

Public Company
Lithuanian Shipping Company

Financial statements for the
year ended 31 December 2014

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Company details

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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

Management's statement on the financial statements

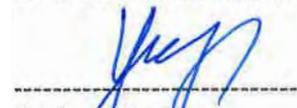
The Management has today discussed and authorized for issue the annual financial statements and the annual report and has signed them on behalf of the Company.

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, 23 February 2015

On behalf of the Board:



Audronis Lubyš
General Director



Arvydas Stropus
Chief Accountant



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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 2014, the statements of profit or loss and other 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 9 – 35.

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 2014, 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.



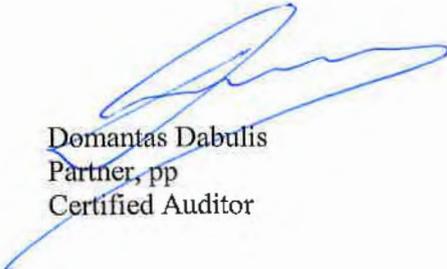
Emphasis of Matter

Without qualifying our audit opinion, we draw attention to Section IV “Going concern” of the accompanying financial statements, explaining that as at 31 December 2014 current liabilities reported by the Company in its financial statements exceeded 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 leading to doubts regarding the Company’s ability to continue as a going concern. The ability of the Company to meet its loan and other obligations in 2015 and to continue as a going concern depends on whether the Company will be able to renegotiate with the bank and extend the repayment of the loan schedule mentioned in Section IV “Going concern”, earn sufficient cash flows from its main activities and adequate cash inflows from planned disposal of certain vessels. These financial statements do not reflect the adjustments, if any, that may be required if the company is unable to continue as a going concern.

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 2014, set out on pages 36 – 63 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 2014.

On behalf of KPMG Baltics, UAB



Domantas Dabulis
Partner, pp
Certified Auditor

Klaipėda, the Republic of Lithuania
23 February 2015

Statement of financial position

	Notes	31-12-2014	31-12-2013
ASSETS			
Property, plant and equipment	1	122.007	142.165
Intangible assets		-	1
Total non-current assets		122.007	142.166
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
Total current assets		9.173	20.928
TOTAL ASSETS		131.180	163.094
EQUITY			
Share capital	6	82.867	200.901
Accumulated losses		(22.847)	(119.081)
TOTAL EQUITY		60.020	81.820
LIABILITIES			
Non-current employee benefits	8	370	414
Loans and borrowings	7	-	-
Total non-current liabilities		370	414
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
Total current liabilities		70.790	80.860
Total equity and liabilities		131.180	163.094

The notes set out on pages 9 – 35 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

	Notes	2014	2013
Revenue	12	70,038	92,337
Cost of sales	13	(75,993)	(102,981)
Gross result		(5,955)	(10,644)
Administrative expenses	14	(5,095)	(4,559)
Impairment of vessels	14	(2,447)	(26,141)
Selling expenses	14	(8)	(11)
Other operating income	15	534	677
Other operating expenses	15	(489)	(238)
Operating result		(13,460)	(40,916)
Finance income	16	-	2,083
Finance expenses	16	(8,331)	(2,141)
Net finance costs		(8,331)	(58)
Profit (loss) before tax		(21,791)	(40,974)
Income tax expenses	17	(53)	(66)
Profit (loss) for the year		(21,844)	(41,040)
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Change in employee benefits	8	44	(109)
Total comprehensive income		(21,800)	(41,149)
Basic and diluted earnings (loss) per share (in Litas)	18	(0,13)	(0,20)

The notes set out on pages 9 – 35 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
Balance at 31-12-2012	200.901	(77.932)	122.969
Other comprehensive income			
Net profit (loss) for 2013	-	(41.040)	(41.040)
Other comprehensive income for 2013	-	(109)	(109)
Total other comprehensive income:	-	(41.149)	(41.149)
Balance at 31-12-2013	200.901	(119.081)	81.820
Net profit (loss) for 2014	-	(21.844)	(21.844)
Other comprehensive income for 2014	-	44	44
Total other comprehensive income:	-	(21.800)	(21.800)
Transactions with shareholders			
Reduction in shares	(118.034)	-	118.034
Total transactions with shareholders:	(118.034)	118.034	-
Balance at 31-12-2014	82.867	(22.847)	60.020

The notes set out on pages 9 – 35 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
Cash flows from operating activity			
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
Operating cash flows before changes in working capital		1.927	3.813
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
Cash flows generated from operating activities		(1.099)	6.421
Interest received (paid), net		(2.194)	(1.947)
Income tax paid	17	(66)	(66)
Net cash from operating activities		(3.359)	4.408
Cash flows from investing activities			
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
Net cash used in investing activities		14.394	(1.424)
Cash flows from financing activities			
Repayments of loan	7	(12.266)	(1.690)
Net cash flow from financing activities		(12.266)	(1.690)
Net increase (decrease) in cash and cash equivalents		(1.231)	1.294
Cash and cash equivalents at 1 January		1.602	369
Effect of change in exchange rates on cash held		-	(61)
Cash and cash equivalents at 31 December	5	371	1.602

The notes set out on pages 9 – 35 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
Total:	82.867.200		200.901.296	

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:

	31-12-2014	31-12-2013
LTL/EUR	3,4528	3,4528
LTL/USD	2,8387	2,5098
LTL/GBP	4,4080	4,1391
LTL/SEK	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:

Property group	Useful lives (in years)
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“, „Akvile“ 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:

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

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

	31-12-2014	31-12-2013
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
Total:	3.370	2.721

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.

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

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)

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
Financial liabilities							
Loan from bank	45.864	(47.783)	(47.783)				
Payable to suppliers	15.941	(15.941)	(15.941)	-	-	-	-
Other payables	894	(894)	(894)	-	-	-	-
	62.699	(64.618)	(64.618)	-	-	-	-

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
Financial liabilities							
Loan from bank	52.819	(55.112)	(12.558)	(1.496)	(41.058)	-	-
Payable to suppliers	18.232	(18.232)	(18.232)	-	-	-	-
Other payables	269	(269)	(269)	-	-	-	-
	71.320	(73.613)	(31.059)	(1.496)	(41.058)	-	-

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)
Net exposure	(45.113)	(57.141)

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>	70.789	79.672
<i>Total equity:</i>	60.020	81.820
Debt – equity ratio	1,18	0,97

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
Acquisition cost							
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
Accumulated impairment							
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)
Accumulated depreciation							
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)
Carrying amounts							
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)
Total:	(13.277)	(18.472)

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 „Akville“ 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“, „Dcltuva“ 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
Total:	3.364	4.101

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)
Trade receivables, net	3.370	2.721
Receivable from the tax authorities	2	21
Prepayments to vessels	30	86
Other receivables	1.474	1.237
Total other receivables	1.506	1.344
Total:	4.876	4.065

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
Total:	371	1.602

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
Total:	45.864	52.819
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)
Total:	45.864	52.819

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	
31 December 2012	305
Change	109
31 December 2013	414
Change	(44)
31 December 2014	370

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
Total:	4.706	6.431

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
Total:	20.167	21.544

- (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
Total:	70.038	92.337

- (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)
Total:	(75.993)	(102.981)

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)
Total:	(7.550)	(30.711)

X. Notes (continued)

15. Other operating income/expenses

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

16. Financial and investing activity

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

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.

31-12-2014, in thousand LTL	Asta	Alka	Raguva	Not attributed	Total
Voyage income	10.301	1.172	58.565	-	70.038
Voyage costs	(910)	(853)	(31.730)	-	(33.493)
Voyage result	9.391	319	26.835	-	36.545
Current vessel costs	(7.482)	(869)	(21.080)	-	(29.431)
Operating costs	-	-	-	(4.895)	(4.895)
Operating result before depreciation, EBITDA	1.909	(550)	5.755	(4.895)	2.219
Impairment of vessels	(1.520)	-	-	(927)	(2.447)
Depreciation	(1.855)	-	(11.214)	(208)	(13.277)
Operating result, EBIT	(1.466)	(550)	(5.459)	(6.030)	(13.505)
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)
Profit (loss)	(1.475)	(552)	(5.501)	(14.316)	(21.844)
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.

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)
Voyage result	10.047	6.174	25.755	-	41.976
Current vessel costs	(9.289)	(5.594)	(19.548)	-	(34.431)
Operating costs	-	-	-	(4.287)	(4.287)
Operating costs before depreciation, EBITDA	758	580	6.207	(4.287)	3.258
Impairment of vessels	(14.407)	(4.234)	(7.500)	-	(26.141)
Depreciation	(3.642)	(2.164)	(12.384)	(282)	(18.472)
Operating result, EBIT	(17.291)	(5.818)	(13.677)	(4.569)	(41.355)
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)
Profit (loss)	(17.306)	(5.827)	(13.777)	(4.130)	(41.040)
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 proceedings 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 1.

General Director

Chief Accountant



Audronis Lubys

Arvydas Stropus



**PUBLIC COMPANY
LITHUANIAN SHIPPING COMPANY**



ANNUAL REPORT 2014

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AKCINĖ BENDROVĖ
"LIETUVOS JŪRŲ
LAIVININKYSTĖ"



PUBLIC COMPANY
"LITHUANIAN SHIPPING COMPANY"

I. GENERAL INFORMATION ABOUT THE COMPANY

1.1. Accounting Period of Report

The Annual Report was prepared for the reporting year of 2014. In addition to the Annual Report, the Company prepared a Set of Financial Statements for the year 2014, which includes the Statement of Financial Status, the Statement of Comprehensive Income, the Cash Flow Statement, the Statement of Changes in Equity and Notes to the Financial Statements (Explanatory Notes). Herein, 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

Name	Akcinė bendrovė "Lietuvos jūrų laivininkystė" (English: Public Company "Lithuanian Shipping Company")
Legal form	Public Company
Date and place of incorporation	27 June 2001, Klaipėda
Company code	110865039, former Company code 1086503
Head office address	Malūnininkų g. 3, Klaipėda
Phone number	+ 370 46 393 105
Fax number	+ 370 46 393 119
E-mail address	info@ljl.lt
Website	www.ljl.lt

1.3. Company Shareholders

As of 31 December 2014 there were 2,035 shareholders in the Company. The shareholders that own or hold over 5 percent of the authorized capital of the Company are as follows:

Name	Code	Address	Number of shares	Portion of ownership (%)
MINISTRY OF TRANSPORT OF THE REPUBLIC OF LITHUANIA	188620589	Gedimino pr. 17, Vilnius	46,953.515	56.66
DFDS TOR LINE A/S	14194711	Sundkrogsgade 11, DK-2100 Copenhagen	4.581.970	5.53

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

The state owns 56.66 percent of shares which are held by the Ministry of Transport 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 Securities with Jūsų tarpininkas, UAB FMĮ (later - SNORAS - Jūsų tarpininkas, AB FMĮ, A. Mickevičiaus g. 29-3, 44245 Kaunas). After SNORAS - Jūsų tarpininkas, AB FMĮ was reorganized by merge, on 31 March 2010 Finasta, AB FMĮ (code 122570630, address: Maironio g. 11, Vilnius, phone.: 1813, e-mail: info@finasta.com) took under the rights and obligations of SNORAS - Jūsų tarpininkas, AB FMĮ, which continues to fulfill contractual commitments and handles Public Company Lithuanian Shipping Company securities accounting.

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 nominal value of one litas have been quoted in Vilnius Stock Exchange (former National Stock Exchange) in the current sales list. Following the approval of the amendments to the trading rules of Vilnius Stock Exchange (VSE) by VSE Board on 18 May 2007, the current list of securities was changed to the Secondary List. The new name of the exchange market is AB NASDAQ OMX Vilnius.

On 30 September 2014 the Company’s authorized capital was reduced by the decision of the ordinary General Meeting of Shareholders of 25 April 2014 (method of reducing the authorized capital – annulment of the shares). The shares were annulled for all the Company’s shareholders in proportion to the nominal value of the shares they own through the ownership right. Amount of the emission after the change is 82,867,200 ordinary registered shares of Public Company “Lithuanian Shipping Company” with nominal value of one litas.

After the new regulations of Vilnius Stock Exchange came into effect on 30 May 2005, the direct transactions are calculated as automated transactions, together with other transactions carried out in the central market.

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

None of the third parties submitted an official offer to acquire the issuer’s securities.

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

Dynamics of the Company’s share price and turnover on NASDAQ OMX Vilnius exchange market over the last 3 years are as follows.



Source: www.nasdaqomxbaltic.com

Information on trading LJL shares on NASDAQ OMX Vilnius securities exchange market is as follows:

Index	2010	2011	2012	2013	2014
Opening price	0.125	0.080	0.034	0.026	0.015
Maximum price	0.142	0.080	0.038	0.030	0.028
Minimum price	0.070	0.032	0.025	0.012	0.010
Last price	0.082	0.036	0.026	0.015	0.020
Turnover, units	30,267,181	48,850,672	10,606,876	28,613,333	22,910,682
Turnover, million	€ 2.86	€ 2.41	€ 0.34	€ 0.53	€ 0.35
Capitalization, million	€ 16.47	€ 7.23	€ 5.22	€ 3.01	€ 1.66

1.6. Structure of Authorized Capital

The amount of the authorized capital is equivalent to the sum of par value of all shares, subscribed by the Company.

