requires the Company to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). The Company attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits that the Company expects to pay in future reporting periods. Actuarial techniques allow the Company to measure that obligation with sufficient reliability to justify recognition of a liability. Remeasurement of the defined benefit liability, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

### **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 („Audre“, „Akville“ with the deadweight up to 6.000 tons), „Alka“ – type vessels („Alka“ – with the dead weight up to 10.000 tons, vessel was sold during 2014) and „Raguva“ type vessels („Raguva“, „Deltuva“, „Romuva“, „Voruta“, „Venta“ with the deadweight up to 25.000 tons).

### **Transactions with related parties**

The related parties of the Company are shareholders and members of the management, the general director, fleet operations director, fleet freight director, technical director, finance director, chief accountant, divisional managers, their family members, the entities controlled or jointly controlled by the management of the company.

The Company had no collectively significant transactions with related legal entities, including government-related entities and state institutions during 2014 and 2013.

## **VII. Significant accounting policies (continued)**

### **Revenue**

The Company is involved in leasing (renting) vessels under voyage charter and time charter agreements.

Voyage charter is the hiring of a vessel and crew for a voyage between a load port and a discharge port. The charterer pays the Company on a per-ton or lump-sum basis. The Company pays the port costs (excluding stevedoring), fuel costs and crew costs. Voyage charter agreements usually are short-term (in most cases up to 1-3 months).

Time charter is the hiring of a vessel for a specific period of time. The Company still manages the vessel but the charterer selects the ports and directs the vessel where to go. The charterer pays for fuel expenses, port charges and commissions. The Company receives a daily hire income. Time charter agreements may last for up to 2 years (but usually do not exceed 1 year). All charter agreements valid as at 31 December 2014 expire within 1 year.

The Company recognizes revenue from voyage charters agreements still in progress at the reporting date under the percentage of completion method. The percentage of completion is determined based on the proportion of an actual voyage time up to the reporting date to the total estimated (contracted) voyage time.

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

### **Cost of sales**

Costs are recognised based on accrual and matching principles in the period in which they were incurred.

Cost of sales includes depreciation of property, plant and equipment, salaries and other costs incurred to earn the income.

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

### **Selling and administrative costs**

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

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

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

### **Other operating income and costs**

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

### **Finance income and expenses**

Finance income and expenses comprise of interest income and expenses and realized and unrealized currency exchange gain or loss in relation to amounts receivable and payable denominated in foreign currencies.

Interest income and expenses are recognized in profit or loss using the effective interest rate method.

## **VII. Significant accounting policies (continued)**

### **Income tax**

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

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

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 starting in 2007 and later is taxed by a fixed income tax rate which depends on payload capacities of the vessels. The fixed income tax is applicable for shipping activities. Other activities of the Company, not related to shipping, are subject to normal income tax rate. The distinction between shipping and other activities (such as rent of premises) of the Company are determined by the Company based on the Tax Authorities guidance. Profit earned not from sea freight services is taxed in accordance with the Law on Income Tax. The deferred tax is not recognized in the Company.

### **Basic and diluted earnings (loss) per share**

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

### **Contingencies**

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements, unless the realization of income is virtually certain. They are disclosed in the financial statements when an inflow of economic benefit is probable.

### **Subsequent events**

Events that provide additional evidence on conditions that existed at the end of the reporting period (the adjusting events) are recognized in the final statements. Other subsequent events are not adjusting events and are disclosed in the notes if material.

## **VII. Significant accounting policies (continued)**

### **New standards, amendments or interpretations of published standards**

The following new or amended standards are effective from 1 January 2014 but did not have a significant impact on the financial statements of the Company:

- (a) Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) – the Company does not have subsidiaries, joint ventures or associates as at reporting date.
- (b) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – the Company does not have financial assets and liabilities, which could be offset.
- (c) Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) – the Company complies with the disclosure requirements of the standard.
- (d) Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) – the Company does not have derivative financial instruments at the reporting date.

### **Standards, interpretations and amendments to published standards that are not yet effective**

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those which may be relevant to the Company as well as management's judgements regarding the possible impact of initial application of new and revised standards and interpretations are set out below. The Company does not plan to adopt these amendments, standards and interpretations early:

- (a) IFRIC 21 Levies – no levies have been imposed on the Company by the government of Republic of Lithuania during the reporting period.
- (b) Defined Benefit Plans: Employee Contributions (Amendments to IAS 19) – the Company does not have a defined benefit plan that involve contributions from employees or third parties meeting certain criteria.

