

AKCINĖ BENDROVĖ  
"LIETUVOS JŪRŲ LAIVININKYSTĖ"



PUBLIC COMPANY  
"LITHUANIAN SHIPPING COMPANY"

31/08/2010 No. (01)-5-232

Klaipėda

Ref. No.

## SEMI-ANNUAL PROGRESS REPORT 2010

### I. GENERAL INFORMATION ABOUT THE ISSUER

Semi-annual report of Public Company "Lithuanian Shipping Company" is prepared for the period from 1 January 2010 to 30 June 2010.

Public Company "Lithuanian Shipping Company" (hereinafter referred to as LSC), company code 110865039, Malūnininkų g. 3, Klaipėda, Phone: + 370 46 393 105, Fax: + 370 (46) 393 119, E-mail: [info@ljl.lt](mailto:info@ljl.lt), was founded on 27 June 2001.

Legal organization form: legal entity - public company.

Details of registration in the company register:

Date of incorporation: 27 June 2001.

Manager of the register: State Enterprise Center of Registers

Company registration No.: BĮ 01 – 128

Company code: 110865039

Former company code: 1086503

Website: <http://www.ljl.lt>

Branch of economy – sea transport.

23 types of activities are provided in the Articles of Association of the company, whereof the main one is:

50.2. Sea and coastal cargo water transport (Chapter 50. Water transport, section H. Transport and storage – codes are given as per NACE codes).

The securities of the company have been included in the National Securities Exchange of Lithuania current sales list since 09/07/2001. The National Securities Exchange of Lithuania formerly Vilnius Stock Exchange, presently AB NASDAQ OMX Vilnius. After the board of Vilnius Stock Exchange approved amendment of the rules of sale of AB "Vilniaus vertybinių popierių birža" on 18 May 2007, the current sales list was changed to additional securities list. Thereon the company has been included in the additional securities list:

- the quantity of the issue – 200.901.296 units;
- nominal value - 1 LTL;
- total nominal value of the issue – 200.901.296,00 LTL;
- share category – ordinary registered shares;
- ISIN code - LT0000125999;
- Method of stock issue into public securities turnover – reorganization.

Total number of Public Company "Lithuanian Shipping Company" shareholders on 23 April 2010, i.e. the day of accounting of general shareholders' meeting, was 2224 shareholders.

Information about the shareholders, owning over 5 percent of the authorized capital of the company, is given in the General Part of explanatory letter of annual financial statement.

Since its establishment, the company has been participating in the activities of the Association of

Lithuanian Ship Owners and Association of Klaipeda Industrialists, it is a member of BIMCO (The Baltic and International Maritime Council).

1 general shareholders' meeting of the company, 1 supervisory board meeting, and 7 board meetings were held in 2010.

## II. DATA RELATED TO SALE OF LSC SECURITIES

The company, included in the regulated market trade list, shall meet particular terms and conditions, e.g. shall be of due size and have history of activities.

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 the current sales list of the National Stock Exchange of Lithuania, subsequently – in Vilnius Stock Exchange. After approval of the amendments to the trade terms of Vilnius Stock Exchange by the Board of Vilnius Stock Exchange on 18 May 2007, the current stock list was replaced with the supplementary stock list. Since then, the company has been included in the supplementary trade list.

New name of exchange – AB NASDAQ OMX Vilnius.

After new regulations of Vilnius Stock Exchange came into effect on 30/05/2005, direct deals are calculated as automatically handled deals, together with other deals of central market.

### The results of the last 8 quarters (each separately) for securities sold by automatic handling deals\*

Reporting period		Price			Turnover (LTL)			Date of the last session	Total turnover	
From	To	Max	Min	Last session	Max	Min	Last session		(units)	(LTL)
2008 01 01	2008 03 31	0,60	0,50	0,54	99.025	0	3.153	2008 03 31	1.861.381	998.559
2008 04 01	2008 06 30	0,56	0,45	0,49	40.543	0	0	2008 06 30	1.333.941	689.458
2008 07 01	2008 09 30	0,50	0,35	0,36	908.191	0	43.083	2008 09 30	9.154.554	3.936.928
2008 10 01	2008 12 31	0,38	0,15	0,24	372.592	0	56.629	2008 12 30	14.805.954	3.187.381
2009 01 01	2009 03 31	0,45	0,22	0,37	771959,86	0	145.207	2009 03 31	25.025.523	8.659.821
2009 04 01	2009 06 30	0,42	0,34	0,40	833.606,4	0	45.617	2009 06 30	8.714.861	3.435.2567
2009 07 01	2009 09 30	0,62	0,37	0,49	270.409,76	0	13.683,80	2009 09 30	3.710.373	1.651.775,67
2009 10 01	2009 12 31	0,54	0,40	0,43	190.074,96	0	570,30	2009 12 30	1.584.703	755.933,11
2010 01 01	2010 03 31	0,49	0,32	0,34	557.264	0	27.028	2010 03 31	14.540.135	5.306.615
2010 04 01	2010 06 30	0,35	0,24	0,25	151.167	0	18.522	2010 06 30	5.545.214	1.633.435

### Sale of the issuer's securities outside the exchange\*

Period	2008 Q I	2008 Q II	2008 Q III	2008 Q IV
<b>Cash settlements</b>				
Turnover, LTL	2.270.060	1.647.564	2.264.116	1.273.675
Turnover, units	5.670.379	716.272	6.476.029	4.601.730
Minimum price, LTL	0,29	0,48	0,48	0,42
Maximum price, LTL	0,55	0,33	0,26	0,26
<b>Non-cash settlements</b>				
Turnover, units	19.364	33.523	49.023	19.882

Period	2009 Q I	2009 Q II	2009 Q III	2009 Q IV
<b>Cash settlements</b>				
Turnover, LTL	279.826,86	180.782,22	73.255,22	201.007,35
Turnover, units	875.949	561.532	350.00	910.000
Minimum price, LTL	0,16	0,16	0,21	0,21
Maximum price, LTL	0,40	1,00	0,21	0,24
<b>Non-cash settlements</b>				
Turnover, units	65.514	408.178	687.039	-

Period	2010 Q I	2010 Q II		
<b>Cash settlements</b>				
Turnover, LTL	263.959,73	228.606,01		
Turnover, units	1.324.000	1.468.000		
Minimum price, LTL	0,14	0,11		
Maximum price, LTL	0,24	0,19		
<b>Non-cash settlements</b>				
Turnover, units	160.000	55.085		

\* Prepared basing on information announced in topics on [www.csdl.lt](http://www.csdl.lt) on outside deals for 2010. Stock of the issuer is not traded on other exchanges or other organized markets.

The company did not acquire and did not transfer own shares over the financial year 2010.

There is no official offer of the third party for the acquisition of stock of the issuer.

The issuer has not submitted an official offer for acquisition of stock, issued by the third party.