The authorized capital of the Company is equivalent to 82,867,200 litas.

The authorized capital of the Company is divided into 82,867,200 ordinary shares at par value of 1 Lit as each.

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

ISIN code – LT0000125999.

The method for issuance of securities to the public trading is reorganization.

1.7. Information on Restrictions of Transfer of Securities

There are no restrictions on the transfer of securities.

1.8. Information on Restrictions on the Voting Rights

There are no restrictions on the voting right.

II. INFORMATION ON COMPANY'S ACTIVITIES

2.1. Company's Mission, Vision, Operating Strategy, and Purposes

Mission is to provide a high-quality, world-class ship management and service which fulfils the expectations of stakeholders and partners.

Vision is to be a profitable Company on the market of cargo transportation by dry-cargo vessels (in 17 to 25 thousand DWT segment), having a fleet complying with strict technological requirements flying Lithuanian flag.

Strategic goals of the Company:

- Creation of stable structure of the Company' equity:
 - Increase of effectiveness of services' sale;
 - Increase of costs management effectiveness;
 - Optimization of costs;
 - Restructuring of bank loan;
 - Effective Company's liquidity management.
- Increase of operating effectiveness:
 - Search for new services sales channels;

- Orientation towards fleet development in the segment of mini Handysize;
- Diversification of vessel chartering (time charter, voyage charter) seeking for prompt reaction to market changes;
- Optimization of duration of dock repair.

2.2. Company's Activities and Services Rendered

The main activity of the Company is freight transportation by sea and vessel hire. As of 31 December 2014, the Company owned 7 vessels, which data is as follows.

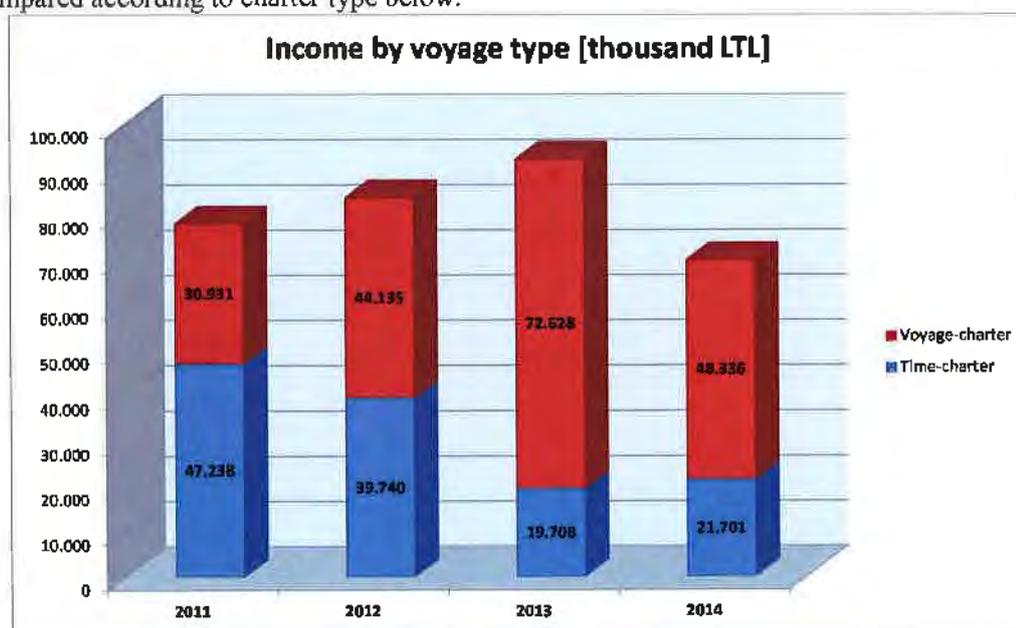
Item No.	Vessel	Year built	DWT
1	Audrė	1997	5.820
2	Akvilė	1997	5.820
3	Raguva	1995	16.883
4	Deltuva	1994	16.906
5	Romuva	1998	17.504
6	Voruta	1998	17.504
7	Venta	1995	24.202

Currently, the Company's fleet according to deadweight is divided into two vessel segments (before selling the motor vessel Alka the Company had three vessel segments total):

Asta-type vessel group (deadweight up to 6,000 tons) Audrė and Akvilė. These vessels are employed under time-charter contracts.

Raguva-type vessel group (deadweight up to 25,000 tons) – Raguva, Deltuva, Romuva, Voruta and Venta. This is the main vessel group of LSC, on which the Company intends to focus in the future. Most frequently, these vessels are employed under voyage charter contracts.

At the end of the year 2014, 2 of the Company's vessels were employed under time-charter contracts. The remaining fleet was employed under voyage charter contracts. Structure of the Company's income in 2011 – 2014 is compared according to charter type below:



2.3. Company's Operating Markets and Competitors

The Company's vessels can transport about 65 percent of all types of global cargoes, i.e. general cargoes, grain, coal, iron ore, chemical products. The largest part of cargo flows consists of bulky goods (about 75 percent). LSC mainly operates on the following markets:

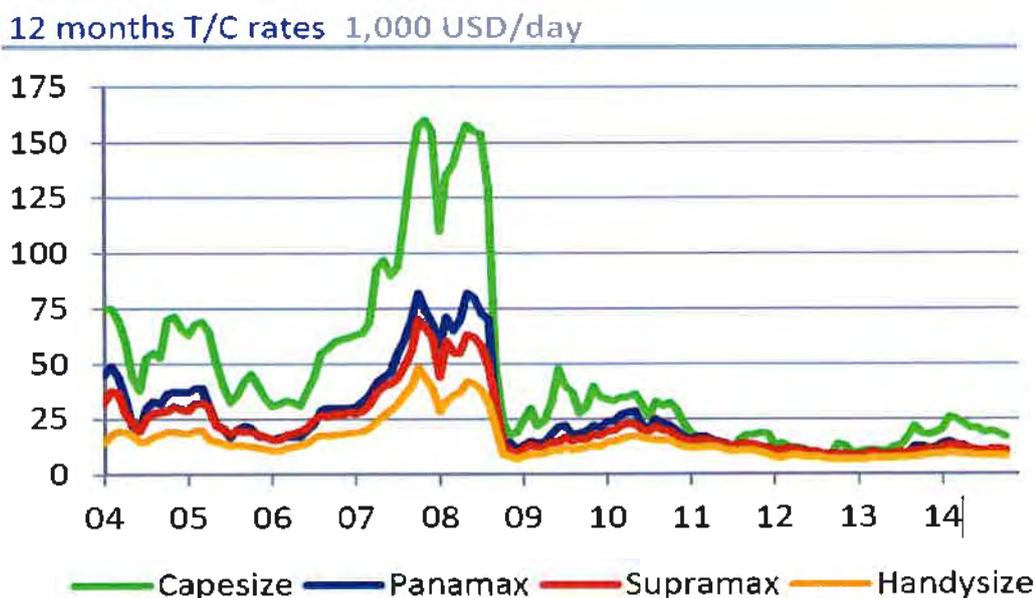
1. Trans-Atlantic market, where steel and nonferrous metals, ferroalloys, and fertilizers are carried from Europe to the USA, Latin, and South America. The cargo flow on the return voyage consists of grain, coil, aluminum, and stones.
2. North Europe-North America market, where wood in the rough, sawn wood and paper cargo are carried from North 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 such goods as steel, fertilizers, sugar, rice are carried from the USA and the Caribbean Sea as well as the countries of Central America.

The Company is operating on the international shipping market, in the segment of 5-25 thousand DWT dry-cargo vessels, where there are no monopolies that distort competitive conditions on the market.

Use of 'cheap' flags allows the ship owners reducing some of the ships operating costs (mainly those related to wages) and provides certain competitive advantages. However, the position of International Seafarers' Union and other organizations, which becomes increasingly strict, reduces advantage of these flags.

LSC is operating in a very competitive environment, which lately, just as the entire global shipping market, is unfavorable for ship owners as ship offer markedly exceeds ship demand. Although analysts have predicted recovery of global shipping market in 2014, yet after a growth during the first quarter of this year, the shipping market is showing a clear negative tendency since this April. During the second and the third quarters of 2014 the growth was on a lower level than during the same period in 2010 -2011.

These changes are reflected in the tendencies of changes in time charter transportation prices per day:



Source: RS Platou

While the global dry cargo fleet is still growing (it grew by 5.3% on 30 September 2014 compared with 30 September 2013), however, the growth in comparison with previous year has slowed down significantly (analogous growth on 30 September 2012 was as much as 15%). The reduction in transportation rates has

conditioned the decrease in orders for new ship building and increase in number of vessels cut to scrap metal. The deadweight growth in mini Handysize segment in 2014 was the lowest, amounting to only 1.6 %, while the previous year demonstrated a decline in deadweight of in this segment's vessels. In 2012 this number was 9.1%, in 2013 - 0.5 % respectively. This slight upward trend in mini Handysize segment due to the low number of orders for new ships should maintain in the future.

The table below presents information on changes in dry cargo fleet (million DWT):

Fleet sizes	Built In January to September 2014	Demolished in January to September 2014	Fleet of 30 September 2014	Annual change
Capesize	16,2	3,2	293,9	4,9%
Post Panamax	2,3	0,0	50,5	6,4%
Panamax/Kamsarmax	10,3	3,1	153,8	6,3%
Handymax/Supramax	9,1	2,7	160,2	4,8%
Handysize	4,3	2,8	87,9	1,6%
VISO:	42,2	11,8	746,3	5,3%

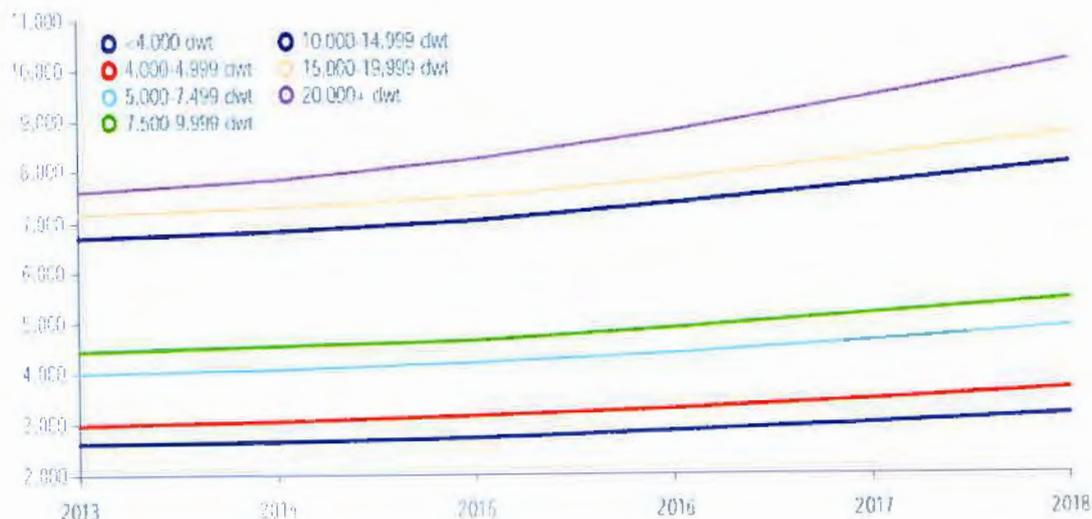
Source: RS Platou

In the coming year, the estimated changes in the global commercial fleet allow for some positive changes in the market due to the decrease in gross tonnage supply:

	2013	2014F	2015F
Tonnage supply	5,5%	4,4%	5,6%
Fleet growth	5,2%	4,2%	4,1%
Fleet use	84,3%	84,5%	85,7%