### **Annual Improvements to IFRSs**

The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. Most of these amendments are applicable to annual periods beginning on or after 1 February 2015, with earlier adoption permitted. Another four amendments to four standards are applicable to annual periods beginning on or after 1 January 2015, with earlier adoption permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Entity.

- (a) IFRS 1 First-time Adoption of International Financial Reporting Standards
- (b) IFRS 2 Share-based Payment
- (c) IFRS 3 Business Combinations
- (d) IFRS 8 Operating Segments
- (e) IFRS 13 Fair Value Measurement
- (f) IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- (g) IAS 24 Related Party Disclosures
- (h) IAS 40 Investment Property

## **VIII. Financial risk management**

In its activities, the Company is exposed to various financial risks: market risk (including currency exchange risk and interest rate risk), credit risk and liquidity risk. The Board of Directors is responsible for creation and control of overall risk management policy in the Company. Risk management policies are established to identify and analyse 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. 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 a customer or counterparty fails to comply with contractual obligations. Credit risk is controlled by applying credit limits depending on the risk profile of the customer and monitoring debt collection procedures on a weekly basis. The carrying amount of financial assets represents the maximum credit exposure, which was as follows as at the date of statement of financial position:

At 31 December 2014, the maximum exposure to credit risk for trade and other receivables was as follows:

	<b>31-12-2014</b>	<b>31-12-2013</b>
Trade receivables	3.370	2.721
Other receivables	1.474	1.237
<b>Total:</b>	<b>4.844</b>	<b>3.958</b>

As at 31 December 2014, the ageing of trade and other receivables that were not impaired was as follows:

	<b>31-12-2014</b>	<b>31-12-2013</b>
Not overdue	2.486	1.421
Overdue up to 30 days	767	682
Overdue 31 - 90 days	29	244
Overdue more than 91 days	88	374
<b>Total:</b>	<b>3.370</b>	<b>2.721</b>

Management believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk.

### ***Liquidity risk***

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Management monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. Ratios analysed by the Management are described in note 21.

As at 31 December 2014, the Company is in the process of negotiation with the bank regarding the extension of the loan repayment term. Management expects that the Company will be able to negotiate the extension during the first quarter of the year 2015.

**Public Company Lithuanian Shipping Company**

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

Financial statements for the year ended 31 December 2014

(in thousands of Litas, unless stated otherwise)

The operating loss for the year ended 31 December 2014 and 31 December 2013 amounted to 13 million Litas and 41 million Litas respectively.

## VIII. Financial risk management (continued)

### Liquidity risk (continued)

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

The table below analyses the Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The following are the contractual maturities of financial liabilities, including the estimated interest payments as at 31 December 2014:

Thousand LTL	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
<b>Financial liabilities</b>							
Loan from bank	45.864	(47.783)	(47.783)				
Payable to suppliers	15.941	(15.941)	(15.941)	-	-	-	-
Other payables	894	(894)	(894)	-	-	-	-
	<u>62.699</u>	<u>(64.618)</u>	<u>(64.618)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The following are the remaining contractual maturities of financial liabilities at 31 December 2013:

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

### Currency risk

The Company is exposed to currency risk to the extent that there is a mismatch between the currencies in which sales, purchases and borrowing are denominated and the functional currency of the Company (Lithuanian Litas, LTL). The Company does not hedge its estimated foreign currency exposure.

The Company's currency exchange risk was related to USD was concentrated in the following items of the statement of financial position. The table below presents amounts in USD converted to LTL:

Thousand LTL	31-12-2014	31-12-2013
Trade receivables	3.151	2.721
Other receivables	1.228	1.232
Cash and cash equivalents	331	1.589
Trade payables	(3.959)	(9.866)
Financial liabilities	(45.864)	(52.819)
<b>Net exposure</b>	<b>(45.113)</b>	<b>(57.141)</b>

## VIII. Financial risk management (continued)

### Currency risk (continued)

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

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

Thousand LTL	31-12-2014	31-12-2013
Increase in exchange rate	10%	10%
Profit (loss)	(4.511)	(5.714)
Decrease of exchange rate	(10%)	(10%)
Profit (loss)	4.511	5.714

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

### Interest rate risk

Borrowings of the Company are denominated in USD and bear a variable interest rate related to LIBOR, determined every three months. In 2014 the effective interest rate varied from 4,24% to 4,30% (in 2013 varied from 3,31% to 4,24%).