On 1 November 2002, Public Company "Lithuanian Shipping Company" signed the Securities service agreement with UAB FMĮ "Jūsų tarpininkas" (subsequently AB FMĮ "SNORAS – Jūsų tarpininkas", A. Mickevičiaus g. 29-3, 44245 Kaunas). After affiliation of AB FMĮ "SNORAS – Jūsų tarpininkas", on 31 March 2010 any and all rights as well as duties of AB FMĮ "SNORAS – Jūsų tarpininkas" were taken over by AB FMĮ "Finasta" (code 122570630, registered office at Maironio g. 11, Vilnius, Phone: 1813, E-mail: [info@finasta.com](mailto:info@finasta.com)), continuing contractual obligations and managing the stock accounting of Public Company "Lithuanian Shipping Company".

### III. INFORMATION ABOUT THE MANAGEMENT BODIES OF THE COMPANY

#### The company's management bodies are:

- general shareholders' meeting;
- supervisory board;
- board;
- the director of the company.

#### *General shareholders' meeting*

The General Shareholders' Meeting is the supreme body of the company, having the following exclusive rights:

1. to amend the Articles of Association of the company, unless otherwise provided for by the Law on Companies of the Republic of Lithuania;
2. to change the registered office of the company;
3. to elect the members of the Supervisory Board;
4. to remove the Supervisory Board or its members;
5. to select and remove the firm of auditors for the carrying out of the audit of annual financial statements, set the conditions for auditor remuneration;
6. to determine the class, number, nominal value and the minimum issue price of the shares issued by the company;
7. to approve the set of annual financial statements;
8. to take a decision on profit/loss appropriation;
9. to take a decision on the formation, use, reduction and liquidation of reserves;
10. to take a decision on the issue of convertible debentures;
11. to take a decision on withdrawal for all the shareholders the right of pre-emption in acquiring the company's shares or convertible debentures of a specific issue;
12. to take a decision on increase of the authorised capital;
13. to take a decision on reduction of the authorised capital, except where otherwise provided for by the Law on Companies of the Republic of Lithuania;
14. to take a decision for the company to purchase own shares;

15. to take a decision on the reorganisation or split-off of the company and approve the terms of reorganisation or split-off;
16. to take a decision on transformation of the company;
17. to take a decision on restructuring of the company;
18. to take a decision on liquidation of the company, cancellation of the liquidation of the company, except where otherwise provided for by the Law on Companies of the Republic of Lithuania;
19. to elect and remove from office the liquidator of the company, except where otherwise provided for by the Law on Companies of the Republic of Lithuania.

The general shareholders' meeting may also decide on other matters assigned within the scope of its powers by the Articles of Association of the company, unless these have been assigned under the Law on Companies of the Republic of Lithuania within the scope of powers of other bodies of the company and provided that, in their essence, these are not the functions of the management bodies.

The general shareholders' meeting may not charge other management bodies to address the issues assigned to its sphere of competence.

### ***Supervisory board***

The supervisory board is a collegial body supervising the activities of the company. The supervisory board is elected by the general shareholders' meeting for the period of 4 years and consists of 5 members. The number of re-elections of a member of the supervisory board is not limited. The supervisory board is managed by its chairman. The supervisory board elects a chairman from its members.

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 suitability of the Board members for their office;
2. supervise the activities of the Board and the manager of the company;
3. submit its comments and proposals to the general shareholders' meeting 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 shareholders' meeting;
5. address other issues assigned to the scope of powers of the Supervisory Board by the decisions of the general shareholders' meeting 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 on Companies of the Republic of Lithuania 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.

### ***Board***

The board of the company is a collegial management body of the company, consisting of 5 members. The members of the board are elected by the supervisory board for the period of four years. The board shall elect its chairman from among its members. The number of re-elections of the members of the board of the company and the chairman is not limited.

The Board shall consider and approve:

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. procedure of procurement of goods, works, and services.
7. The Board shall elect and remove from office the manager of the company, fix his salary and set other terms of the employment contract, approve his job description, provide incentives for and impose penalties against him.
8. The Board shall determine which information shall be considered to be the company's commercial (industrial) secret and confidential information. Any information which must be publicly available under the Law on Companies of the Republic of Lithuania and other laws may not be considered to be the commercial (industrial) secret and confidential information.
9. The Board shall take the following decisions:
  - 9.1. decisions for the company to become an incorporator or a member of other legal entities;
  - 9.2. decisions on the opening of branches and representative offices of the company;
  - 9.3. decisions on the investment, disposal or lease of the fixed assets the book value whereof exceeds 10 million Litas (calculated individually for every type of transaction);
  - 9.4. 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);
  - 9.5. decisions on offering of surety or guarantee for the discharge of obligations of third parties the amount whereof exceeds 10 million Litas;
  - 9.6. decisions on the acquisition of the fixed assets the price whereof exceeds 110 million Litas;
  - 9.7. decisions on restructuring of the company in the cases laid down by the Law on Restructuring of Enterprises of the Republic of Lithuania;
  - 9.8. decisions to allow the company's director making deals (except of deals on derivative financial means, currency purchase-sale, insurance of ships and ships maritime risks) with the value exceeding 2.000.000 LTL (without taxes) and deals of change of works with the value exceeding 3.000.000 LTL (without taxes);
  - 9.9. other decisions assigned to the scope of powers of the Board by the decisions of the general shareholders' meeting.
10. It is provided in the Articles of Association that the Board must obtain the approval of the general shareholders' meeting before adopting the decisions. The approval given by the general shareholders' meeting shall not release the Board from responsibility for the decisions adopted.
11. The Board shall analyse and evaluate the information submitted by the manager of the company on:
  - 11.1. the implementation of the operating strategy of the company;
  - 11.2. the organisation of the activities of the company;
  - 11.3. the financial status of the company;
  - 11.4. the results of business activities, income and expenditure estimates, the stocktaking and other accounting data of changes in the assets.
12. The Board shall analyse and assess a set of the company's annual financial statements and draft of profit/loss appropriation and shall submit them to the Supervisory Board and to the general shareholders' meeting together with the annual report of the company.
13. The Board shall be responsible for the convening and organisation of the general shareholders' meeting in due time.
14. Members of the Board must keep commercial (industrial) secrets of the company and confidential information which they obtained while holding the office of members of the Board.
15. The board shall arrange the general shareholders' meetings in due time and ensure due organization thereof.
16. The board shall invite the manager of the company to every meeting, if he is not a member of the board, and enable him to familiarize with the information relevant to the matters on the agenda.

### ***Manager of the company***

Manager of the company – director general - is a single-person management body of the company.

1. The director general organise daily activities of the company, hire and dismiss employees, conclude and terminate employment contracts therewith, provide incentives and impose penalties.
2. The director general shall establish property depreciation calculation norms applied in the company.
3. The director general shall act on behalf of the company and shall be entitled to enter into transactions at his own discretion. The Articles of Association provide for the cases, where the director general may enter into transactions subject to the decision of the board of the company to enter into such transactions.
4. The director general shall be responsible for:
  - 4.1. organisation of activities and implementation of purposes of the company;
  - 4.2. drawing up of the set of annual financial statements and drafting of the annual report of the company;
  - 4.3. conclusion of a contract with a firm of auditors;
  - 4.4. submission of information and documents to the general shareholders' meeting, the Supervisory Board and the Board in the cases laid down by the laws or at their request;
  - 4.5. submission of documents and particulars of the company to the manager of the Register of Legal Entities;
  - 4.6. submission of the documents of a public company to the Securities Commission and the Central Securities Depository of Lithuania;
  - 4.7. publication of the information referred to in the laws in the daily indicated in the Articles of Association;
  - 4.8. submission of information to shareholders;
  - 4.9. performance of other duties laid down in the laws and legal acts as well as in the Articles of Association and the staff regulations of the manager (director general) of the company.