Source: RS Platou

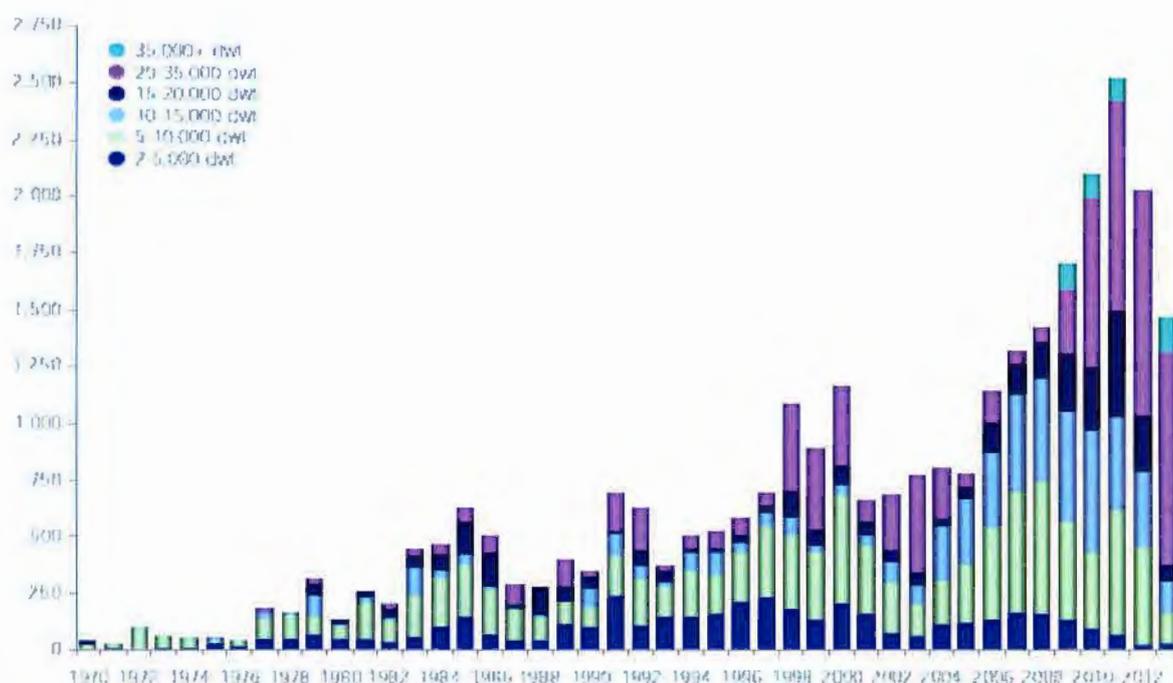
It is very likely that, having the estimated average 4.1 % growth of fleet deadweight and 5.6 % growth of deadweight demand, the global dry cargo fleet will have good preconditions for growth of transportation rates in the nearest future. This is also reflected in the estimates of analysts. Long-term estimate chart for amounts of vessel charter contracts of this segment (USD per day) is as follows:



Source: Drewry Maritime Research

Due to its universality, 10–40 thousand DWT fleet is experiencing the ongoing market recession much easier than a greater deadweight fleet. Moreover, analysis of fleet of average age shows that this market segment has the greatest potential for growth as it contains the oldest vessels. About 29 % of vessels are older than 25 years and should be cut for scrap metal in the nearest future. Orders for new vessels in this segment will not compensate for cutting the old fleet for scrap metal, thus, it is predicted that the offer of vessels of such deadweight will reduce in the nearest future.

Dry cargo fleet age profile as of 1 January 2014:



Source: Drewry Maritime Research

The following is structured information for financial analysis of the companies compared. The comparison is complicated by the fact that very few companies that have fleets of similar size and operating in the same segment provide public financial and operational information.

Indexes in 2013	Shipping companies compared					MEDIANA	LITHUANIAN SHIPPING COMPANY		
	Hellenic Carriers	Seenergy	Euroseas	FreeSeas	2013		2014	2015-2018 average	
Net income per 1 ship, thousand EUR	1,473	1,620	2,116	363	1,546	1,210	1,408	2,109	
EBITDA per 1 ship, thousand EUR	41	-180	215	-1,679	-69	83	66	508	
EBITDA margin	2%	-7%	10%	-220%	-2%	3%	3%	9%	
EBITDA margin from net income	3%	-11%	10%	-463%	-4%	7%	5%	24%	
Net result margin	-130%	47%	-253%	-802%	-192%	-45%	-29%	-3%	
Net result margin from net income	-145%	72%	-263%	-1686%	-204%	-90%	-53%	-9%	
ROA	-9%	16%	-66%	-56%	-32%	-24%	-16%	-3%	
ROE	-23%	-12%	-99%	-381%	-61%	-49%	-34%	-6%	
Equity / assets	38%	-137%	67%	15%	26%	50%	47%	52%	
Financial obligations/property	1,6	-1,5	0,4	4,7	1,0	0,6	0,7	0,6	
Number of vessels (mean)	5	7	14	6	7	11	8	5	
DWT	250.778	326.255	728.528	173.089	288.517	123.625	98.819	92.999	
Average vessel size	50.156	46.608	52.038	28.848	48.382	11.239	12.352	21.586	
Average vessel age	10,1	13,5	18,1	15,8	14,7	16,8	17,8	20,5	

The comparative analysis shows that the year 2013 was unfavorable for most of the analyzed shipping companies operating in the segment of dry cargo ships. However, while all the market participants operate in difficult economic environment, most of the LSC comparable financial indicators exceeded the median of the comparable companies.

The operating result and EBITDA of both LSC and the analyzed companies were influenced by low shipping rates, drop in vessel market prices and the related cost revaluation in financial statements. In 2013, only Hellenic Carriers out of five analyzed companies has not reduced its fleet value.

2013	Hellenic Carriers	Seenergy	Euroseas	FreeSeas	LJL
Vessel cost revaluation, thousand USD	0	-3.564	-78.207	-27.455	-10.416

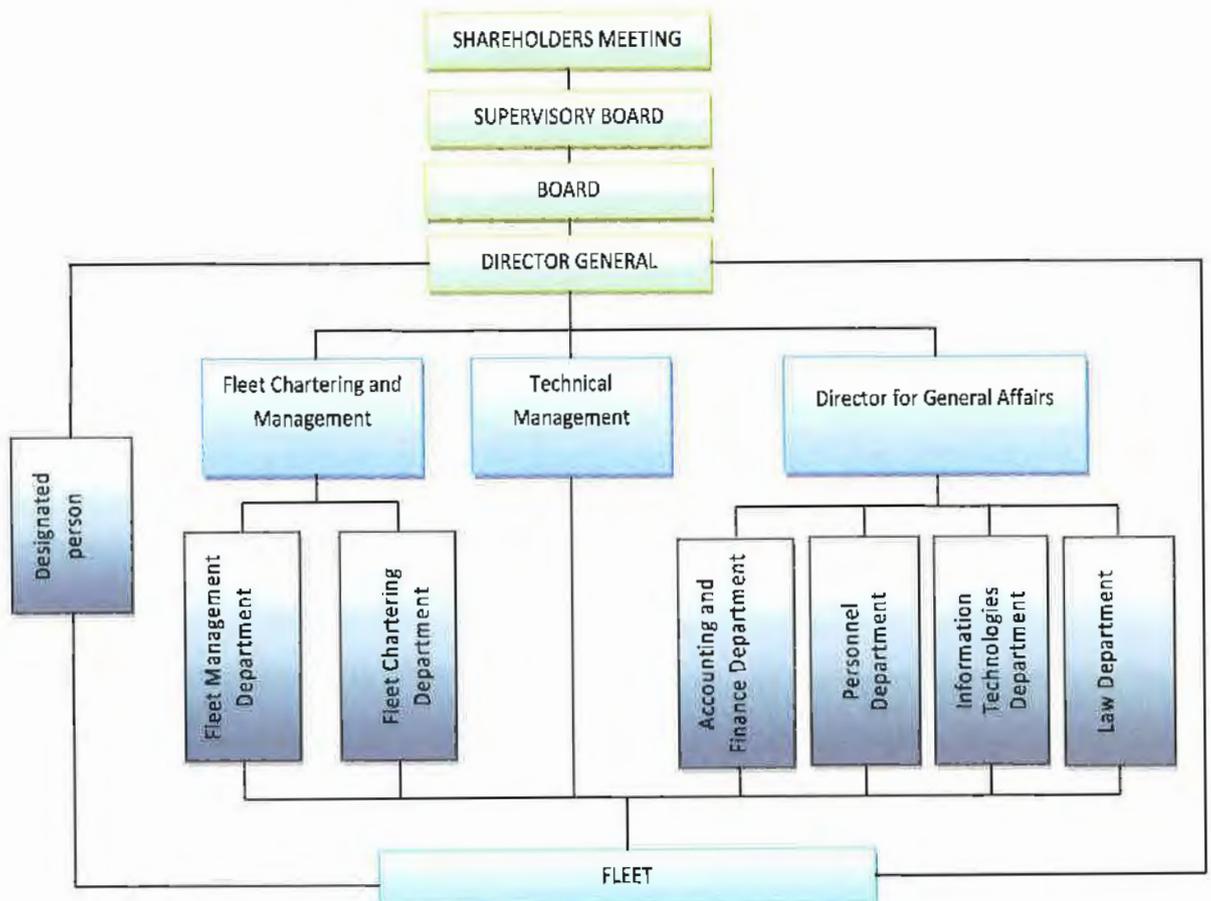
Reduction of assets values directly affected not only the operating results, but also other Company's financial indicators relating to assets and property. In the absence of signs of sustainable growth of the market in 2014, it is possible to predict that at the end 2014 financial year a share of the shipping companies will reduce the vessel costs again.

2.4. Company's Customers and Their Main Groups

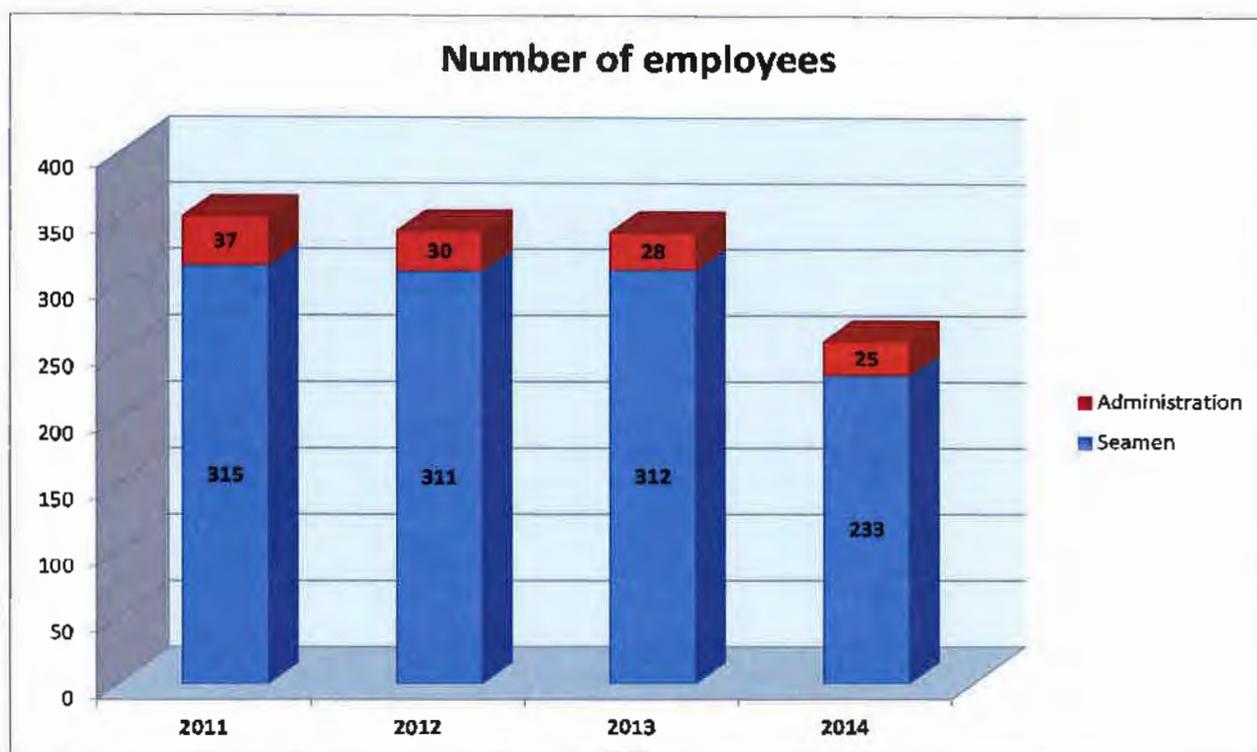
In the year 2014 the Company had no customers that would account for a considerable part of income according to time charter contracts or voyage charter contracts. Currently, LJL income is not dependent on several main customers.

2.5. Information Related to Personnel Matters

Company's management structure as of the end of the year 2014 is as follows:



As of 31 December 2014, 258 employees (233 seamen and 25 administration workers) were working in the Company, which make 31 per cent or 82 employees less than on 31 December 2013. Decrease in the number of employees is related to decrease in the number of vessels from 10 down to 7. Moreover, the Company has optimized number of administration workers. This number of reduced from 37 employees on 31 December 2011 to 25 employees on 31 December 2014. The employee number tendency for the period 2011 to 2014 can be presented as follows:



Classification of employees

Structure of personnel of the Company according to education:

Education	Percentage of employees		
	31 December 2012	31 December 2013	31 December 2014
University education	33.4	33.8	34.5
College education	2.3	1.5	1.9
Secondary education	28.7	30.6	25.6
Maritime academy	8.8	7.1	14.0
Post-secondary education	26.8	27.0	24.0

A share of employees with university education makes the third part of all the employees and showed no essential change during the period investigated.

According to general fund of personnel wages:

Group of employees	Annual fund of personnel wages, LTL				
	2012	2013		2014	
	Amount, LTL	Amount, LTL	Change, %	Amount, LTL	Change, %
Executives	638.475	463.538	-27	448.698	-3
Specialists	3.764.087	3,137.584	-17	3.193.324	2
Workers	5.871.099	5.726.144	-2	5.337.608	-7
Total	10.273.661	9.327.266	-9	8.979.630	-4

The total annual fund of personnel wages during the reporting period has decreased, mainly due to the declining number of ships. Wages of executives during the reporting period decreased due to reduced number of executives and their salaries. The reporting period showed a slight increase only in wages of professionals, influenced by the growing wages of qualified fleet professionals (pilots, engineers) around the globe.