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 2014 and 2013 would change as indicated in table:

2014	Increase/ (-) decrease, %	Effect on net result
LTL	1%	(460)
LTL	-1%	460
2013	Increase/ (-) decrease, %	Effect on net result
LTL	1 %	(527)
LTL	-1 %	527

## IX. Capital management

The Board's policy is to maintain the confidence of investors, creditors and the market, to fund business development opportunities in the future and comply with external capital requirements.

The Board monitors capital return ratios and proposes dividends to the shareholders in accordance with the Company's financial performance and strategic goals. Capital comprises equity owned by the shareholders. The Board also seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the security provided by a sound capital position.

### **IX. Capital management (continued)**

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 2014 and 31 December 2013.

#### **Debt – equity ratio**

Thousand LTL	31-12-2014	31-12-2013
<i>Total liabilities:</i>	71.160	81.274
Less cash and cash equivalents	371	1.602
<i>Net amount of liabilities</i>	<b>70.789</b>	<b>79.672</b>
<i>Total equity:</i>	<b>60.020</b>	<b>81.820</b>
<b>Debt – equity ratio</b>	<b>1,18</b>	<b>0,97</b>



## X. Notes

### 1. Property, plant and equipment

Thousand LTL	Buildings and plant	Machinery and equipment	Vessels	Other vehicles	Dock surveys	Other non-current assets	Total
<b>Acquisition cost</b>							
Balance as at 31 December 2012	3.672	742	453.771	297	23.805	545	482.832
Acquisitions	-	12	3	-	5.227	6	5.248
Disposals (-)	-	(30)	(18.420)	-	(10.175)	(85)	(28.710)
Transfers to assets held for sale	-	-	(51.910)	-	(5.488)	-	(57.398)
Reclassifications	-	(18)	18	-	-	-	-
Balance as at 31 December 2013	3.672	706	383.462	297	13.369	466	401.972
Acquisitions	-	6	1	-	2.321	6	2.334
Disposals	(3.672)	(32)	-	-	(2.318)	(91)	(6.113)
Transfers to assets held for sale	-	-	(38.873)	-	(329)	-	(39.202)
Balance as at 31 December 2014	-	680	344.590	297	13.043	381	358.991
<b>Accumulated impairment</b>							
Balance as at 31 December 2012	-	-	(99.307)	-	-	-	(99.307)
Impairment	-	-	(22.100)	-	-	-	(22.100)
Transfers to assets held for sale	-	-	15.788	-	-	-	15.788
Balance as at 31 December 2013	-	-	(105.619)	-	-	-	(105.619)
Impairment	-	-	20.073	-	-	-	20.073
Transfers to assets held for sale	-	-	-	-	-	-	-
Balance as at 31 December 2014	-	-	(85.546)	-	-	-	(85.546)
<b>Accumulated depreciation</b>							
Balance as at 31 December 2012	703	671	171.565	156	14.163	487	187.745
Depreciation for the period	196	39	11.193	39	6.968	30	18.465
Disposals (-)	-	(30)	(14.845)	-	(9.765)	(78)	(24.718)
Transfers to assets held for sale	-	-	(22.374)	-	(4.930)	-	(27.304)
Reclassifications	-	(18)	18	-	-	-	-
Balance as at 31 December 2013	(899)	(662)	(145.557)	(195)	(6.436)	(439)	(154.188)
Depreciation for the period	(147)	(30)	(8.265)	(28)	(4.796)	(11)	(13.277)
Disposals	1.046	27	-	-	2.318	91	3.482
Transfers to assets held for sale	-	-	12.399	-	146	-	12.545
Balance as at 31 December 2014	-	(665)	(141.423)	(223)	(8.768)	(359)	(151.438)
<b>Carrying amounts</b>							
31 December 2012	2.969	71	182.899	141	9.642	58	195.780
31 December 2013	2.773	44	132.286	102	6.933	27	142.165
31 December 2014	-	15	117.621	74	4.275	22	122.007

All vessels are pledged to the bank as security for the bank loan (see note 7).

The amount of expenditures recognized in the carrying amount of property, plant and equipment during the period is 2.321 thousand LTL for docking of the vessel "Deltuva".

There are no contractual commitments for the acquisition of property, plant and equipment at 31 December 2014.

## **X. Notes (continued)**

### ***1. Property, plant and equipment (continued)***

Depreciation is recognized in the following items of the statement of profit or loss and other comprehensive income:

Thousand LTL	31-12-2014	31-12-2013
Cost of sales	(13.069)	(18.190)
Administrative expenses	(208)	(282)
<b>Total:</b>	<b>(13.277)</b>	<b>(18.472)</b>

### ***Impairment***

As at 31 December 2014 the Company performed an impairment evaluation with the purpose to determine whether the carrying value of the vessels as at 31 December 2014 is impaired.