### **Members of management bodies**

The members of the supervisory board with the period of office going back to 19 November 2009, are as follows:

Rolandas Bražinskas, elected as the Chairman as of 3 March 2010, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Ona Barauskienė, member, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Kazimieras Gimbutis, member, holds 1000 LSC shares or 0,0004 % of vote;

Helena Rogoža, member, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Evaldas Zacharevičius, member, holds 21081 LSC or 0,01 % of vote;

Data on shares varies and it is given in the end of the day of the general shareholders' meeting of 23 April 2010.

The members of the board with the period of office going back to 3 March 2010, are as follows:

Arūnas Štaras, Chairman since 20/03/2009 (member since 10/03/2009), does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Jelena Antonevič, member since 2005, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Juozas Darulis, member since 10/03/2009, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Vidutė Šarkienė, member since 2005, does not hold LSC shares, employee of the Ministry of Communication of the Republic of Lithuania;

Vytautas Petras Vismantas, member since 2005, holds 16400 LSC shares or 0,01 % of vote. Vytautas Petras Vismantas on 8 April 2010 resigned from the Director General and members of the board of LSC.

Data on shares varies and it is given in the end of the day of the general shareholders' meeting of 23 April 2010.

#### IV. EMPLOYMENT OF THE COMPANY'S VESSELS. SCOPE OF SERVICES. TYPES OF CARGO CARRIED

In the beginning of 2010, there were 13 vessels employed in the company, while in the end of the period - 11.

1. 1 general cargo ("Venta") – 24202 DWT.
2. 2 general cargo ("Romuva", "Voruta") – 17504 DWT each.
3. 2 general cargo "Clipper" type ("Deltuva", "Raguva") - 16900 DWT each.
4. 2 multipurpose ("Staris", "Svilas") – 9650 DWT each (*sold: "Svilas"- 13/01/2010, "Staris"- 25/02/2010*).
5. 1 general cargo ("Skalva") – 9498 DWT.
6. 1 general cargo ("Alka") – 7346 DWT.
7. 4 multipurpose "Asta" type ("Asta", "Akvilė", "Daina", "Audrė") – 5820 DWT each.

The scope of services rendered during the period from 2009 to 2010 is given in Table IV.1, employment of the vessels per year – in Table IV.2, and types of cargo carried – in Table IV.3 and diagrams attached thereto.

Table IV.1

#### Total scope of services rendered during the period from 2009 to 2010, LTL

Title	2009 1 <sup>st</sup> half	2009	2010 1 <sup>st</sup> half
Goods sold and services rendered	33,015,372	59,180,767	25,341,712

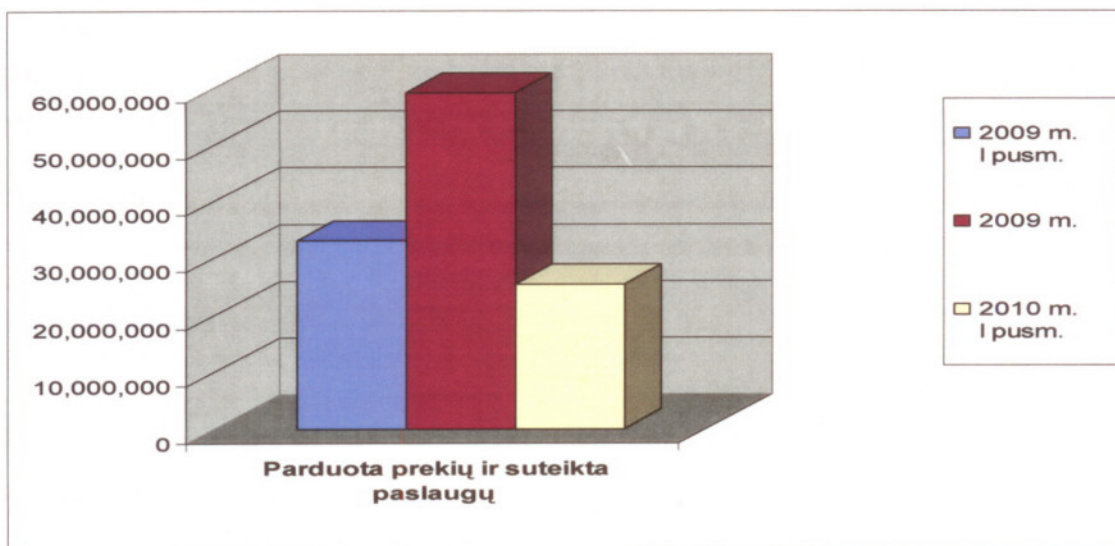
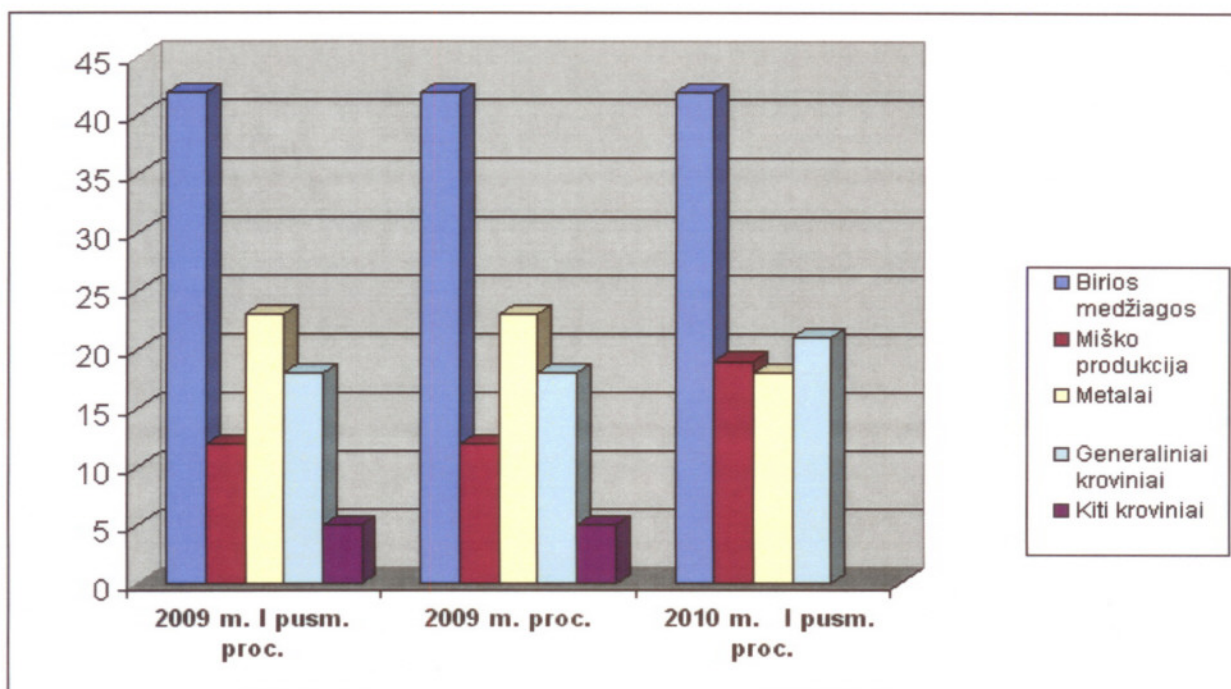