According to average number of listed employees and their average wages:

Group of employees	Average conditional number of employees			Average earnings per month, LTL		
	31 December 2012	31 December 2013	31 December 2014	31 December 2012	31 December 2013	31 December 2014
Executives	6.2	5.0	4.0	8.582	7.726	9.348
Specialists	147.0	133.2	131.4	2.134	1.963	2.025
Workers	157.8	125.4	119.5	3.100	3.805	3.722
Total	311.0	263.6	254.9	2.753	2.949	3.049

The total average monthly earnings for the reporting year increased by 3 % compared with 2013. There is a lack of experienced employees because the Company is not able to increase salaries up to a standard level. A consistent increase of salaries is the only way to retain the employees in a competition with the vessel owners of "cheap" flags.

2.6. Analysis of External Environment Factors

Political and legal factors

Since the Company's vessels operate on a global scale, the Company may be exposed to intervention of various countries' authorities in the economy and other political decisions.

As far as Lithuania and the European Union concerned, the situation is stable enough in essential respects. For example, the tonnage tax applied for the Company is valid until 2016, currently there are no signals that it is intended to revoke, which would be especially relevant if the Company earned a profit. Changes in the minimum monthly salary will not affect the Company, as the wages in the Company are not based on the minimum monthly salary.

Decisions in the environmental field are relevant for the Company. Here, the European Union often sets additional and stricter requirements than those provided for in international treaties or impose an earlier term of such requirements entering into force. The same is true for policy of some third-party. Lack of a unified international regulatory application is an important impediment to the operational activities of the Company.

In some countries, protectionism is also a strong external factor. Part of South American and Asian countries set requirements, under which cargoes of those countries can be transported only by ships sailing under the flags of such countries.

The Company also faces political security challenge, i.e. piracy in West Africa, East Africa, the Indian Ocean, military and political risks in the Africa, the Middle East and in some Central American countries. The Company has the ability to insure against such risks. Insurance costs are not fixed; they vary depending on the situation in these regions, so the decision to navigate in dangerous regions is adopted in each separate case. It should be noted that while such insurance costs can be recovered by means of a somewhat bigger freight rate; however, these voyages are one-way in the sense that usually there is no return cargo from such countries / regions. Therefore, the Company's vessels are forced to spend more time sailing empty without cargo.

Economic factors

According to the macroeconomic estimates prepared by the European Central Bank's experts in September 2014, assessment of longer-term prospects allows estimating the increase in the global economic activity. The economic countries that have developed an especially incentive monetary policy further stimulate financial markets and the global economic recovery. In addition, the developed economies should face fewer difficulties as the deleveraging of the private sector dies away and the need in fiscal consolidation is decreasing, while labor market conditions are improving. It is likely that in some emerging market economies infrastructure and capacity constraints and macroeconomic imbalance will hamper growth potential. Other emerging market economies adjust to tighter financing conditions and to the potential US monetary policy normalization. Since the end of last year, the global trade growth has slowed somewhat. Looking ahead, it is true that increasing investment in advanced economies outside the euro zone should accelerate the consistent recovery of the global trade. However, it is estimated that structural factors are also important. Among other things, they impede integration through global supply chains. Therefore, taking previous forecasts into account it is assumed that the elasticity of the global trade in terms of economic activity will be lower than before the global financial crisis. It is expected that the global (with the exception of the euro zone) trade in 2015 – by 5.5%, in 2016 – by 5.9% (Source: Organization for Economic Co-operation and Development). The table below shows the estimated GDP growth in 2014-2016 by country:

GDP growth	2013	2014F	2015F	2016F
USA	2,2%	2,2%	3,1%	3,0%
Euro zone	-0,4%	0,8%	1,1%	0,8%
China	7,7%	7,3%	7,1%	6,9%
Japan	1,5%	0,9%	1,1%	0,8%
India	4,7%	5,4%	6,4%	6,6%
Brazil	2,5%	0,3%	1,5%	2,0%
Russia	1,3%	0,7%	0,0%	2,0%
World	3,1%	3,3%	3,7%	3,9%

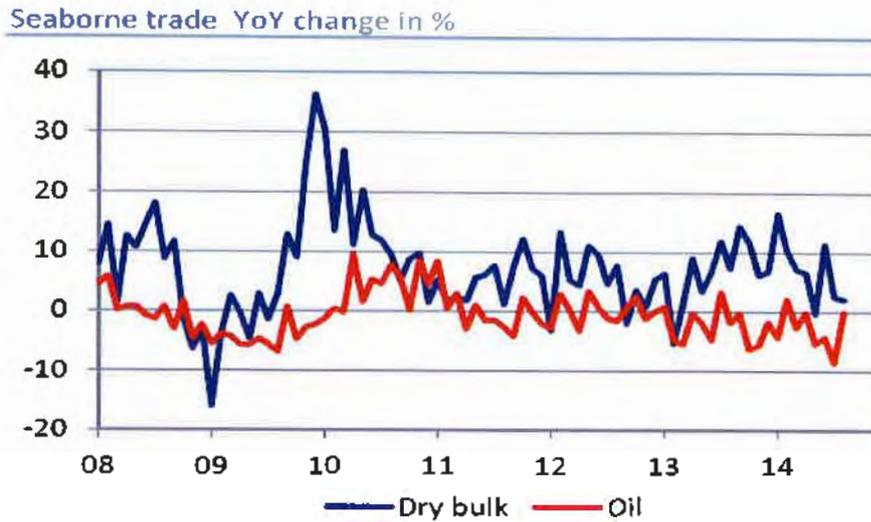
Source: *Organization for Economic Co-operation and Development*

Fairly positive global economic development scenario in the near future is also substantiated by the forecasts reading that inflation will remain relatively low:

Inflation	2013	2014F	2015F	2016F
USA	1,5%	1,8%	2,1%	1,9%
Euro zone	1,4%	0,5%	1,0%	1,5%
China	2,6%	2,3%	3,0%	3,4%

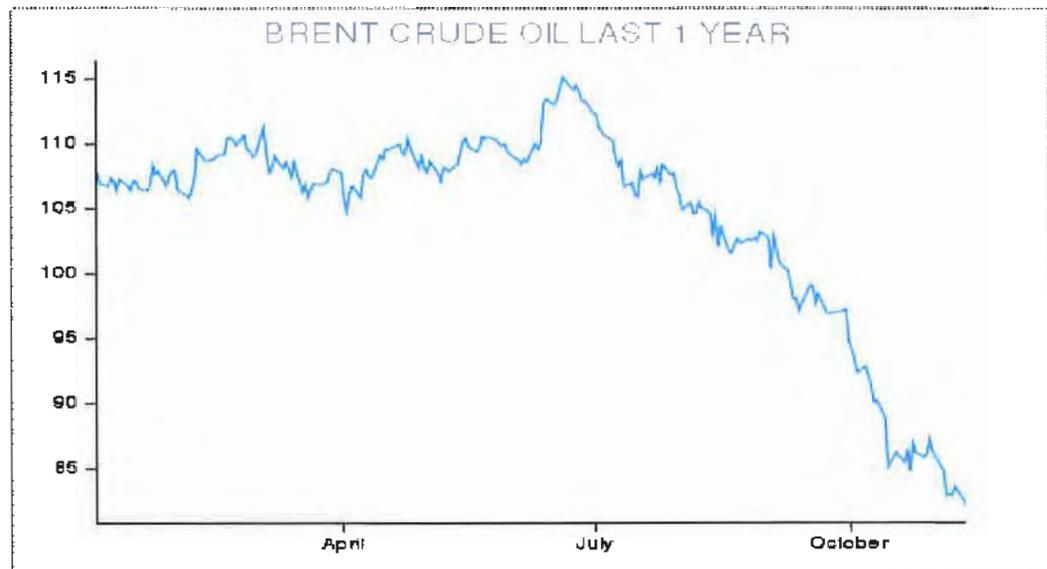
Source: <https://www.pwc.com/>

GDP fluctuation is always directly related to the volume of maritime trade. Changes in global marine trade volume and its correlation with oil prices are as follows:



Source: RS Platou

Global macro-economic and political processes are affecting the oil price fluctuations. Fuel costs in the cost of sales in 2012 accounted for 24 %, in 2013 - 31 %, in 2014 - 30 %. Fuel prices growth reduces the operating efficiency of ships. It is planned that from 2015 the entire fleet will operated under voyage charter conditions, which will increase fuel costs in the cost of sales up to 40 percent. For this reason, the Company's dependence on the global oil prices will increase. As we can see from the graph below, in the second half of 2014 BRENT oil prices declined rapidly, which had an immediate positive impact on the fuel price the Company buys for its ships:

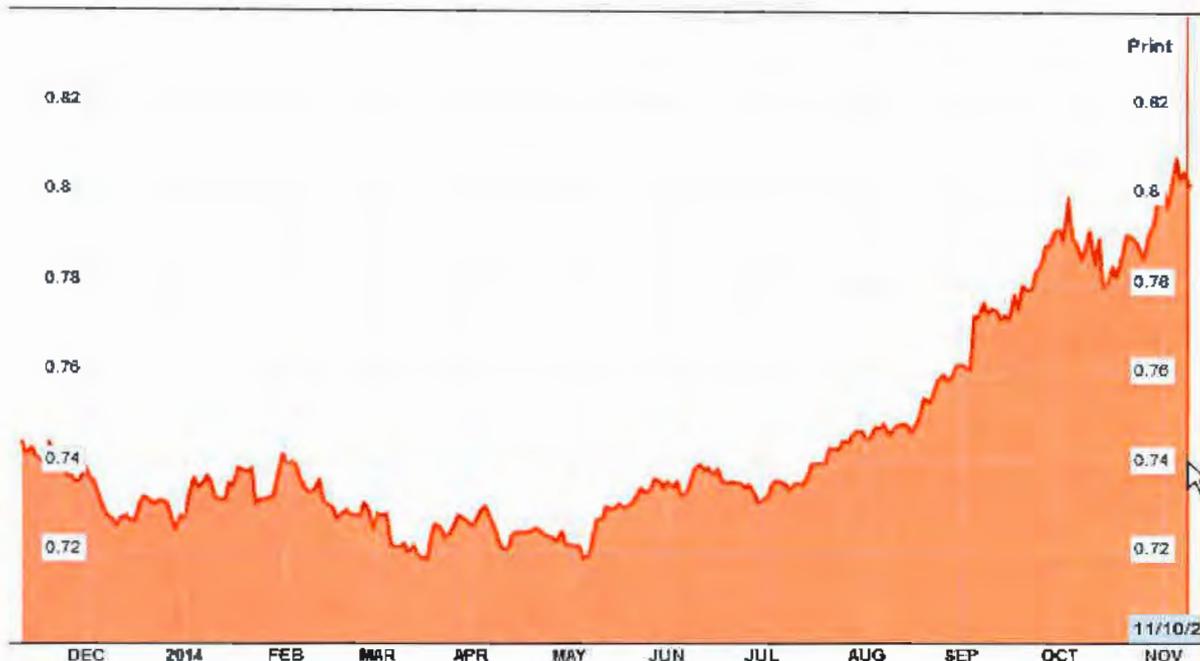


Source: <https://www.quandl.com/>

The Company's experts analyze the possibility to apply the derivatives to fix fuel prices; however, these measures are effective only with stable cargo flows and in event of working in one region. Because LSC ships are operating in different regions and, for the purpose of the maximum efficiency, part of the ships operating under voyage charter conditions is not a constant, the use of these derivatives would be ineffective in case of the Company.

Changes in US dollar, as one of the major currencies of global economy, directly affect the scope of international trade and consumption. This is the predominant currency in the maritime sector.

EUR / USD exchange rate for the period from October 2014 to November 10:



Source: <http://www.bloomberg.com/>

About 89% of LJI income is received in US dollars. The bank loan was received and vessel purchase and sale transactions are performed in this currency. Purchase of goods and services in Litas and other currencies account for about 60 % of all purchases. Since about 11% of the Company's revenues are in Euros, it can be said that a part of the purchased goods and services, which depends on the US dollar exchange rate fluctuations, is not significant and cannot have a material impact on the Company's cash flow. Financial operating profit or loss arising due to currency conversion in the balance is an accounting (non-monetary) income and has no direct effect for cash flow.

Social factors

Success of the Company's business is inseparable from the ability to employ and retain highly skilled professionals; however, currently the lack of specialists is noticeable, which is greatly affected by the scope of emigration. Although the educational institutions prepare professionals and there is no decline in their number is anticipated in the future, most of them choose to work in other countries' fleets because of competitive salary.

One of the ways to reduce the lack of competent personnel is to reduce the number of ships in the Company, which would facilitate the allocation of the same number of competent seafarers to a smaller number of vessels. The Company would also find it helpful to set the upper limit for social security contributions at least for some categories of seafarers (especially for engineers).

In 2013, Lithuania has ratified the Maritime Labor Convention, 2006, implementation of which in the Company's vessels may have a positive social and psychological result for the mariners to stay with the ships flying Lithuanian flag because it will ensure compliance with seafarers' rights, labor safety requirements, etc. provided for in the Convention.