The recoverable amount of the vessels „Romuva“, „Raguva“, „Voruta“, „Deltuva“ and „Venta“ was estimated based on the present value of the future cash flows expected to be derived from the vessel (value in use). The recoverable amount of the vessels „Audre“ and „Akvile“ was estimated based on the market value of the vessels, due to the fact that the Company is considering to sell these vessels. The “value in use” fair value measurement was categorized as a Level 3 fair value based on the inputs on the valuation technique used, while “market value” fair value was categorized as a Level 2 fair value.

The key assumption used in the estimation of the value in use are set out below. The values assigned to the key assumptions represent management’s assessment of future trends in the shipping industry and have been based on historical data from both external and internal sources.

- (a) Cash flows are forecasted for each vessel individually for the useful life period at the end of which the residual value of vessels is determined. At the end of the useful life, the residual value of a vessel is determined as a scrap value.
- (b) Revenue of each vessel is forecasted using the actual historical data, many years of experience and forecasts of the Company’s economists and of Drewry publishing research until the end of 2016, which is analysing/forecasting the Dry Bulk sector demand, charter rates and available tonnage. A forecasted increase in revenue for 2015 and subsequent periods is 5% annually until 2020, resulting from an increase in freight margins and stable rate of utilization.
- (c) Revenue of each vessel for subsequent periods is forecasted at the fixed level from the year 2020 onwards due to uncertainties in the future.
- (d) Number of working days: 6 days off-hire per year are intended for all vessels where repair is not planned, if the vessel is in inspection of SS (called special survey) – 28 days off-hire, if the vessel is in inspection of DS (called dock survey) – 21 days off-hire.
- (e) In 2015 the vessel costs are calculated for each vessel separately based on the vessel costs actually incurred in 2014 and on the forecasts of *Drewry publishing research* until the end of 2016, which forecasts an annual increase in vessel costs by 3% per annum till 2020. Costs of each vessel for subsequent periods are forecasted at the fixed level from 2020 due to uncertainties in the future.
- (f) 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.
- (g) Costs incurred due to class surveys of the vessels during the forecasted period make fixed amounts, which are expected and aimed at in order to optimize the technical maintenance of the vessels. No assessment of contingent costs, related to repair of the vessels, is made during the forecasted period.

## X. Notes (continued)

### 1. Property, plant and equipment (continued)

#### Impairment (continued)

(h) Discounting of cash flows is based on the weighted average capital cost rate (WACC). The calculated weighted average capital cost rate is 8% (2013 – 8,15%).

The impairment test of the vessels showed that the recoverable amount of all vessels mentioned previously („Romuva“, „Raguva“, „Voruta“, „Deltuva“ and „Venta“) is close to their carrying amount (not lower) stated in the financial statements as at 31 December 2014. No impairment is recognized in 2014 (in 2013: 22.100 thousand LTL).

Calculation of the recoverable amount is particularly sensitive to the projected amount of income and the weighted average cost of capital rate (WACC). Should the forecasted income of each year decrease by 5 per cent an impairment of 5.9 million LTL would be recognized. The table below shows possible impairment of the vessels, if the actual income remains as currently forecasted, decreases by 5% or 10%, and if the WACC rates, used for impairment test would be 8%, 9% or 10%.

Decrease in projected income	WACC base		
	Actually used 8%	9%	10%
0%	-	2.5 million LTL	6.0 million LTL
5%	5.9 million LTL	14.6 million LTL	21.3 million LTL
10%	20.3 million LTL	32.7 million LTL	38.4 million LTL

### 2. Assets held for sale

During 2014 the Company had sold both m/v „Alka“ and m/v „Asta“, which were stated as held for sale as at 31 December 2013.

On 14 January 2014 the Board of the Company adopted a decision to sell the m/v „Alka“. After the memorandum of agreement has been signed, the buyer made a prepayment for the m/v „Alka“. The sales transaction has not gone through due to the buyer's fault, therefore the prepayment received (530 thousand LTL) was kept by the Company and recognized under other operating income.