Table IV.3

### Types of cargo carried

Types of cargo carried	1 <sup>st</sup> half of 2009, percentage	2009, percentage	1 <sup>st</sup> half of 2010, percentage
Bulky goods	42	42	42
Wood products	12	12	19
Metals	23	23	18
General cargo	18	18	21
Other cargo	5	5	
<b>In total:</b>	<b>100</b>	<b>100</b>	<b>100</b>



### V. AVERAGE LISTED NUMBER OF EMPLOYEES AND WAGES, PERSONNEL STRUCTURE BY EDUCATION

On 30 June 2010 the company had 387 employees, including 52 onshore employees (in parallel on 30 June 2009 - 437 employees, including - 54 onshore). Comparing to the number of employees in the end of 2009 (426 employees) this number is less by 39 employees (9 %) due to decrease in the number of vessels.

During 6 months of 2010 the company dismissed 67 employees, including 3 masters, 5 chief mates, 6 mates, 20 AB sailors, 11 motorists, 2 cooks, 1 chief mechanic, 11 mechanics, 3 electrical engineers mechanics, 1 boatswain, 4 onshore employees.

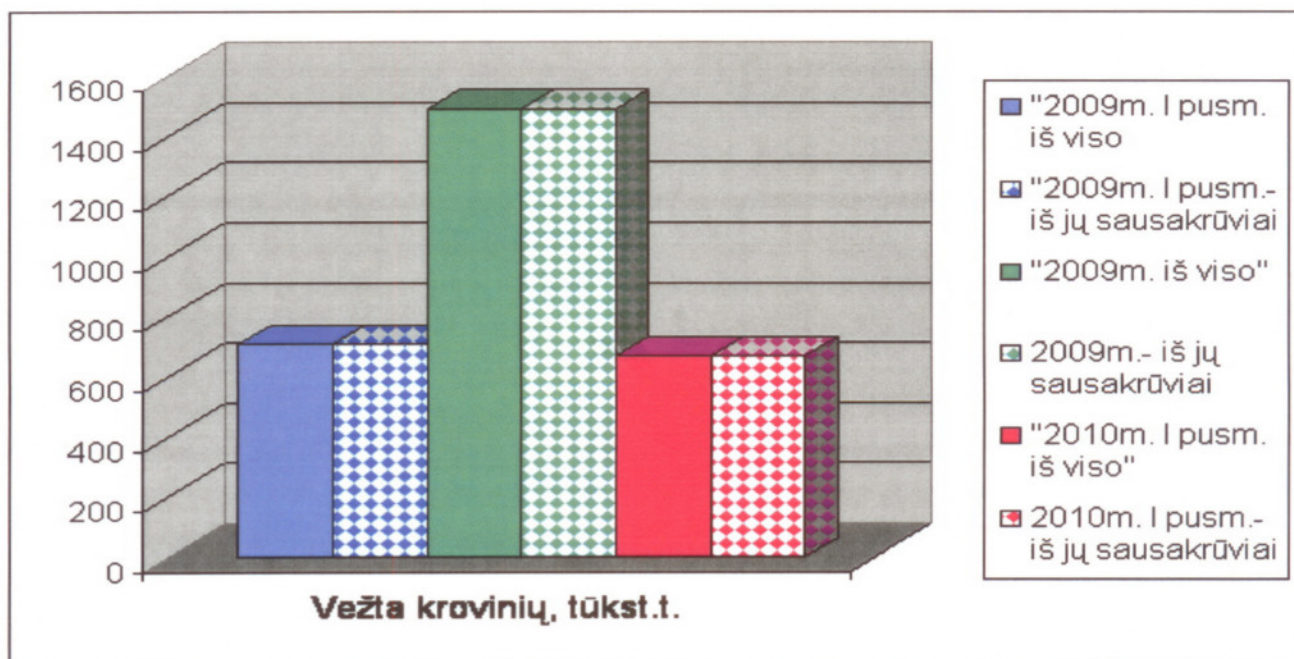
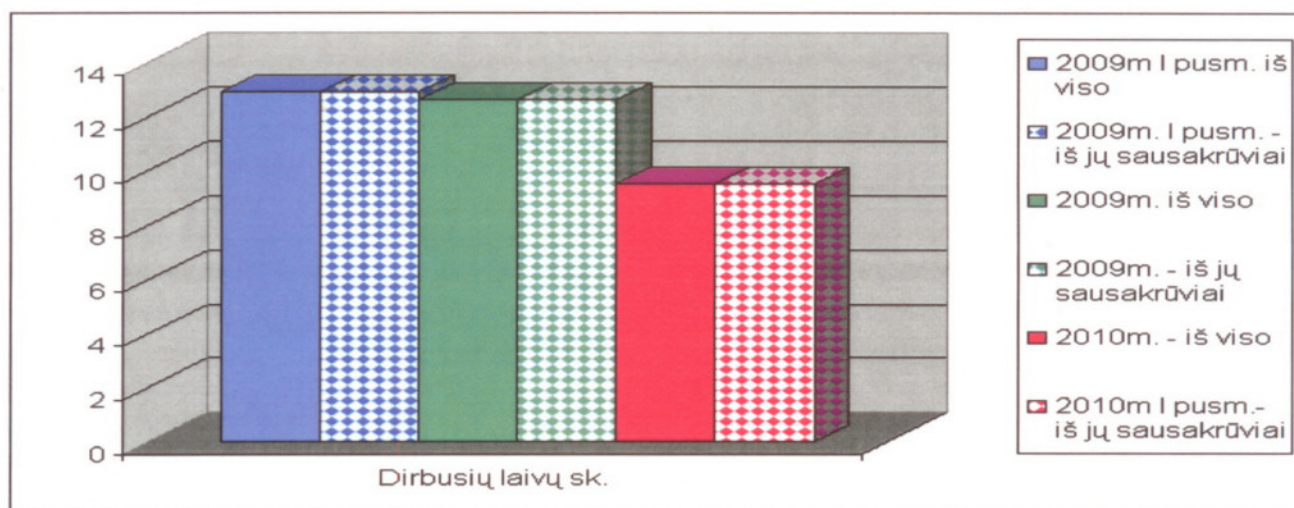
Reasons for dismissing the employees:

Article 124 of the Labor Code of the Republic of Lithuania (on decease of an employee) – 1; Article 125 of the Labor Code of the Republic of Lithuania (mutual agreement of the parties) – 2 employees; Article 126 of the Labor Code of the Republic of Lithuania (end of term of the contract) – 36 employees; Article 127(1) of the Labor Code of the Republic of Lithuania (at the initiative of the employee) – 22 employees; Article 136 of the Labor Code of the Republic of Lithuania (termination of employment contract without notice) – 6.