Technological factors

The aging fleet means the increasing vessel operating costs, greater probability of unforeseen technical failures and downtime, and increased investment in the dock repairs. In 2015, the average age of the fleet will be 19 years. There is a possibility to perform periodic inspections for newer ships according to the requirements of classification authorities without docking the ship, which shortens the time period required for classification inspection and reduces the costs. Older ships consume more fuel than newer vessels. Significant rise in fuel prices would have a negative impact on the Company's financial results. Cargo insurance is usually more expensive, when goods are transported by older ships, which also reduces the competitiveness of the older ships.

Moreover, changes in regulations related to ships safety may require additional costs for updating the available vessel equipment or acquisition of new equipment and also limit the possibility to transport certain types of cargo.

Environmental factors

The Company operates internationally in a regulated sphere of environmental protection; therefore, the Company and / or its vessels must comply with a number of international conventions or local legislation. For example, MARPOL, SOLAS, Bunker, Ballast Water Conventions, ISM and ISPS Codes, and the US Oil Pollution Act. Compliance with such requirements in the future may require the purchase of new equipment or changes in ship management. For instance, due to requirements of MARPOL Annex VI, "Regulations for the Prevention of Air Pollution from Ships", which comes into force in 2015, the Company's vessels operating costs will increase as it will be possible to use only low-sulphur fuel, which is much more expensive than commonly used fuel oil, in the Baltic and the North Sea and the North American region. The same is true for the projected changes in ballast water management since 2016. As the requirements for navigation are frequently reviewed and there are no final decisions yet (and the technology to achieve them) in regards of the above-mentioned issues, the Company currently cannot yet predict the costs that will be incurred to comply with changing environmental requirements.

2.7. Main Factors Influencing the Company's Operation

The reduction in transport costs in recent years has led to the decrease in orders for new ship building and increase in number of vessels cut to scrap metal. Deadweight decrease in mini Handysize segment, where LSC is operating, has been observed for a number of years in a row (DWT decline in 2012 amounted to 9.1 %, in 2013 - 0.5 %), thus, it is likely that this segment has good preconditions for growth in transport prices for the coming year.

After selling motor vessel *Audrė* and motor vessel *Akvilė* in 2015, the Company will operate five vessels, which is 6 ships less than in 2011-2013 period and 3 vessels less than in 2014. It will therefore be particularly important to create and maintain a sustainable equity structure of the Company as an unplanned breakdown or downtime of one vessel, in view of such a small number of vessels, could have a material impact on the Company's financial results and its liquidity.

The Company has one financial creditor - SEB Bank, to which it mortgaged all ships of the Company. Therefore, the continuity of the Company's activities will be significantly affected by the creditor's position and the loan restructuring procedures.

LSC fleet age is higher than market average (currently, LSC fleet age average is 18.7 years, while the mini Handysize (15,000 to 20,000 DWT) vessel segment - 13 years), which increase ship repair and maintenance costs and probability of downtime due to unforeseen failures.

LSC employs 172 seafarers, which is 69 % of all the Company's seafarers, whose age is now over 50 years. In 2013 a part of such seafarers in the Company amounted to 62 %. At the time, the Company is unable to offer a competitive salary to attract new qualified workforce because of difficult financial situation.

2.8. Company's Investment Projects

2.8.1. Investing into Long-Term Assets during the Accounting Year

In 2014, motor vessel *Deltuva* repair was performed, costing 2,321 thousand LTL.

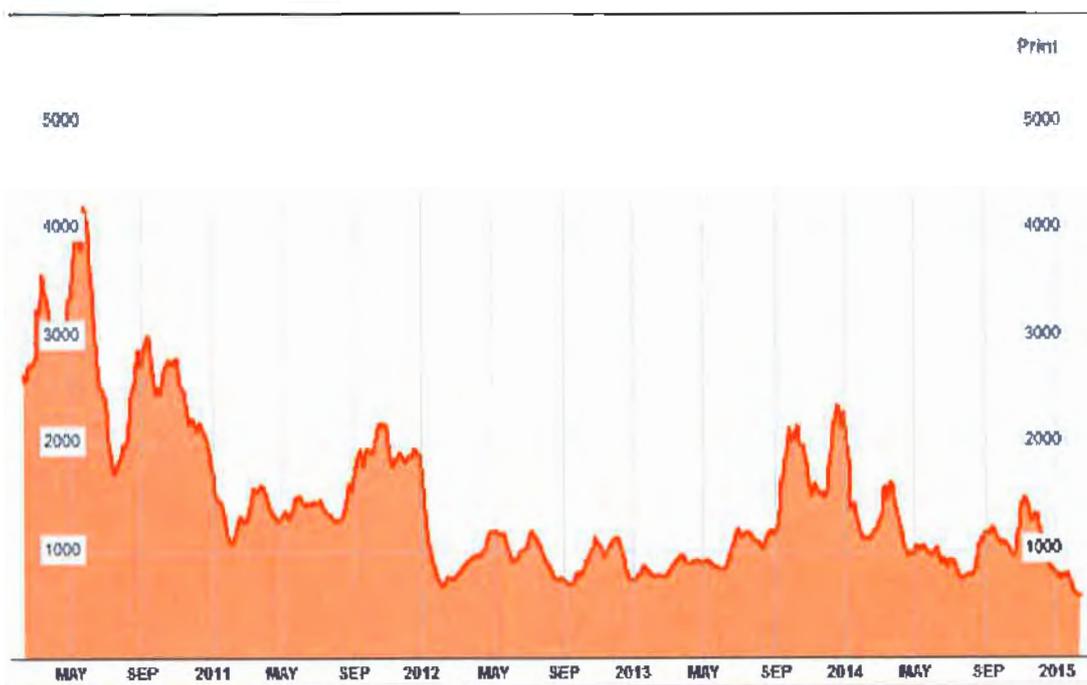
2.8.2. Major Financial Projects in Progress and Target Financial Projects

Currently, no investment projects are undertaken or planned.

2.8.3. Plans and Forecasts of Company's Activities

In accordance with strategic objectives (to concentrate on mini Handysize fleet segment), in 2014 the Company has sold three inefficient and smallest of its vessels (motor vessel *Asta*, motor vessel *Alka* and motor vessel *Daina*). The Company has used a share of the funds received from the sale of these vessels to reduce bank loan and another share - to improve the Company's liquidity. Bank debt decreased from 52.8 million LTL on 31 December 2013 down to 45.9 million LTL on 31 December 2014, accounts payable - from 18.2 million LTL on 31 December 2013 down to 15.5 million LTL on 31 December 2014. To further implement its strategy; in 2015 the Company plans to sell its remaining two smallest vessels (motor vessel *Audrė* and motor vessel *Akvilė*). The Company will also use the funds obtained from this sale to reduce bank loan and improve the Company's liquidity.

The Company's potential for development depends on the global shipping market recovery. In 2014, the shipping market has been at historical lows, and this is reflected in the Baltic Dry index, which shows the dry-cargo ships freight rates in the world. One of the main reasons of that is the excess of vessel deadweight on the market. Although, the global dry cargo fleet is still growing, yet the significant decrease in transport rates has conditioned the decrease in orders for new ship building and increase in number of vessels cut to scrap metal. Deadweight increase in mini Handysize segment, where LSC is operating, in 2014 was the lowest. These factors allow expecting positive changes in the global shipping market in the future. Baltic Dry index trends in 2010-2014 are as follows:



Source: <http://www.bloomberg.com/>

2.9. Assessment of Company's Status and Performance of Activities

The analysis of the financial ratios that best reflect the Company activity results and comments are as follows:

Financial ratio analysis

Name, thousand LTL	Fact			Comment
	2012	2013	2014	
Required (employed) capital	179,672	124,725	106,254	Reduction of net working capital demonstrates that the Company finances a smaller share of its activity with deferrals of accounts payable.
Long-term tangible assets	195,788	142,165	122,007	
Net working capital	(16,116)	(17,440)	(15,753)	
Sources of financing	179,367	134,639	105,884	43 % of the employed capital is being financed by borrowed resources, and the other part - by own resources.
Financial debt	56,398	52,819	45,864	
Grants and subsidies				
Deferment and deferred taxes				
Share capital	200,901	200,901	82,867	
Retained profit (loss) + reserves	(77,932)	(119,081)	(22,847)	In the previous period, most of the loss was generated by the result of vessel sale and cost reduction. The reporting year showed vessel sales and negative impact of exchange rates.
Sales	83,874	92,337	70,038	
Net profit (loss)	(16,432)	(41,149)	(21,800)	
EBITDA	10,174	3,588	2,262	
Interest expenses	2,196	2,141	2,032	
Scheduled credit repayments	8,829	1,692	12,266	
EPS, LTL	(0.08)	(0.20)	(0.13)	
Net profit margin, %	(19.59)	(44.56)	(31.13)	
ROE, %	(13.36)	(50.29)	(36.32)	The ratio value between 1.2 and 2.0 is considered acceptable.
ROA, %	(8.03)	(25.23)	(16.62)	
Liquidity ratio	0.36	0.38	0.13	
Gross debt ratio	0.60	0.50	0.54	
Debt-to-equity ratio	1.50	1.01	0.84	The ratio value below 0.5 is considered low, normal- about 1, high- above 2. The ratio value meets the standard requirements.
DSCR	0.35	0.59	1.04	Acceptable ratio value- above 1.

2.10. Description of Main Types of Risks and Uncertainties (SWOT Analysis)

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Long history of the Company (the Company was founded in 1969) - long-standing relationships with charterers and suppliers; • The Company has a significant number of employees with a considerable work experience at sea; • All 7 vessels of the LJL flying the flag of Lithuania, which is in the White list of Paris Memorandum of Understanding. The White list reads that the vessels meet the highest requirements of international conventions and are inspected less often; • 5 vessels of the Company have RightShip certificates providing advantages of commercial / operational vessels operation; • LJL takes the opportunity to pay a fixed deadweight tax (about 53 thousand LTL per year); • The Company's fleet management is concentrated in one place. Some of the shipping companies buy ship management services from third parties, which often reduces the immediacy and effectiveness of activities. • The Company's securities are quoted on the OMX Vilnius Stock Exchange, which provides the Company with more transparency and ability to raise capital. 	<ul style="list-style-type: none"> • The Company does not have direct relationships with freight forwarders to ensure stable flows of cargo; • Aging fleet (average age of the fleet is 19 years) has increased vessels repair and maintenance costs, and the risk of breakdowns; • The Company is facing the lack of skills as there are no opportunities to increase seamen's wage, which is lower than that in foreign fleet companies. Owners of 'chcap' flag vessels have greater wage increase reserves because they do not pay social security taxes; • Increasing average age of seamen - currently 51 years of age; • Lack of working capital (15.8 million LTL on 31 December 2014). Overdue debts make financial planning difficult, limit the choice of supply and discount opportunities; • 'Short-term' loan schedule with the main creditor - the Company has no opportunity to plan fleet update independently and manage cash flows more efficient.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Strengthen concentration in mini Handysize (17-25 thousand tons DWT) segment by selling smaller vessels; • Vessel charter in new cargo ship lines ensuring long-term cargo flow; • Recruitment of qualified seamen from other countries (Ukraine) in LJL vessels; • The economic cycle in this segment according to global forecasts of analysts should switch from recession (which began in 2009) to the growth phase; • Due decline in the market ongoing during the last years, the number of vessels decreased (number of orders for new ships building have markedly decreased and the number of vessels cut to scrap metal increased). 	<ul style="list-style-type: none"> • Stricter environmental requirements result in higher operating costs for ship-owners; • High dependence on one creditor - all vessels of the Company are pledged in the creditor's favor, so it has the right to demand sale of vessels regardless of the Company's needs; • The maritime piracy, international conflicts are obstacles to international shipping, changing the geography of trade; • International trade protectionism (e.g.: Argentina often requires cargo to be transported by vessels flying the Argentine flag (in particular, in coastwise transportation).

2.11. Financial Risk Management Measures

The main vessel insurance costs of the Company consist of H&M (hull and machinery) along with Loss of Hire (not received income) and P&I (ship owner civil liability insurance) insurance. H&M and P&I insurance is an absolute condition for engaging in the shipping business. Insurance is also required because the vessels are mortgaged to the bank and, in accordance with the Civil Code of the Republic of Lithuania, mortgaged property must be insured.

However, the necessity to insure the vessels is not only determined by legal requirements, it is also a certain form of risk management as well as commercial and operational necessity. Vessels are facing various maritime risks - collisions, pollution, claims for cargo. The vessel collisions and, in particular, pollution cases can lead enormous claims that the Company may not be able to cover itself. Since all vessels are owned by one Company, significant incident of one of the vessels, in case of no insurance coverage, could paralyze operations of the entire Company. Charterers always require vessels to be insured in a trusted P&I insurance club. P&I insurance policy is the grounds of receiving certain vessel documents, without which the ship cannot be navigated (e.g. liability for bunker pollution certificate). Without P&I insurance, vessel could not be navigated to one of the most important markets of the Company, i.e. the United States.