On 26 June 2014 the Board of the Company adopted a decision to sell the m/v „Daina“. The sales transaction was carried out on 28 July 2014. At the moment of reclassification (26 June 2014) the m/v „Daina“ was remeasured at fair value less costs to sell, which was lower than the carrying amount. The impairment loss on initial reclassification of the m/v „Daina“ as held for sale, amounting to 1.520 thousand LTL, is stated under administrative expenses (note 14). The fair value was measured as agreed sales price. The Company incurred selling expenses to the amount 148 thousand LTL.

On 12 August 2014 the Board of the Company decided to sell the administration building. The sales transaction was carried out on 17 November 2014. At the moment of reclassification the building was remeasured at fair value less costs to sell, which was lower than the carrying amount. The impairment loss on initial reclassification of the asset as held for sale, amounting to 927 thousand LTL, is stated under administrative expenses (note 14). The fair value was measured as agreed sales price.

## **X. Notes (continued)**

### **3. Inventories**

Thousand LTL	31-12-2014	31-12-2013
Fuel and lubricants on vessels	3.089	3.261
Spare parts, materials	139	659
Food supplies on vessels	136	181
<b>Total:</b>	<b>3.364</b>	<b>4.101</b>

In 2014, inventories of 19.431 thousand LTL (2013: 32.830 thousand LTL) were recognized as an expense and included in cost of sales.

There was no write down of inventories to net realisable value as at 31 December 2014 and 2013.

No inventories are pledged as at 31 December 2014 and 2013.

### **4. Trade and other receivables**

Thousand LTL	31-12-2014	31-12-2013
Trade receivables	4.731	3.835
Allowance for impairment (-)	(1.361)	(1.114)
<b>Trade receivables, net</b>	<b>3.370</b>	<b>2.721</b>
Receivable from the tax authorities	2	21
Prepayments to vessels	30	86
Other receivables	1.474	1.237
<b>Total other receivables</b>	<b>1.506</b>	<b>1.344</b>
<b>Total:</b>	<b>4.876</b>	<b>4.065</b>

### **5. Cash and cash equivalents**

Thousand LTL	31-12-2014	31-12-2013
Cash at bank in national currency	26	4
Cash at bank in foreign currencies	344	1.592
Cash on hand in national currency	1	-
Cash on hand in foreign currencies	-	6
<b>Total:</b>	<b>371</b>	<b>1.602</b>

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 = 2.8387 LTL.

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

### **6. Share capital**

Thousand shares	Authorised and issued capital
31-12-2013	200.901
New emission of shares	-
Acquisition of own shares	-
Cancellation of shares	(118.034)
31-12-2014	82.867

The authorized capital of the Company at 31 December 2014 comprised 82.867.200 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 and interest in residual assets.

## **X. Notes (continued)**

### **6. Share capital (continued)**

On 25 April 2014 the Annual General Meeting decided to reduce the authorized capital from 200.901 thousand LTL to 82.867 thousand LTL by cancelling shares in order to cover the accumulated losses recorded in the statement of financial position and restore the ratio between equity and authorized capital to the level required by the Lithuanian law. The amended Articles of Association with reduced authorized capital were registered on 30 September 2014. The authorized capital was decreased proportionally for each shareholder by cancelling 118.034.096 ordinary shares.

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

The Company's financial statements for the year ended 31 December 2014 show that the Company's equity as at 31 December 2014 amounts to 60.020 thousand LT, which is more than 50% of the authorized capital (82.867 thousand LTL) as required by the law.

No dividends were announced for the period ended as at 31 December 2014 and 2013.

### **Legal reserve**

Legal reserve is formed in accordance with the legal acts of the Republic of Lithuania. Transfers of not less than 5% of net profit must be performed on annual basis until the reserve makes 10% of the authorized capital. This reserve can be used only to cover the accumulated losses. As at 31 December 2014 the legal reserve is nil.

### **7. Loans and borrowings**

Thousand LTL	31-12-2014	31-12-2013
Payable after one year	-	-
Payable within one year	45.832	52.624
Accrued interest payable within one year	32	195
<b>Total:</b>	<b>45.864</b>	<b>52.819</b>
Loan balances in the beginning of the year	52.819	56.399
Loan received	-	-
Loan repaid	(12.266)	(1.692)
Accrued interest payable within one year	32	194
Accrued interest repaid	(194)	-
Currency exchange differences	5.473	(2.082)
<b>Total:</b>	<b>45.864</b>	<b>52.819</b>

Loans and borrowings have been reported as current liabilities, as the loan matures on 27 February 2015 and the Company is negotiating with the bank regarding the amendment of the repayment schedule.