## Employment of cargo vessels, average per year

Title of index	1 <sup>st</sup> half of 2009		2009		1 <sup>st</sup> half of 2010	
	In total	In including dry-cargo vessels	In total	In including dry-cargo vessels	In total	In including dry-cargo vessels
Number of vessels employed	12.9	12.9	12.6	12.6	9.5	9.5
Their deadweight, thousands of tons	156.5	156.5	154.6	154.6	136.8	136.8
Cargo carried, thousands of tons	708	708	1491	1491	667	667



During 6 months of 2010 the company hired 28 employees, including 4 of them onshore.

The company continually searches for new resources of skilled workforce due to the fact that the seamen are more and more hired by the foreign maritime companies, where their competence and experience is valued by higher wages than in Lithuania. The number of employees of pre-retirement age stayed in LSC after privatization: some of them have already left the company, but most of them are still employed in the company.

The number of employees of the company is influenced by specifics of the work, changes in work organization, number of vessels and need in crew subject to the number of vessels.

During 6 months of 2010 125 of the employees of the company were ill for 2062 days.

The money sums calculated for the director general and the chief financial officer of the company for 2009-2010 are given in V.1, the average listed number of employees and wages – in Table V.2, other information that needs to be revealed – Table V.3, company's personnel structure by education for the period from 2009 to 2010 – in Table V.4.

Table V.1

**Information on calculated sums**

Title	1 <sup>st</sup> half of 2009		2009		1 <sup>st</sup> half of 2010	
	Wages*	Average monthly wages	Wages*	Average monthly wages	Wages*	Average monthly wages
Director General, Chief Financial Officer	122992	10566	110167	9736	97345	8112

\*whereof from the profit – N/A

Table V.2

**The average listed number of employees and wages (LTL)**

Personnel group	Average conditional number of employees			Average monthly wages (LTL)*		
	1 <sup>st</sup> half of 2009	2009	1 <sup>st</sup> half of 2010	1 <sup>st</sup> half of 2009	2009	1 <sup>st</sup> half of 2010
Management	9	9	9	6,861	6,755	6,039
Experts	254	206	175	2,603	2,836	2,849
Workers	166	181	167	1,853	1,849	1,786
<b>In total:</b>	<b>429</b>	<b>396</b>	<b>351</b>	<b>2,397</b>	<b>2,470</b>	<b>2,425</b>

\* whereof from the profit – N/A

The company does not have any data on the amounts, calculated for the members of the supervisory board and the board of the company, who are not the employees of the company.

Table V.3

**Other information on director general and chief financial officer of Public Company “Lithuanian shipping company”:**

Name, surname	Position	Number of shares	Vote, percentage
Vytautas Petras Vismantas	Director General until 08/04/2010	16400	0,01
Arvydas Bogočionkas	Director General since 24/05/2010	-	-
Arvydas Stropus	Chief Financial Officer since 27/06/2001	-	-

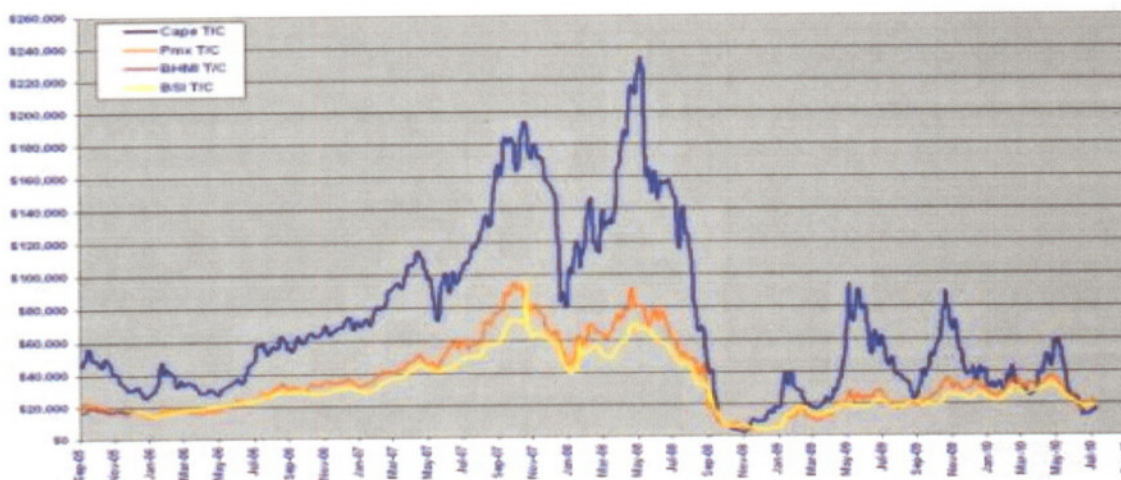
Table V.4

**Company’s personnel structure by education for the period from 2009 to 2010**

Education	Number of employees		
	1 <sup>st</sup> half of 2009	2009	1 <sup>st</sup> half of 2010
University	137	128	127
Special secondary (college)	182	180	167
Secondary	110	106	86

## VI. MARITIME MARKET

The maritime market has not been stable over the last few years; the hire rates have been continually fluctuating as well. The diagram below demonstrates that since the beginning of 2010 the market has been showing insignificant fluctuation, however, in May it reached the peak of the last few years. Unfortunately, the freight market recovered for a short time and already in June-July the indexes declined close to the level in 2008/2009.



The Year 2010 started optimistically. All analysts agreed that the beginning of the year was better than in 2009, when both the maritime economy and the economy of the whole world went through the crisis. It is estimated that the freight rates in the beginning of 2010 were approximately 30 % higher than during respective period of time in 2009. The scope of cargo has been continually increasing during the first six months, however, distinct abundance of vessels has remained – 2-3 vessels were offered to carry one cargo. This fact notwithstanding, the hire rates have been consistently increasing on *SPOT* (short-term contracts) market until April, to some extent enabling compensating increasing fuel costs as well as slightly increasing net income of the owners of the vessels. Quite times, characteristic to the summer season, started in June, when most of the European manufacturers and sellers are on vacation as well as the quantities of cargo carried significantly decrease.

The future of the maritime market remains hard to forecast. The number of small-sized dry-cargo vessels should not change on the market. It means that, as during the last few years, the freight rates in this segment will be affected by the scope of cargo on the market. Revival is expected in autumn after the summer vacation, when the carriage of grain cargo will start, however, there are quite a few negative signals as well: the fuel prices continue to increase, elements have a negative effect on the agricultural harvest (excess rainfall, flood, fire), and the global economies do not show significant recovery.

### *Effect of the market changes on LSC operations*

Effect of crisis on LSC income is apparent, however, Q1 of 2010 can be referred to the period of stabilization – not only the slump in time-charter - hire rates was held up, but also the rates were increased by 29 % on an average (from minimum level in 2009, when total amount of hire rates was 41.800 USD per day, to 54.100 USD per day (excluding the MV „Alka“, which stood idle for 88 days during the first six months of 2010 due to breakdown). Taking advantage of the aforementioned upturn of the market in May (which, as it appeared later, was only temporary), LSC managed to prolong the time-charters during the negotiations with the charterers, which took place in the end of Q2, and close a bargain on higher rates. Since July 2010 („Venta“ – since 15/08/2010) the total average contractual amount of hire rates is 67.900 USD per day, i.e. the rates were increased by another 25% as compared to the beginning of 2010, or 62% higher than minimum rates in 2009.