The analysis of the ratio of the Company's cost of insurance services in the entire vessel operating cost structure shows that such costs make an average of 14 %, while the market average is about 9 % (source - Moore Stephens). This is explained by a higher than average market age of the vessels, as well as by a large enough fleet loss ratio in terms of insurers. In 2014 H&M insurance loss ratio for the insurers accounted for 66 %. Every year the Company is actively working and negotiating with insurers to keep insurance premiums from increasing.

2.12. Branch Establishments and Representative Offices

The Company does not have any branch establishments or representative offices.

2.13. Important Events since the End of Previous Financial Year

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. Company's R&D Activities

The Company did not perform any R&D activities during the reporting period.

2.15. Company's Social Initiatives and Policy

Success of the Company's business is inseparable from the ability to employ and retain highly skilled professionals; however, the lack of specialists is noticeable, which is greatly affected by the scope of emigration. Although the educational institutions prepare professionals and there is no decline in their number is anticipated in the future, most of them choose to work in other countries' fleets because of competitive salary.

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

The parties of social partnerships (social partners) are trade unions and Company's representatives.

2.16. Information on Compliance with Provisions of Transparency Policy

The Company acts and complies with the Transparency policy provisions which have been approved by 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 the disclosure of information.
2. The Company publishes the objectives, tasks, financial and other results of activity, current number of employees, annual wages fund, wages of the managers of the state-regulated Company and those of their deputies, acquisitions and investments that were made, are being made and those planned during the financial year.
3. The information announced by the Company, including the annual and semi-annual interim reports, activity statements, and semi-annual activity statements objectively reflect the nature of state Company's activity, current and future activity directions, tasks and objectives, results of the activity and advances.
4. The information about the Company is accessible 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) sets of Financial Statements.
7. The audit for the set of 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.

III. INFORMATION ON COMPANY'S SHARES AND SHAREHOLDERS

3.1. Company Shareholders' Rights

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

Property rights of shareholders of the Company:

1. to receive a part of the Company's profit (dividends);
2. to receive the Company's funds when the authorized capital of the Company is reduced with a view to paying out the Company's funds to the shareholders;
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-emption right in acquiring the shares or convertible debentures issued by the Company, except in the case when the general meeting of shareholders decides to withdraw the pre-emption right for all the shareholders according to the procedure specified by the Law of the Republic of Lithuania on Companies;
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 commercial banks of the locality where the lender has his place of residence or business, which was in effect on the day of conclusion of the loan agreement. In such a case, the Company and shareholders shall be prohibited from negotiating a higher interest rate;

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

Non-property rights of shareholders of the Company:

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 according to granted voting rights;
4. to receive information on the Company in the manner specified in the Articles of Association of the Company;
5. to file a claim with the court for reparation of damage resulting from nonfeasance or malfeasance by the manager of the Company and board members of their duties 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 laws;
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 nominal value of 1 litas grants one vote the General Meeting of Shareholders. The right to vote at the General Meeting of Shareholders is granted only by entirely paid-in shares. The right to vote at the General Meeting of Shareholders may be forbidden or limited under the cases determined in the Laws on Companies and other laws of the Republic of Lithuania or in case where the property right to a share is challenged. There are no shareholders with special control rights.

3.2. Agreements between Shareholders

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

3.3. Purchase of Own Shares

During the 2014 financial year the Company did not acquire, did not transfer, and did not hold own shares. No authorizations for the issue or purchase of Issuer's shares on behalf of Issuer's managing bodies were given.

The General Meeting of Shareholders has the exclusive right to the issue and purchase of own shares.

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

3.4. Dividend Policy

The Company did not pay any dividends during the financial years of 2013 and 2014.

IV. INFORMATION ON COMPANY'S MANAGEMENT BODIES

4.1. Supervisory Board

No.	Full name	Lithuanian Shipping Company shares	Term of office	Field of activities
1	Tomas Karpavičius (Chairman)	None	Since 28 November 2011 Chairman since 22 December 2011	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Ona Barauskienė	None	Since 19 November 2009	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Saulius Kerza	None	Since 26 September 2014	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
4	Gytis Kaminskas	None	Since 27 April 2012	Partner of the Professional Law Partnership Baltic Legal Solutions Lietuva, advocate
5	Laimutė Tinglum	None	Since 27 April 2012	Partner of Skandinavian Accounting and Consulting, UAB, director and auditor.

The supervisory board is a collegial body of the Company supervising the Company's activities. The supervisory board shall be elected by the general meeting of shareholders 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 the members of the board and remove them from office. If the Company is operating at a loss, 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 its comments and proposals to the general meeting of shareholders on the Company's operating strategy, set of annual financial statements, draft of 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 manager of the Company 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. address other issues assigned to the scope of powers of the supervisory board by the decisions of the general meeting of shareholders regarding the supervision of the activities of the Company and its management bodies.
6. the supervisory board shall not be entitled to assign or delegate the functions assigned to the scope of its powers by the Law of the Republic of Lithuania on Companies and the Articles of Association of the Company to other bodies of the Company.

7. the supervisory board shall be entitled to ask the board of the Company and the manager of the Company to submit the documents related to the activities of the Company.

8. Members of the supervisory board must keep the commercial (industrial) secrets and confidential information of the Company, which they obtained while holding the office of members of the supervisory board.

4.2. Board

No.	Full name	Lithuanian Shipping Company shares	Term of office	Field of activities
1	Saulius Girdauskas (Chairman)	None	Since 15 February 2013 Chairman since 27 February 2013	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
2	Andrius Šniuolis	None	Since 13 September 2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
3	Eglė Vyšniauskaitė	None	Since 13 September 2012	Employee of the Ministry of Transport and Communications of the Republic of Lithuania
4	Stepas Telešius	None	Since 7 June 2012	Co-owner of ACME group of companies, director, member of boards
5	Mindaugas Utkevičius	None	Since 7 June 2012	Partner of AS LHV Capital

The Company's board is a collegial body of management made of 5 members. The supervisory board elects members of the board for a term of four years. The board elects a chairman of the board from the members thereof.

Only a natural person may be elected as the Chairman of the Board. Those who cannot be elected as the Chairman of the Board are the following: member of Company's supervisory board and a person, who cannot accept this office according to the Laws of the Republic of Lithuania.

The number of the 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. the management structure of the Company and the positions of the employees;
4. the positions to which employees are recruited through competition;
5. regulations of branches and representative offices of the Company;
6. the procedure of procurement of goods, works, and services.

The board elects and removes from the office the manager of the Company, sets his/her salary as well as the other terms of the employment contract, approves the job description, and provides incentives for and imposes penalties against him/her.

The board determines which information is considered to be the Company's commercial (industrial) secret and confidential information. Any information, which must be publicly available under the Law on Companies and other laws of the Republic of Lithuania, may not be considered to be commercial (industrial) secret and confidential information.

The Board shall take the following decisions:

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 of the Company;
3. decisions on the investment, assignment or rent of the fixed assets the book value whereof exceeds 10 million litas (calculated individually for every type of transaction);
4. 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);
5. decisions on offering of warrantee or guarantee for the discharge of obligations of third parties the amount whereof exceeds 10 million litas;
6. decisions on the acquisition of the fixed assets the price whereof exceeds 10 million litas;
7. decisions on restructuring of the Company in the cases laid down by the Law of the Republic of Lithuania on Restructuring of Enterprises;
8. decisions to allow the manager of the Company 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), the value of which is over 2,000,000 LTL (excluding tax) and transactions of procurement of the works, the value of which is over 3,000,000 LTL (excluding tax).
9. other decisions assigned to the scope of powers of the board by the decisions of the general meeting of shareholders.

The board shall analyze and evaluate the information submitted by the manager of the Company on:

1. the implementation of the operating strategy of the Company;
2. the organization of the activities of the Company;
3. the financial status of the Company;
4. the results of business activities, income and expenditure estimates, the stocktaking and other accounting data of changes in the assets.

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

The board is responsible for the convening and organization of the General Meetings of Shareholders in due time.

Members of the board must keep commercial (industrial) secrets of the Company and confidential information that they obtained while holding the office of members of the board.

The board must organize the general meetings of shareholders in due time and ensure due organization thereof.

The Articles of Association shall be amended by the general meeting of shareholders by a qualified majority of votes, which shall not be less than 2/3 of votes, granted by the shares of all shareholders attending the meeting. Following the decision 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 chair of the board shall sign the Articles of Association of the Company as amended.

The latest version of the Articles of Association of Public Company "Lithuanian Shipping Company" has been approved on the Public Company "Lithuanian Shipping Company" General Meeting of Shareholder which took place 25 April 2014. The amended Articles of Association were registered on 30 September 2014.

4.3. Management

Full name	Lithuanian Shipping Company shares	Term of office	Field of activities
Audronis Lubys	None	Since 1 August 2012	General Director
Arvydas Stropus	None	Since 27 June 2001	Chief Accountant

The information about the amounts calculated over the reporting period at Lithuanian Shipping Company for the members of the management bodies:

	Remuneration, LTL	Sold assets, LTL	Provided guarantees
Administration	661,339	-	-
Members of the Board	-	-	-

The other members, who are not employed by the Company and with whom the Company did not sign any work contracts, have not received any other payments, bonuses from the Company; no assets have been transferred and no guarantees have been provided.

No agreements that provide large compensations exist.

4.4. Other Information on Management Bodies

On 7 December 2014, the composition of the Audit Committee of Lithuanian Shipping Company was changed on the basis of Supervisory Board Meeting Minutes No. 4. Currently, the Committee consists of the following persons:

1. Laimutė Kazlauskienė, lecturer at Mykolas Romeris University, Faculty of Economics and Finance Management, Department of Finance and Taxes;
2. Birutė Stankevičienė, Director of Įmonių auditas, UAB;
3. Nijolė Zibalienė, auditor/controller of the Audit and Accounting Service (founded and owned by the Ministry of Finance of the Republic of Lithuania).

No other committees are established in the Company.

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

There are no significant agreements between Lithuanian Shipping Company and its managing bodies, Lithuanian Shipping Company managers, employees that provide a compensation in case of recovery from office or dismissal without a valid reason, or if their work would be terminated due to changes in Lithuanian Shipping Company control.

There are no transactions between related parties.

4.5. Procedure for Amending Company's Articles of Association

The Articles of Association shall be amended by the General Meeting of Shareholders by the qualified majority of votes, which shall not be less than 2/3 of votes, granted by the shares of all shareholders attending the meeting. Following the decision 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 Articles of Association of the Company as amended.

The most recent amendments of the Articles of Association of LSC were approved at the general shareholders meeting on 25 April 2014.

V. OTHER COMPANY INFORMATION

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

No adverse transactions on behalf of Lithuanian Shipping Company, that had or would have negative influence on the activities and (or) results of activities of Lithuanian Shipping Company were made during the reporting period. No transactions were made in presence of conflict between the managers of Lithuanian Shipping Company, who control shareholders' or other related parties' office in Lithuanian Shipping Company, and their private interests and (or) other offices.

5.2. Data on Publicly Published Information

The issuer, fulfilling his liabilities, according to the legal acts regulating the stock market and being applied to it, has publicly announced the following information in the year 2014:

4. Public Company Lithuanian Shipping Company begins implementation of fleet concentration.
5. Public Company Lithuanian Shipping Company signed agreement for motor vessel Alka sale.
6. Interim information for 12 months for the year 2013 of Public Company Lithuanian Shipping Company.
7. Ordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company.
8. Draft resolutions of Ordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company dating 25 April 2014.
9. Recall and election of members of the board of Public Company Lithuanian Shipping Company.
10. Resolutions of Ordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company dating 25 April 2014.
11. Annual information of Public Company Lithuanian Shipping Company for 2013.
12. Interim information for three months for the year 2014.
13. Election of the chairman of the board.
14. A Public Company Lithuanian Shipping Company signed agreement for motor vessel Daina sale.
15. Public Company Lithuanian Shipping Company operating result and interim information for six months for the year 2014.
16. Extraordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company.

17. Resolutions of Extraordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company dating 26 September 2014.

18. Extraordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company.

19. Resolutions of Extraordinary General Meeting of Shareholders of Public Company Lithuanian Shipping Company dating 11 November 2014.

20. Public Company Lithuanian Shipping Company operating result and interim information for nine months for the year 2014.