Loan to the bank is secured by the pledge of the Company's vessels. The Company has pledged 7 vessels the carrying amount of which as at 31 December 2014 amounted to 121.896 thousand LTL.

The loan is denominated in USD and bears a variable interest rate related to 3 months LIBOR (USD) plus the bank margin. The effective interest rate in 2014 was 4,30% (2013: 4,24%).

### **8. Non-current employee benefits**

The Company has recognised non-current post-employment employee benefits related to retirement payments. The Company has assessed impact of mortality rate in Lithuania, discount rate, retirement age, age and turnover of the Company's employees, salary and inflation growth, other pay-outs as to the Company's collective agreement and other factors while calculating non-current employee benefits. Remeasurement of the defined benefit liability in 2014 and 2013, which comprise actuarial gains and losses, are recognized immediately in other comprehensive income.

## **X. Notes (continued)**

### **8. Non-current employee benefits (continued)**

Thousand LTL	
<b>31 December 2012</b>	<b>305</b>
Change	109
<b>31 December 2013</b>	<b>414</b>
Change	(44)
<b>31 December 2014</b>	<b>370</b>

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages) in 2014 and 2013:

Thousand LTL	31-12-2014	31-12-2013
Discount rate	2,2%	3,8%
Employee turnover	23,6%	21,1%
Future expected salary growth	5,8%	5,6%
Inflation rate	2,0%	2,1%

Other assumptions (such as mortality, pension age and years until pension age) were based on the Lithuania's statistical averages as at 31 December 2014 and 2013.

### **9. Employment related liabilities**

Thousand LTL	31-12-2014	31-12-2013
Payable salaries	2.724	4.173
Vacation reserve (salaries)	1.229	1.294
Vacation reserve (social taxes)	499	519
Payable to tax authorities	224	367
Other payables	30	78
<b>Total:</b>	<b>4.706</b>	<b>6.431</b>

### **10. Trade and other payable amounts**

Thousand LTL	31-12-2014	31-12-2013
Payable to suppliers (a)	15.941	18.232
Prepayments received	3.332	3.043
Accrued expenses	392	77
Payable dividends	95	95
Other	407	97
<b>Total:</b>	<b>20.167</b>	<b>21.544</b>

(a) Amount payable to suppliers includes: 6.638 thousand LTL – fuel; 3.792 thousand LTL – repair and technical supply of vessels; 1.191 thousand LTL – payable to agents for services provided to vessels; 751 thousand LTL – vessel supervision classifying companies; 621 thousand LTL – lubricants; 2.459 thousand LTL – other various services to vessels and on-shore divisions.

## **X. Notes (continued)**

### **11. Deferred tax asset and liabilities**

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

### **12. Revenue**

Thousand LTL	31-12-2014	31-12-2013
Voyage-charter revenues (a)	46.203	68.529
Time-charter revenues (b)	21.406	19.509
Other time-charter revenues	208	181
Other	2.221	4.118
<b>Total:</b>	<b>70.038</b>	<b>92.337</b>

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

(b) Time charter agreements are based on the vessel's rent for a particular period of time from date A till B. Time charter agreements may last for up to 2 years (but usually do not exceed 1 year).

### **13. Cost of sales**

Thousand LTL	31-12-2014	31-12-2013
Fuel	(18.675)	(31.943)
Crew costs	(16.528)	(20.899)
Depreciation	(13.069)	(18.190)
Port dues	(8.834)	(10.944)
Insurance	(4.034)	(4.898)
Emergency repair of vessels	(2.776)	(1.578)
Commissions	(2.713)	(3.506)
Vessel's functional expenses	(2.262)	(2.993)
Lubricants	(1.730)	(1.767)
Spare parts	(1.020)	(834)
Other vessel costs	(4.352)	(5.429)
<b>Total:</b>	<b>(75.993)</b>	<b>(102.981)</b>

Depreciation charge has decreased due to sale of vessels.