One of major factors that could have effect on the results of activities is technical faults of the vessels. Considerable attention is given to maintenance of proper condition thereof, however, in the beginning of 2010 the company incurred losses as a result of detention of the vessels in foreign harbors („Deltuva“), off-hire, as well as extra costs due to various technical faults or breakdowns. Such circumstances can cause extra commercial losses, which have been avoided so far as a result of successful cooperation with reliable long-term partners and charterers.

It should be noted that following the recession on the market in July-August of 2010 as well as subject to prevailing negative climate as concerning the market recovery potential, LSC will manage to avoid the income slump during the next 6 or 12 months as a result of applicable new rates. For this period LSC is safe from such negative factors that could affect the net income of the vessels, as recovery of the fuel prices, increase in harbor expenses, autumn-winter weather conditions in the North Atlantic Ocean, etc.

## **VII. MAIN RISKS AND UNCERTAINTIES IN THE ACTIVITIES OF THE COMPANY**

LSC is a reliable and competitive company in terms of economics. The vessels have all valid necessary documents which allow shipping cargo with no limitations year round. There are no limitations set by the government for the activity. The company is founded for an unlimited period of time.

The company is a legal entity which can acquire on its own behalf and have rights and duties, be plaintiff or defendant, which in its activity follows the Civil Code of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, other laws, resolutions of the Government of the Republic of Lithuania, other legal acts, resolutions of the company's administration bodies and Articles of Association of the company.

The following several main risks and uncertainties the company faces can be distinguished:

- water pollution, especially with oil products and especially working in USA region. This risk factor is related to potential of vessel breakdowns. However, the vessels are insured for breakdowns and their consequences, therefore, the risk has no marked influence on financial results of the company;
- the risk to be in the zone of military actions or be attacked by pirates. Seeking to avoid this, the company lists non-navigation zones for the ships in vessel hire contracts or avoids such zones;
- illegal boarding. Although this risk is insured, yet, due to time lost for implementation of certain procedures and transfer and disembark the illegal aliens there is an income not received;
- raise in fuel prices – due to which amount of income received decrease when signing vessel hire contracts for the next period. The company's activity is sensitive to this type of risk which is very hard to control. Service rates in such case are increasing late with a slower scale. As a consequence the company has losses.

- working on the international market the company is especially sensitive to fluctuations of foreign currency rates, especially such of US dollar. In order to control the skid of currency rates the company sought to change to paying in Euros (did not happen in crisis conditions), balance in assuming long-term obligations and certain expenses. Changes taking place during this period of global crisis adjusted, in its own way, these company's goals, along with many other things. The company continues its negotiations with banks started in the beginning of the year on postponing credit refunds.

- age and technical condition of vessels. Seeking to maintain competitiveness of services, the company updated the fleet, where possible, although these actions in the period of economic crisis are undefined and unpredictable;

- vessel and cargo destruction. The company insures these risks in top insurance companies;

- *Force Majeure*, causes not subject to the company's will, which cannot be predicted and avoided (for example, the situation on economic and financial markets during the crisis with all the consequences it has, scales of need in consumption and shipment, economic growth rates, bankruptcy of companies, duration of the company's vessel repair, etc.).

As life shows, not all risks can be avoided, even when insured. Besides that, business, especially today, is operating on the basis of profit seeking at any cost rather than partnership principle.

## VIII. RESULTS OF ACTIVITIES IN 2010

*According to preliminary data not reviewed by auditors*, during 2010 the company had LTL 37.6 million loss, instead of estimated LTL 22.0 million before tax. The loss was greater by LTL 15.6 million compared to the estimated one, including LTL 12.1 million – due to negative change in foreign currencies exchange rate and fleet expenses increasing by LTL 4.4 million. The company's result of the period was affected by LTL 18.1 million residual value of 2 sold vessels "Svilas" and "Staris" (not planned).

In 2010, the company earned LTL 35.3 million income, including LTL 25.3 million from the fleet activities, LTL 10.0 million from sales of 2 vessels.

LSC earns its main income from fleet. After selling the fleet services 72 % of the company's sales were earned. Income earned was LTL 1.0 million more than planned in the budget. In 2010 the sales were smaller than in 2009 by LTL 7.6 million as the vessels worked less than 616 days (less of vessels), time-charter equivalent per day was smaller by LTL 528. During the first half it was planned to repair 4 vessels for 85 days. In practice, 5 vessels were repaired for 279 days (including unplanned emergency repair of MV "Alka"). During the first six months of 2010 "Alka", "Audrė", "Skalva", "Raguva", „Venta“ were repaired. Repair of MV „Akvilė“ was postponed (20 days planned). Repair of the vessels took longer than planned by 194 days, thus, the vessels did not earn LTL 2.9 million of planned income on the average. The company's activity results were also affected negatively by detention of vessel „Deltuva“ in San-Chuan Port (Puerto Rico, USA) which took one month. This cause LTL 0.5 million income not received and costs of legal advice increased. Monetary guarantee for USD 0.5 million was remitted for resolving the case and remove the attachment of the vessel. A 12 %

increase in vessel rent fee rates per day until 1 March 2010 and arrears received in 2009 partially compensated losses of the Company.

Vessels of the company, except of "Alka", worked according to time-charter contracts. By directly hiring "Alka" not according to time-charter contract, income earned increased. However, trip expenses were LTL 1.7 million bigger than planned in the budget. In 2010, income from vessels day rent (time-charter equivalent) amounted to EUR 3,572 (LTL 12,335). Time-charter equivalent comparing with the previous year period is smaller by EUR 153, or LTL 528, and is bigger by EUR 59, or LTL 204 comparing with the budget.

The Company earns the main income in USD. Currency of vessel sale is also USD. In 2010, US dollar on the average equaled to LTL 2,60 (in 2009 – LTL 2,4828, including in December 2009 - LTL 2,3616, in 2008 – LTL 2,36, including in December 2008 - LTL 2,56, in 2007 – LTL 2,52, including in December 2007 – LTL 2,37). The Company's services were sold at the average rate of LTL 2.57 at US dollar price. US dollar price planned in the budget is LTL 2,53. Due to the difference between the actual and the planned rate of US dollar, the Company received on the average LTL 0,409 million more income for the reporting period.

Expenditures of the Company on income earning amounted to LTL 72.9 million, including fleet expenditures - LTL 39.1 million (54 %), general and administrative expenditures - LTL 2,5 million (3 %), interests expenditures of loans for vessel purchase - LTL 1,0 million (1 %). LTL 12.1 million loss was incurred over the period from the transactions in foreign currency (similar, in 2009 – LTL 0.8 million), which totals 17 % costs of LSC. LSC expenditures also calculated LTL 18.1 million, i.e. residua values of 2 vessels sold, amounting to 25 % of total expenditures of the company.