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

General Director



Audronis Lubys

Pursuant to Paragraph 3 of Article 21 of the Law of the Republic of Lithuania on Securities and Item 24.5 of the Listing Rules of the NASDAQ OMX Vilnius, the Public Company **Lithuanian Shipping Company** hereby discloses its compliance with the Corporate Governance Code for the Companies Listed on the NASDAQ OMX Vilnius and with specific provisions thereof. If the Code or some of its provisions are not met, it is specified which provisions are not complied with and the reasons of non-compliance:

PRINCIPLES/ RECOMMENDATIONS	YES / NO NOT APPLICABLE	COMMENTS
<p>Principle I: The main provisions</p> <p>The main goal of the company should be meeting the interests of all the shareholders, ensuring a constant increase of the shareholders' property value.</p>		
<p>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.</p>	<p>Yes</p>	<p>The Company's financial statements and annual (semi-annual) report are an essential source of information about the company. The company's development strategy and objectives are publicly available in the director's annual (semi-annual) reports and discussed in the annual general meeting of shareholders. The approved financial statements and reports are publicly available in the Register of Legal Entities, submitted to the Securities Commission and the NASDAQ OMX Vilnius according to a set procedure, and posted on websites. According to the procedure set by the main shareholder, the Ministry of Transport and Communications of the Republic of Lithuania, the company prepares strategic plans for three years and is accountable for their performance on a quarterly basis.</p>
<p>1.2. Activities of all company bodies should be focused on implementation of strategic goals, considering the need to optimize the shareholders' property.</p>	<p>Yes</p>	<p>Activities of all company's bodies are focused on implementation of strategic goals, considering the need to optimize the shareholders' property.</p>
<p>1.3. Supervisory and management bodies of the company should be in close cooperation, seeking for the highest benefits for the company and shareholders.</p>	<p>Yes</p>	<p>All governing bodies are in close cooperation, seeking for the highest benefits for the Company and its shareholders.</p> <p>Director is elected and dismissed from office by the Board of the Company. Director's activities are guided by the Constitution of the Republic of Lithuania, Civil Code of the Republic of Lithuania, Law on Companies and other laws, resolutions of the Government of the Republic of Lithuania, other legal acts, the company's Articles of Association and decisions of the company's bodies - the General Meeting of Shareholders, the Supervisory Board and the Board. The Board is a collegial body, which analyzes the submitted material, considers, approves and adopts decisions. The Supervisory Board elects and removes the board members from office, supervises activities of the Board and the Company's director, submits offers and resolves</p>

		other matters within its competence. The Supervisory Board is elected by the General Meeting of Shareholders.
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	When performing their functions entrusted to them, the supervisory and management bodies of the Company 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.
<p>Principle II: The Company management scheme</p> <p>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.</p>		
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 complies with this recommendation. The Company's management bodies are the general meeting of shareholders (the highest body), the Supervisory Board (a collegial body supervising the Company's activities), the Board (a collegial governing body) and the Company - General Director (sole 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 management body of the Company.
2.3. If a company decides to form only one collegial body, it is recommended to form a supervisory body, i.e. supervisory board. In this case, the supervisory board is responsible for effective function supervision exercised by the company manager.	Not applicable	Supervisory board and board are formed in the Company.
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	Principles of formation of the company's collegial supervisory body and its operations set by legal acts are complied with.

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

<p>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</p>	<p>Yes</p>	<p>Supervisory Board and the Board are made of 5 members each. There are no grounds to believe that a separate person or a small group of people could dominate for these bodies in the process of making decisions.</p>
<p>2.6. Manager's advisors or supervisory board members should be appointed for a specific period of time, with a possibility to be reelected individually under the maximum range prescribed by legal acts of the Republic of Lithuania. This action is preceded in order to certify the necessary growth of professional experience and to reaffirm a quite frequent validation of their status. In addition, there should also be a retained possibility to discharge them. However, this procedure should not be easier than discharging executive manager or a member of the board.</p>	<p>Yes</p>	<p>The Supervisory Board of the Company is elected for a term of four years by the General Meeting of Shareholders. Chairman of the Supervisory Board is elected by the Supervisory Board from its members. Terms of office of the members of the Supervisory Board are unlimited. The General Meeting of Shareholders may cancel the entire Supervisory Board or its individual members before the end of the Supervisory Board's term.</p> <p>The supervisory board elects members of the board for a term of four years. The board elects a chairman of the board from the members thereof. The number of the terms of office of the members and the chairman of the board shall not be limited. The Supervisory Board may cancel the entire Board or its individual members before the end of its term.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company follows these recommendations by implementing their provisions in practice.</p>
<p>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.</p>		

board, according to their essence and nature (ex. the formation of committees), should not be applied to the management. Under the Law of Companies (Official Gazette, 2003, No. 123-5574), the purpose of this body and functions are different. For example, article 3.1 regarding body supervisory management is applied to the extent, which is related to the head of the company, but not to the management supervision itself; article 4.1 regarding the offering of recommendations to the management bodies is applied to the extent, which is related to offering recommendations to the head of the company; article 4.6 regarding the general meeting of stockholders selected by the collegial body independence from the bodies of company management, is applied to the extent, which is related to the independence from the head of the company.

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

<p>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.</p>	<p>Yes</p>	<p>The General Meeting of Shareholders elects the Supervisory Board, which is a collegial body supervising the Company's operation.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company follows these recommendations by implementing their provisions in practice.</p> <p>According to procedure set laws of the company's annual report, which contains basic information about the members of collegial bodies, is prepared and signed by the company's general director and considered and approved by the company's Board.</p>
<p>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 assess 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.</p>	<p>Yes</p>	<p>The candidates for election to organs must inform the electing body on where and what office he/she holds, how his/her other activities are related to the company and other legal entities associated with the company. The members of the Company's Supervisory Board are elected by the General Meeting of Shareholders. The Supervisory Board elects members of the Board. The Board elects the Company's director. The Company's director – the General Manager is responsible for the preparation of the annual report within the competence assigned by law and prepares and signs it.</p>
<p>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 assessed periodically. The collegial body should ensure that its members, as an entire unit, would have versatile knowledge, opinions and experience for proper execution of given assignments. Members of the Auditing committee, as an entire unit, should have the latest knowledge and respective experience in the field of finance and accounting and (or) auditing of the companies, listed on the stock exchange. At least one of the members of the remuneration committee should have knowledge and experience in the field of remuneration policy.</p>	<p>Yes</p>	<p>Company's main share package is owned by the state represented by the Ministry of Transport and Communications of the Republic of Lithuania (56.66%). Representatives of the Ministry of Transport and Communications of the Republic of Lithuania make up the majority of the Supervisory Board (3/5) and the majority of the Board (3/5), while the other members of the governing bodies are independent. Candidates are considered based on the election criteria established by the Description of the Procedure for Implementation of the Property and Non-property Rights of the State in State-managed Enterprises approved by Resolution No. 665 of the Government of 6 June 2012.</p> <p>Pursuant to the Minutes No. 4 of the Supervisory Board's meeting of 17 December 2014, the composition of the Audit Committee of LJI was updated. Currently, the Commission is as follows:</p>

		<ol style="list-style-type: none"> 1. Laimutė Kazlauskienė, lecturer at Mykolas Romeris University, Faculty of Economics and Finance Management, Department of Finance and Taxes; 2. Birutė Stankevičienė, Director of Įmonių auditas, UAB; 3. Nijolė Zibalienė, auditor/controller of the Audit and Accounting Service (founded and owned by the Ministry of Finance of the Republic of Lithuania).
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	The Company follows these recommendations by implementing their provisions in practice.
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 in the collegial body are independent. Election criteria established by the Description of the Procedure for Implementation of the Property and Non-property Rights of the State in State-managed Enterprises approved by Resolution No. 665 of the Government of 6 June 2012 are applied in their regard.

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 	<p>Yes</p>	<p>Company's main share package is owned by the state represented by the Ministry of Transport and Communications of the Republic of Lithuania (56.66%). Representatives of the Ministry of Transport and Communications of the Republic of Lithuania are in the Supervisory Board (3/5) and the Board (3/5). Two members in the Supervisory Board and the Board are considered independent. Election criteria established by the Description of the Procedure for Implementation of the Property and Non-property Rights of the State in State-managed Enterprises approved by Resolution No. 665 of the Government of 6 June 2012 are applied in their regard.</p>
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<p>receiving significant payments from the company or its group;</p> <p>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;</p> <p>7) He is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board, he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies;</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>	<p>Yes</p>	<p>See Clause 3.7.</p>
<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>	<p>Yes</p>	<p>See 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.	Yes	See Clause 3.7.
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. ⁶⁵ . The general shareholders' meeting should approve the amount of such remuneration.	Yes	This provision is valid and enforceable in the company. On 23 November 2012 the General Meeting of Shareholders of the Company approved the contract for activity of independent member of the Board (Supervisory Board) of the Public Company Lithuanian Shipping Company, which sets the amount of remuneration and the payment procedure.
<p>Principle IV: Duties and liabilities of a collegial body elected by the general meeting of shareholders The company management system should ensure proper and effective functioning of the collegial body, elected by the general meeting of the shareholders, and the powers granted to the collegial body should ensure effective monitoring⁷⁶ of the company management bodies and protection of interests of all the company's shareholders.</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. ⁸⁷	Yes	The Company follows the provisions of the Law of the Republic of Lithuania on Companies and these recommendations by implementing their provisions in practice.
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.	Yes	According to the company's information, all of the Supervisory Board and the Board members act in good faith in respect of the Company and in the interests of the Company, rather than their own or third party interests, trying 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.

<p>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).</p>		
<p>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 half⁸ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	Yes	<p>Company's main share package is owned by the state represented by the Ministry of Transport and Communications of the Republic of Lithuania (56.66%). Representatives of the Ministry of Transport and Communications of the Republic of Lithuania are in the Supervisory Board (3/5) and the Board (3/5).</p> <p>The Company submits information on participation of the collegial body members in the meetings in the minutes thereof.</p>
<p>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.</p>	Yes	<p>Procedure of submitting the Company's documents and other information to the shareholders is provided in the Company Articles of Association.</p>
<p>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.</p>	Not applicable	<p>There were not transactions.</p>

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.

<p>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 bodies⁹. 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.</p>	<p>Yes</p>	<p>Activities of the Company's collegial body are regulated in the Law of the Republic of Lithuania on Companies and these recommendations are followed by implementing their provisions in practice.</p>
<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 Company follows these recommendations by implementing their provisions in practice.</p> <p>The Company's operation is implemented according to the Company's Articles of Association and work regulations of the Supervisory Board and the Board.</p> <p>Recommendations to form an audit committee in their essence and nature are applicable exclusively to the Supervisory Board and the Company's Board, which purpose and functions in accordance with the Law on Companies are different, are not applicable.</p> <p>Since 21 July 2011 (minutes No. 3 of the Supervisory Board's meeting) the Audit Committee consists of three members.</p>

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

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

<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 Company follows these recommendations by implementing their provisions in practice.</p>
<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>See Clauses 3.4, 4.7 and 4.8.</p> <p>The Company's supreme body – the General Meeting of Shareholders – is elected by the Supervisory Board.</p> <p>Since 21 July 2011 (minutes No. 3 of the Supervisory Board's meeting) the Audit Committee consists of three members.</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>Yes</p>	<p>See Clauses 3.4 and 4.8.</p> <p>The Company's Supervisory Board approves the bylaws of the Audit Committee.</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>Yes</p>	<p>Implementation of these recommendations is provided in the bylaws of the Audit Committee approved by the Supervisory Board.</p>

<p>4.12. Nomination Committee.</p> <p>4.12.1. Key functions of the nomination committee should be the following:</p> <p>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;</p> <p>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;</p> <p>3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body;</p> <p>4) Properly consider issues related to succession planning;</p> <p>5) Review the policy of the management bodies for selection and appointment of senior management.</p> <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>See Clauses 3.4 and 4.8.</p> <p>Nomination Committee is not formed.</p>
<p>4.13. Remuneration Committee.</p> <p>4.13.1. The main functions of the remuneration committee should be the following:</p> <p>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;</p>	<p>Not applicable</p>	<p>In the Company, remuneration and other employee payments are paid in accordance with the collective agreement, employment agreement, provisions of the Resolution No. 1341 of the Government of 23 August 2002 "On Remuneration for Work of the Heads, Their Deputies and Chief Accountants in State Enterprises and State-controlled Joint-stock Companies and Closed Joint-stock Companies" and remuneration schemes of the Public Company Lithuanian Shipping Company or coast employees, description of procedure of performance-based remuneration for the General Director, Directors and chief accountant of the Public Company Lithuanian Shipping Company approved by the Board.</p>

<p>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;</p> <p>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;</p> <p>4) Periodically review the remuneration policy for executive directors or members of management body, including the policy regarding share-based remuneration, and its implementation;</p> <p>5) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</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>Remuneration Committee is not formed.</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>		

<p>4.14.3. The audit committee should decide whether participation of the chairman of the collegial body, chief executive officer of the company, chief financial officer (or superior employees in charge of finances, treasury and accounting), or internal and external auditors in the meetings of the committee is required (if required, when). The committee should be entitled, when needed, to meet with any relevant person without executive directors and members of the management bodies present.</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>	Yes	See Clauses 1.3 and 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.</p>		

<p>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.</p>	<p>Yes</p>	<p>Chairman of the Supervisory Board is Tomas Karpavičius (since 22 December 2011), chairman of the Company's Board is Saulius Girdauskas (since 27 February 2013).</p>
<p>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 month¹²¹¹.</p>	<p>Yes</p>	<p>The Company's bodies consider all the matters assigned their competence. This is provided for in their work regulations.</p> <p>Frequency of meetings of the bodies is determined depending on the issues to be considered. The Board forms the plan for convening the ordinary meetings. Agenda of extraordinary meetings of the Board is determined by the persons who initiated the Board's meeting. The Supervisory Board also forms the meetings' schedule. Meetings of the Supervisory Board are convened at least once a quarter.</p>
<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.</p>	<p>Yes</p>	<p>The Supervisory Board forms schedule of meetings, provides the key issues to be discussed, the responsible persons and the preliminary dates. The meeting's agenda shall be communicated no later than 7 days before the meeting. The scheduled agenda may be changed only with the consent of all the members of the Supervisory Board. The meeting's material shall be introduced to the Supervisory Board members 5 days before the meeting.</p> <p>The Board forms the plan for convening the ordinary meetings. Agenda of extraordinary meetings of the Board is determined by the persons who initiated the Board's meeting. The prepared Board's meeting material must be submitted to the Chairman of the Board no later than 5 days prior to the Board's meeting. Chairman of the Board shall convene the meeting of the Board and, not later than three working days prior to the meeting, sent invitations to the meeting of the Board and the Board's meeting materials to the Board members. The agenda can be supplemented outside of this period, if it is attended by all members of the Board or not by all members of the Board, however, the absent</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.