### **14. Administrative expenses**

Thousand LTL	31-12-2014	31-12-2013
Impairment of vessels (note 1)	-	(22.100)
Impairment of assets held for sale (note 2)	(2.447)	(4.041)
Staff costs	(2.429)	(2.575)
Consultation, legal and audit services	(320)	(224)
Depreciation and amortization	(208)	(282)
Bank services	(146)	(161)
Business maintenance expenses	(104)	(144)
Transport expenses	(95)	(112)
Communication services	(95)	(92)
Maintenance of premises	(84)	(99)
Other	(1.622)	(881)
<b>Total:</b>	<b>(7.550)</b>	<b>(30.711)</b>

## X. Notes (continued)

### 15. Other operating income/expenses

Thousand LTL	31-12-2014	31-12-2013
Other income	534	677
<b>Total other operating income:</b>	<b>534</b>	<b>677</b>
Loss from disposal of property, plant and equipment	(489)	(57)
Other expenses	-	(181)
<b>Total other operating expenses:</b>	<b>(489)</b>	<b>(238)</b>
<b>Total:</b>	<b>45</b>	<b>439</b>

### 16. Financial and investing activity

Thousand LTL	31-12-2014	31-12-2013
Interest income	-	-
Gain of currency exchange	-	2.083
<b>Total financial activity income:</b>	<b>-</b>	<b>2.083</b>
Interest expenses	(2.032)	(2.141)
Loss of currency exchange	(6.299)	-
<b>Total financial activity expenses:</b>	<b>(8.331)</b>	<b>(2.141)</b>
<b>Total:</b>	<b>(8.331)</b>	<b>(58)</b>

### 17. Income tax expense

Thousand LTL	31-12-2014	31-12-2013
Tonnage tax	(53)	(66)

In 2014 and 2013 the Company calculated a fixed income tax from gross tonnage of the operated fleet.

### 18. Basic earnings (loss) per share

Basic earnings (loss) per share are calculated by dividing net profit (loss) attributable to ordinary equity holders by the weighted average number of ordinary shares. Weighted average number of ordinary shares for financial year ended as at 31 December 2014 amounted to 171.150.236 units (as at 31 December 2013 - 200.901.296 units).

Basic loss per share as at 31 December 2014 amounts to 0,18 LTL, basic loss per share as at 31 December 2013 – 0,20 LTL.

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

### 19. Related parties

The related parties of the Company are: members of the Board, general director, fleet operations director, fleet freight director, technical director, common affairs director, chief accountant and their family members. Remuneration to the mentioned persons in 2014 amounted to 661 thousand LTL (in 2013 - 561 thousand LTL).

The Company had no transactions or outstanding balances as at 31 December 2014 and 2013 with other related parties including government-related entities.



## **X. Notes (continued)**

### **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 1 client, income from which in 2014 made more than 10% of the total income. In 2013 the Company had no such clients.

According to the size (tonnage) of vessels, there are three vessel segments in 2014 (three in 2013): „Asta” – type vessels („Audrė“, „Akvilė“ – with the dead weight up to 6.000 tons, the Company is considering to sell both „Asta” type vessels during 2015), „Alka” – type vessels („Alka” – with the dead weight up to 10.000 tons, vessel was sold during 2014) and „Raguva” – type vessels („Raguva“, „Deltuva“, „Romuva“, „Voruta“ and „Venta“ – with the dead weight up to 25.000 tons).

The Company separates segments based on the size of the vessels (tonnage), however, the vessels of the Company in all separated segments are used for delivery of similar services (they can transport similar cargo). In 2013 the Company has decided to sell „Alka” type vessels – one was sold in 2013, another one in 2014.

<b>31-12-2014, in thousand LTL</b>	<b>Asta</b>	<b>Alka</b>	<b>Raguva</b>	<b>Not attributed</b>	<b>Total</b>
Voyage income	10.301	1.172	58.565	-	70.038
Voyage costs	(910)	(853)	(31.730)	-	(33.493)
<b>Voyage result</b>	<b>9.391</b>	<b>319</b>	<b>26.835</b>	<b>-</b>	<b>36.545</b>
Current vessel costs	(7.482)	(869)	(21.080)	-	(29.431)
Operating costs	-	-	-	(4.895)	(4.895)
<b>Operating result before depreciation, EBITDA</b>	<b>1.909</b>	<b>(550)</b>	<b>5.755</b>	<b>(4.895)</b>	<b>2.219</b>
Impairment of vessels	(1.520)	-	-	(927)	(2.447)
Depreciation	(1.855)	-	(11.214)	(208)	(13.277)
<b>Operating result, EBIT</b>	<b>(1.466)</b>	<b>(550)</b>	<b>(5.459)</b>	<b>(6.030)</b>	<b>(13.505)</b>
Other activity result	-	-	-	45	45
Interest expenses	-	-	-	(2.032)	(2.032)
Currency exchange result	-	-	-	(6.299)	(6.299)
Other financial activity, net	-	-	-	-	-
Tonnage tax	(9)	(2)	(42)	-	(53)
<b>Profit (loss)</b>	<b>(1.475)</b>	<b>(552)</b>	<b>(5.501)</b>	<b>(14.316)</b>	<b>(21.844)</b>
Non-current assets of segments	11.174	-	110.722	111	122.007
Loan payable by segment	-	-	-	45.864	45.864
Acquisition of non-current assets	3	-	2.325	6	2.334