The costs of LSC are given in the profit-and-loss appropriation account of LSC as per respective activities. LSC expenditures according to corresponding articles are allocated as follows: LTL 12.7 million (17 %) - vessels operating costs, LTL 4.7 million (6 %) – vessels repair, 0.7 (1 %) other administration and sales costs; LTL 10.4 million (14 %) - employees' expenses; LTL 13.1 million (18 %) - vessels and other property wear; LTL 1.0 million (1 %) - interests for loans for vessel purchase paid to the bank; LTL 12.1 million (17 %) – negative variation of foreign currency rate due to transactions in foreign currency. In should be noted that having sold 2 vessels with residual value of LTL 18.1 million for LTL 10 million, the loss of LTL 8.2 million was incurred.

Without covering all components of the Company's expenses, we will present a detailed review of several predominating and the most significant expenses.

In 2010, personnel expenses amounted to LTL 10.4 million (14 %) and were LTL 2.4 million less than in 2009.

LTL 13.1 million or 18 % of the company's expenses consist of depreciation expenses, LTL 2.0 million (3 %) – insurance expenses. This is practically fleet expenses. Those are less than or not exceeding the estimated.

In 2010, vessels repair and spare parts expenses amounted to LTL 7.9 million, which comprises 11 % of the company's expenses. Over the reporting period they were LTL 1.1 million higher than the planned ones because of spare parts expenses.

*Off-hire* (non-received rent due to vessel breakdown, failures, arrests, etc.) amounted to LTL 1.2 million, i.e. 3.0 % of the fleet, or 2 % of LSC costs. Causes of *off-hire* are technical (MV „Deltuva“ – LTL 0.5 million due to breakdown of cranes, rent, detention in San-Chuan Port, Puerto Rico, USA; “Skalva” – LTL 0.4 million due to cranes; “Audrė” – LTL 0.2 million – hatchway repair).

## IX. RISK CONTROL

Employees of LSC Maritime Safety Control Service implement preparation and processing of maritime safety and vessel regulative documents, internal accounting vessel safety, provision of vessels with necessary documents, examination of knowledge, certification of skippers for higher position, etc.

There is no separate internal control division or employee in LSC. Internal control functions are implemented by the heads of each division according to competence or, if necessary, implemented by order of the Director General, or specialized companies or physical persons are hired in separate cases.

Seeking to control administration of various types of risks, certain conditioning causes are analyzed, certain preventive means are implemented, on the basis of analysis guidelines are prepared, new requirements in internal documents and rules of the company are set, etc. In separate cases collegial decisions are made, commissions for certain actions or certain decision making or offering are formed.

Maritime Safety Control Service prepares and manages regulatory documents for maritime safety and vessels in the Company, implements internal audit of vessels, provides vessels with necessary document, examines knowledge and certificates navigators, etc.

## **X. SUBSIDIARIES AND REPRESENTATIONAL OFFICES**

The company has no subsidiaries and representational offices.

## **XI. FINANCIAL ACTIVITY**

In 2010 the Public Company "Lithuanian Shipping Company" had its accounts in the following banks: AB *SEB bankas*, AB *DnB NOR*, Danske Bank A/S, Lithuanian branch. The main turnover of money for the obligations undertaken with the bank went through AB *SEB bankas*.

In 2010 the company paid LTL 2.033 million of the credit together with interests to SEB bank, including credit – LTL 1.0 million and interests - LTL 1,036 million. The company's debt to the bank for the loans to acquire the ships on 27.02.2015 amounted to LTL 85.1 million as of 30.06.2010. The company refunded LTL 12.8 million (15 per cent) in 2010. The biggest part of the credit, i.e. LTL 49.8 million (59 per cent) is the credit provided until 2015. The company refunded the whole credit of USD 3,2 million provided for 4 "Asta" type vessels until 30.11.2010 before term and USD 4,0 million of the credit provided until 30.10.2009 for 2 "Clipper" type vessels before term using the monetary assets reserve which was accumulated in 2008. Interests in USD amounting to 2.6 % after the last fixation in July increase up to 2.95 %. 9 vessels were mortgaged for the bank loans. With consideration of market situation, in the beginning of 2009 the company applied to the bank for postponing a part of the loan. The refunding is postponed until July 2010.

Payments to the personnel are made in accordance with the Collective Agreement of March 30, 2004 of AB "Lithuanian Shipping Company", the Rules of the Work Pay System for Coast Employees and the Order of Payments for the Work of the Director General, Directors and the Chief Accountant. Special rights and obligations of employees or a part of them specified in the Collective Agreement are duration of sailor's work in sailing (amounting to 6-8 months in some cases), possible sailor's work in military action zones with sailing specificities, specificity of work and time-off as well as specifics in navigation company, compliance with requirements of international work organization conventions and other international regulative documents and legal statements, period for sailors in reserve, etc.

The Company pays considerable attention to its performance analysis, administration of process of its financial statements preparation and improvement of accounting procedures. The debts of freighters and the status of their settlement are under constant control. Due to changes in economic and financial condition of the company need in various reports and data to be furnished greatly increases.

### **Taxable profit**

For 2007 and later taxation periods the Company chose to apply a fixed income tax rate on its taxable profit.

### **Segments**

Information on LSC segments is specified in the (a) Segments section of Explanatory Letter of the financial reports for the period ended on 30 June 2010.

## XII. SIGNIFICANT EVENTS AFTER FINANCIAL YEAR ENDS

2 vessels sold.

## XIII. SHAREHOLDERS HAVING SPECIAL CONTROL RIGHTS AND THEIR DESCRIPTION

None.

## XIV. LIMITATIONS OF VOTING RIGHTS

None.

## XV. SHAREHOLDERS AGREEMENTS

Shareholders agreements which the company knows about and which can limit transfer of the securities and (or) the voting rights - None.

The company's shares are common inscribed shares of one category providing equal rights to their owners (shareholders).

One common inscribed share of the company provides its owner (shareholder) with the following property rights:

### **Property rights of the company's shareholders:**

1. To receive a part of the Company's profit (dividend);
2. To receive shares, when the authorized capital is decreased seeking to pay the Company's assets to the shareholders;
3. To receive shares for free, when the authorized capital is increased using the Company's assets, except of cases specified in the Law on Companies of the Republic of Lithuania;
4. Priority right to acquire shares or convertible bonds issued by the Company, except of the case when the general meeting of shareholders decides to annul priority right for all the shareholders;
5. To borrow money to the Company according to methods specified by the laws; however, while borrowing money from its shareholders the Company has no right to mortgage its property to the shareholders. When the Company is borrowing money from its shareholder, interests cannot exceed average interest rate of commercial banks located at residence or business place of the credit giver valid at the moment of making credit agreement. In such case the Company and the shareholders are not allowed to agree for a greater interest rate;
6. To receive a part of property of the Company being liquidated;
7. Other property rights specified by the Law on Companies of the Republic of Lithuania and other laws.

### **Non-property rights of the company's shareholders:**

1. To participate in general shareholders' meetings;
2. To submit questions related to questions in agenda of the general meetings of shareholders to the company in advance;
3. To vote during the general meetings of shareholders according to votes provided by the shares;
4. To receive information on the Company according to procedure specified in its Articles of Association;
5. To appeal to court with a lawsuit requesting to compensate damage done to the Company that originated due to failure to fulfill or improper fulfillment of obligations of the Company's director and members of the board specified in the Law on Companies of the Republic of Lithuania and other laws, and in other cases specified by the laws;
8. Other non-property rights specified by the Law on Companies of the Republic of Lithuania and



other laws.