		Board's members do not object such actions, and if none of the participating members of the Board do not object.
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	Material for the issues discussed by the Supervisory Board is prepared by the Company's employees, members of the Company's Board, and, when necessary, the Board's members themselves through other persons. Any persons related to the issue under consideration at the meeting may be invited to 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	Authorized capital of the Company equals 82,867,200 litas. The authorized capital of the Company is divided into 82,867,200 shares of 1 litas per value. All the shares of the Company are of one class – ordinary registered shares granting equal rights to its owners.
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	This is provided for in the Company Law and the Articles of Association of the Company. Only the General Meeting of Shareholders (hereinafter referred to as GMS) has the exclusive right to determine class, number, nominal value of the shares issued by the Company and the minimum issue price. The Company makes the convening of GMS public pursuant to the procedure stipulated in the Articles of Association.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting ^{13, 12} . All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant company issues, including approval of transactions referred to above, are discussed.	Yes	The Company's Articles of Association provide that the Board shall take the following decisions: decisions on the investment, assignment or rent of the fixed assets the book value whereof exceeds 2 million litas (calculated individually for every type of transaction); decisions on the pledge or mortgage of the fixed assets the book value whereof exceeds 2 million

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-term 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.

		Litas (calculated for the total amount of transactions); decisions on offering of warrantee or guarantee for the discharge of obligations of third parties the amount whereof exceeds 2 million litas; decisions on the acquisition of the fixed assets the price whereof exceeds 2 million litas; only having the approval of the General Meeting of Shareholders.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders.	Yes	The Company informs the public on convening the General Meeting of Shareholders according to procedure stipulated by the Law on Companies (no later than 21 days before the meeting).
6.5. If is possible, in order to ensure shareholders living abroad the right to access to the information, it is recommended that documents on the course of the general shareholders' meeting should be placed on the publicly accessible website of the company not only in Lithuanian language, but in English and /or other foreign languages in advance. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in Lithuanian, English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Procedure of convening the Company's General Meeting of Shareholders, decision-making and organization is stipulated in the Law of the Republic of Lithuania on Companies and in the Articles of Association of the Company, which the Company follows. Key events also involving agenda of the shareholders' meeting and decisions and their drafts are made public by electronic means through news distribution service used by the NASDAQ OMX Vilnius in Lithuanian and English languages. This information is also provided on the Company's website.
6.6. Shareholders should be equipped with the opportunity to vote at the general meeting of shareholders in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	These rights of the shareholders are provided in the Law of the Republic of Lithuania on Companies and in the Articles of Association of the Company.
6.7. Seeking to increase shareholders' opportunities to effectively participate in shareholders' meetings, the companies are recommended to expand use of modern technologies by allowing the shareholders to participate and vote in general meetings via electronic means of communication. In such cases security of transmitted information and a possibility to identify the identity of the participating and voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially shareholders living abroad, with the opportunity to watch shareholder meetings by means of modern technologies.	Yes	The Company would like to use advanced technologies in voting at shareholders' meetings without significantly increasing costs and (or) expenditures that could damage the interests of the shareholders. Currently, there are limited options for that.

Principle VII: The avoidance of conflicts of interest and their disclosure		
The company management system should encourage members of the company bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the company bodies.		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the Company's supervisory and management bodies were informed on that and the Company follows this recommendation.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a company body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other company body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a company body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same company body or to the company body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Not applicable	Members of the Company's supervisory and management bodies had no transactions with the Company.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	Members of the Company's supervisory and management bodies had no transactions with the Company. However, they are informed on this recommendation and will follow it.
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 statement as well as posted on the company's website.	Yes	Under the procedure stipulated by the Securities Commission of the Republic of Lithuania, the Company publishes the average number of employees and monthly remuneration in the Company's annual statement. This information is available both in the Company (Malūnininkų 3, Klaipėda, Lithuania), the Lithuanian Securities Commission (Konstitucijos pr. 23, Vilnius),

		NASDAQ OMX Vilnius (Konstitucijos pr. 7, 15 th floor, Vilnius), and on the websites of each of the above authorities, where information is public and accessible to all.
8.2. 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.	Not applicable	Remuneration policy in regards of the Company's directors and chief accountant is regulated as per the Resolution No. 1341 of the Government of 23 August 2002 "On Remuneration for Work of the Heads, Their Deputies and Chief Accountants in State Enterprises and State-controlled Joint-stock Companies and Closed Joint-stock Companies".
8.3. Remuneration statement should leastwise include the following information: 1) Explanation of the relative importance of the variable and non-variable components of directors' remuneration; 2) Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; 3) An explanation how the choice of performance criteria contributes to the long-term interests of the company; 4) An explanation of the methods, applied in order to determine whether performance criteria have been fulfilled; 5) Sufficient information on deferment periods with regard to variable components of remuneration; 6) Sufficient information on the linkage between the remuneration and performance; 7) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 8) Sufficient information on the policy regarding termination payments; 9) Sufficient information with regard to vesting periods for share-based remuneration, as referred to in point 8.13 of this Code; 10) Sufficient information on the policy regarding retention of shares after vesting, as referred to in point 8.15 of this Code; 11) Sufficient information on the composition of peer groups of companies the remuneration policy of which has been examined in relation to the establishment of the remuneration policy of the company concerned; 12) A description of the main characteristics of supplementary pension or early retirement schemes for directors; 13) Remuneration statement should not include commercially sensitive information.	Not applicable	See Clause 8.2.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	Not applicable	See Clause 8.2.

<p>8.5. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.5.1 to 8.5.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.5.1. The following remuneration and/or emoluments-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; 2) The remuneration and advantages received from any undertaking belonging to the same group; 3) The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; 4) If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; 5) Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; 6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 	<p>Yes</p>	<p>Amount of remuneration of each director and calculation methodology is stipulated and described in the Resolution No. 1341 of the Government of 23 August 2002 “On Remuneration for Work of the Heads, Their Deputies and Chief Accountants in State Enterprises and State-controlled Joint-stock Companies and Closed Joint-stock Companies” and the order of the Ministry of Transport and Communications “On Remuneration for Work of the Heads, Their Deputies and Chief Accountants of Joint-stock Companies where the Ministry of Transport and Communications represents the State” adopted on its grounds.</p>
<p>8.5.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <ol style="list-style-type: none"> 1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; 2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; 3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; 4) All changes in the terms and conditions of existing share options occurring during the financial year. <p>8.5.3. The following supplementary pension schemes-related information should be disclosed:</p> <ol style="list-style-type: none"> 1) When the pension scheme is a defined-benefit scheme, changes in the directors’ accrued benefits under that scheme during the relevant financial year; 2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. <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>		

<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.</p>	<p>Yes</p>	<p>Remuneration of the Company's directors consists of two components – variable and non-variable. Amount of variable component depends on the implementation criteria set in the strategic plan. In any event the amount of variable components does not exceed the amount of non-variable component stipulated in the Resolution No. 1341 of the Government of 23 August 2002 “On Remuneration for Work of the Heads, Their Deputies and Chief Accountants in State Enterprises and State-controlled Joint-stock Companies and Closed Joint-stock Companies”.</p>
<p>8.7. Award of variable components of remuneration should be subject to predetermined and measurable performance criteria.</p>	<p>Yes</p>	<p>Goals that predetermine the amount of variable component of directors' remuneration are provided in the Company's in the strategic plan, which is updated and approved by the Board each year.</p>
<p>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 deferral should be determined in relation to the relative weight of the variable component compared to the non-variable component of remuneration.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>8.10. Termination payments should not exceed a fixed amount or fixed number of years of annual remuneration, which should, in general, not be higher than two years of the non-variable component of remuneration or the equivalent thereof.</p>	<p>Not applicable</p>	<p>Amounts and procedure of termination payments are stipulated in the Resolution No. 1341 of the Government of 23 August 2002 “On Remuneration for Work of the Heads, Their Deputies and Chief Accountants in State Enterprises and State-controlled Joint-stock Companies and Closed Joint-stock Companies”.</p>
<p>8.11. Termination payments should not be paid if the termination is due to inadequate performance.</p>	<p>Not applicable</p>	<p>See Clause 8.10.</p>
<p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>8.13. When remuneration is based on shares award, shares should not vest for at least three years after their award.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>

<p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>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).</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>8.16. Remuneration of non-executive or supervisory directors should not include share options.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<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>	<p>Not applicable</p>	<p>See Clause 8.2.</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. <p>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.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>

<p>8.21. Should national law or company's Articles of Association 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>Not applicable</p>	<p>See Clause 8.2.</p>
<p>8.22. Provisions of Articles 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 shareholders' annual general meeting.</p>	<p>Not applicable</p>	<p>See Clause 8.2.</p>
<p>8.23. Prior to the annual general meeting that is intended to consider decision stipulated in Article 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.</p>	<p>Not applicable</p>	<p>See Clause 8.19.</p>
<p>Principle IX: The role of shareholders in the company management The management system of the company should recognize the rights of shareholders as established by law and encourage active co-operation between companies and shareholders in creating the company's prosperity, jobs and financial sustainability. For the purposes of this Principle, the concept "shareholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the specific company.</p>		
<p>9.1. The company management system should assure that the rights of shareholders which are protected by law are respected.</p>	<p>Yes</p>	<p>The laws provide appropriate sanctions for failure to comply with the rights. The Company aims at avoiding conflicts of interest.</p>
<p>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.</p>	<p>Yes</p>	<p>The Company operates in accordance with the Law on Companies and the Articles of Association of the Company.</p>

9.3. Where shareholders participate in the company management process, they should have access to relevant information.	Yes	Access to relevant information is governed by the Law on Companies and the Articles of Association of the Company.
Principle X: Information disclosure The management system of the company should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and management of the company.		
10.1. The company should disclose information on: <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>This information is disclosed in the Company's activity reports, prospects/reports (annual, semi-annual), and in annual reports since 2007.</p> <p>Information on compliance with separate items of this list is disclosed in accordance with procedure and time limits stipulated by the laws and other normative acts, the Securities Commission of the Republic of Lithuania and the Stock Exchange NASDAQ OMX Vilnius and procedure and practice valid in the Company. Public interest of shareholders is regulated by the Law of the Republic of Lithuania on Companies, the Company's Articles of Association, legislation regulating the securities market and regulations, which must be complied with in the Company and which are complied with.</p> <p>The Company discloses information to the market in Lithuanian and English languages via NASDAQ OMX news distribution service by announcing key events and by publishing it on the Company's website, section or Investors. There is an equal access to information on the Company and the shares traded on the stock exchange, thus, the shareholders can decide themselves on the purchase and sale of shares.</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.	Not applicable	There is no group

<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>	<p>Yes</p> <p>Yes</p>	<p>See Clause 10.1.</p> <p>This is governed by a legal basis, the Company's Articles of Association and contractual obligations undertaken. By undertaking the above obligations it is sought to avoid conflicts of interest by granting the interest holders with the right of choice.</p>
<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.</p>	<p>Yes</p>	<p>See Clause 10.1.</p>
<p>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.</p>	<p>Yes</p>	<p>See Clause 10.1.</p>
<p>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.</p>	<p>Yes</p>	<p>See Clause 10.1.</p> <p>Information on the Company's stock price change is public and available on the website of the Stock Exchange (NASDAQ OMX Vilnius).</p>
<p>Principle XI: The selection of the audit firm for the Company</p>		

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	<p>The Company is categorized as an enterprise, for which audit of annual financial statements is mandatory according to the Law of the Republic of Lithuania on Companies.</p> <p>Interim financial statements are not audited by the independent audit company because it is not provided by the laws.</p>
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	<p>Candidate firm of auditors shall be selected in accordance with the conditions for selecting an audit firm approved by the Company's Board. The successful candidate firm is approved by the Board, and the Board shall submit candidates to the Company's General Meeting of Shareholders to select the Company's audit firm. In accordance with the Law of the Republic of Lithuania on Companies and the Articles of Association, only the General Meeting of Shareholders shall have the exclusive right to select and revoke the audit firm and set the terms for audit services payment.</p>
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	<p>On the audit firm's independence The audit firm's director informs the Public Entity Authority of Audit and Accounting and the Company by its letter "Approval of audit firm's independence" of 16 October 2014</p>