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

**Public Company Lithuanian Shipping Company**

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

Financial statements for the year ended 31 December 2014

(in thousands of Litas, unless stated otherwise)

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

**X. Notes (continued)**

**20. Segments (continued)**

31-12-2013, in thousand LTL	Asta	Alka	Raguva	Not attributed	Total
Voyage income	16.494	16.738	59.105	-	92.337
Voyage costs	(6.447)	(10.564)	(33.350)	-	(50.361)
<b>Voyage result</b>	<b>10.047</b>	<b>6.174</b>	<b>25.755</b>	-	<b>41.976</b>
Current vessel costs	(9.289)	(5.594)	(19.548)	-	(34.431)
Operating costs	-	-	-	(4.287)	(4.287)
<b>Operating costs before depreciation, EBITDA</b>	<b>758</b>	<b>580</b>	<b>6.207</b>	<b>(4.287)</b>	<b>3.258</b>
Impairment of vessels	(14.407)	(4.234)	(7.500)	-	(26.141)
Depreciation	(3.642)	(2.164)	(12.384)	(282)	(18.472)
<b>Operating result, EBIT</b>	<b>(17.291)</b>	<b>(5.818)</b>	<b>(13.677)</b>	<b>(4.569)</b>	<b>(41.355)</b>
Other activity result	-	-	-	439	439
Interest expenses	-	-	(2.141)	-	(2.141)
Currency exchange result	-	-	2.083	-	2.083
Result from other financial activity, net	-	-	-	-	-
Fixed income (tonnage) tax	(15)	(9)	(42)	-	(66)
<b>Profit (loss)</b>	<b>(17.306)</b>	<b>(5.827)</b>	<b>(13.777)</b>	<b>(4.130)</b>	<b>(41.040)</b>
Non-current assets of segments	19.025	-	120.194	2.946	142.165
Segment loan payable	-	-	-	52.819	52.819
Acquisition of non-current assets	330	-	4.900	18	5.248

**21. Financial ratios**

The key financial ratios for the year 2014 can be summarized as follows:

	Calculation	31-12-2014	31-12-2013
Gross debt ratio (%)	$\frac{\text{Total liabilities}}{\text{Total assets}}$	0,54	0,50
Gross solvency ratio (%)	$\frac{\text{Total equity}}{\text{Total liabilities}}$	0,84	1,01
Gross profitability (%)	$\frac{\text{Gross result}}{\text{Sales and services}}$	(0,09)	(0,12)
Current ratio (%)	$\frac{\text{Current asset}}{\text{Current liabilities}}$	0,13	0,26
Receivables turnover (times)	$\frac{\text{Sales and services}}{\text{Accounts receivable}}$	20,78	33,93

## **X. Notes (continued)**

### **22. Contingencies**

There are no ongoing legal proceeding as at 31 December 2014.

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

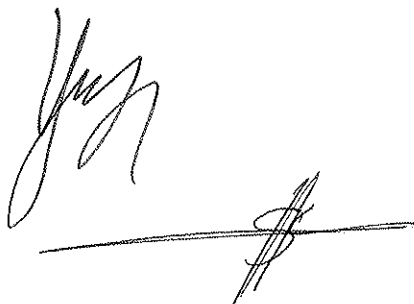
The tax authorities have not performed a full scope tax review of the Company for the period 2010 to 2014. According to prevailing tax legislation the tax authorities have the right to check accounting registers and records of the company for 5 years prior to the current accounting period and may charge 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.

### **23. Subsequent events**

On 1 January 2015 the Republic of Lithuania joined the eurozone and the Lithuanian national currency Litas was changed to the Euro. As a result, the Company converted its financial accounting to Euros as from 1 January 2015 and the financial statements for subsequent years will be prepared and presented in Euros. Comparative information will be translated into euros using the official exchange rate of LTL 3,4528 to EUR.

General Director

Chief Accountant

The image shows two handwritten signatures. The first signature is a cursive script, likely belonging to Audronis Lubys. The second signature is a more stylized, blocky script, likely belonging to Arvydas Stropus. Both signatures are written in black ink on a white background.

Audronis Lubys

Arvydas Stropus