## **XVI. SIGNIFICANT AGREEMENTS**

No significant agreements between the issuer, directors of the issuer, its employees and other persons were made.

## **XVII. LIMITATIONS OF TRANSFER OF THE SECURITIES**

Rights of disposal of 70806 shares of the company (1 legal and 1 physical persons) are limited due to arrest-of the shares.

## **XVIII. VESSEL REPAIR**

During the 1<sup>st</sup> half of 2010 planned repair of four vessels and emergency repair of MV "Alka" due to fractured propeller shaft were completed. Three ships were repaired in one of the dockyards closer to Klaipėda. This allowed controlling the course of repair more effectively and providing necessary assistance and support from the Fleet Maintenance Division of LSC. One of the ships was successfully repaired in China dockyard, which was cooperated with in repairing the company's ships previously as well. Choice of a dockyard is always conditioned by the region of the ships' navigation, experience of those dockyards in ship repair and reliable partnership.

For the purpose of saving money the company has formed a team of repairers of the best marine engineers who implement scheduled and emergency repair while the vessel is both in port and at sea.

## **XIX. INSURANCE AND CLAIMS**

Vessels of AB "Lithuanian Shipping Company" and accountability of the vessel's owner due to freight and other claims are insured in insurance companies and mutual insurance clubs.

### **Due to freight shipment**

As of 01.01.2010, LSC had 5 claims. As of 30.06.2010, 4 claims and 2 notification left together with new claims and notifications, including amount of 1 claim EUR 225,000 and of other 3 claims—USD 130,378.69.

In 2010, 3 claims were resolved until 30.06.2010, one amounting to USD 3,568.50 and 2 claims for EUR 7,317.48 and EUR 2,211 correspondingly.

### **Other claims**

As of 01.01.2010, LSC had 20 claims. As of 30.06.2010, 17 claims left, including new claims received. The following large claims were complied with during the reporting period:

1. MV „Skalva“. Fire onboard on 03.01.2006. Insurance benefit received for USD 161,787;
2. MV „Romuva“. Vessel hull damage on 03.11.2008. Insurance benefit received for USD 30,551;
3. MV „Venta“. 4 refugees onboard on 12.01.2010. The refugees were unshipped in France and hand over them to the French authorities.

### **Coast claims**

As of 01.01.2010, LSC had 4 claims left. As of 30.06.2010, there were 4 proceedings still in process:

1. On 15.07.2008 Klaipėda Circuit Court received lawsuit of A. Zenkevičius regarding compensation of losses for the defendants Nijolė Žeimienė, UAB „Pamaris Andova" ir the third party AB "Lithuanian Shipping Company". With its resolution dated 21 January 2009 Klaipėda Circuit Court

suspended the case until resolution in the civil case of Klaipėda District Court is passed and came into force.

2. On 23.03.2010 an appellate appeal of I. Smirnova in civil case was received. Claim amount is LTL 410,832.28 Lt. The case is still not assigned.

3. On 16.01.2009 the court made an order regarding exaction of LTL 2,984.05 debt from UAB „Eurohaus” (came into force on 11.02.2009). The debtor fails to comply with the bailiff’s orders; the debt is still not exacted.

4. On 27.11.2008 the court made an order regarding exaction of LTL 10,207.4 debt from UAB „Klaipėdos birža” (came into force on 09.01.2009). The debtor fails to comply with the bailiff’s orders; the debt is still not exacted.

## XX. ACTIVITY PLANS AND ESTIMATES

Strategic goals of the Company’s activity consist of two parts:

1. Financial goals – to optimize financial activity of the company, to stabilize income, to ensure the company against fluctuations in currency exchange rates.
2. Strategic goals – to increase profit of the shareholders even under unfavorable conditions of the market, – to optimize activity of the company, to reduce maintenance costs of the vessels and vessel repair costs, to secure maritime safety.

Lithuanian Shipping Company is a company well known on the navigation market and valued as a reliable partner. Seeking to continue operating with a due competitiveness, in the future LSC plans to update its fleet by acquiring new vessels with a greater cargo-carrying capacity. With global crisis affecting the vessel rent market negatively as well, LSC have made time-charter contracts ensuring stable income. A growth in the company’s income is expected for the nearest 12 months as the agreements specifying greater rates for the services will come into force.

LSC development plans will depend on global economics, navigation market, profit of the company and resolution of the Government of the Republic of Lithuania regarding the future of LSC.

## XXI. INFORMATION ABOUT AUDIT OF FINANCIAL STATEMENTS

The audit of annual financial statements is provided by the laws.

Intermediate collection of financial statements is not checked by the independent audit company, because it is not provided by the laws.

## XXII. DATA ON INFORMATION ANNOUNCED PUBLICLY

Implementing its liabilities in accordance with applied legal statements regulating the securities market the, Company has publicly announced the following information during the period of January-June 2010:

### Data

31.05.2010- 15:33 LSC: Public Company "Lithuanian Shipping Company" 2010 three months progress information

27.05.2010- 15:12 LSC: Public Company "Lithuanian Shipping Company" 2010 three months activity results

19.05.2010- 10:17 LSC: Board of Public Company "Lithuanian Shipping Company" elected new Director General

03.05.2010- 11:05 LSC: Public Company "Lithuanian Shipping Company" 2008 annual information

03.05.2010- 10:08 LSC: Public Company "Lithuanian Shipping Company" decisions of meeting of shareholders taking place on 30.04.2010

09.04.2010- 13:54 LSC: Public Company "Lithuanian Shipping Company" drafts of decisions of general meeting of

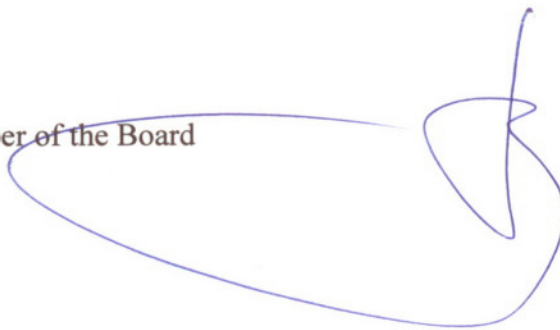
**Data**

shareholders

09.04.2010- 08:57	LSC: Regarding appointment of Director General of the Public Company "Lithuanian Shipping Company"
07.04.2010- 09:27	LSC: Public Company "Lithuanian Shipping Company" routine general meeting of shareholders
26.02.2010- 16:18	LSC: Public Company "Lithuanian Shipping Company" preliminary 2009 12 months semi-progress information
05.02.2010- 14:13	LSC: Announcement regarding deprivation of voting rights on 04.02.2010
25.01.2010- 13:32	LSC: Public Company "Lithuanian Shipping Company" preliminary 2009 activity results

Information on publicly announced significant events of 2010 can be accessed in the Public Company "Lithuanian Shipping Company", address: Malūnininkų 3, Klaipėda, office 311, chief accountant in charge Arvydas Stropus. Information is also announced on the company's web-site [www.ljl.lt](http://www.ljl.lt).

Director General, member of the Board



Arvydas Bogočionkas