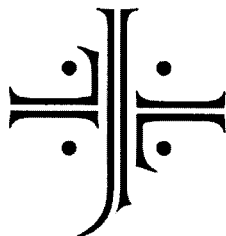


AKCINĖ BENDROVĖ
"LIETUVOS JŪRŲ LAIVININKYSTĖ"



PUBLIC COMPANY
"LITHUANIAN SHIPPING COMPANY"

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

2008-04-15 Nr. (01)-5-203
Klaipėda

l _____ Nr. _____

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

Following the Rules of Preparation and Submission of Periodic and Supplemental Information of the Securities Commission of the Republic of Lithuania as well as the Law on Securities of the Republic of Lithuania, Item 22, we hereby confirm that, to the best of our knowledge. Financial statement for the year ended 31 December 2007, drawn in accordance with the International Financial Reporting Standards, corresponds to the reality and properly reflects the assets, liabilities, financial state, profit or loss of Public Company "Lithuanian Shipping Company".

Attach:

1. Financial statement of Public Company "Lithuanian Shipping Company" of the year ended 31 December 2007, prepared in accordance with the International Financial Reporting Standards.
2. Public Company "Lithuanian Shipping Company" Annual Report for 2007.

Public Company "Lithuanian Shipping Company"
General Director

Vytautas Petras Vismantas

Public Company "Lithuanian Shipping Company"
Chief Accountant

Arvydas Stropus

**“LIETUVOS JURU LAIVININKYSTE”
(JOINT STOCK COMPANY)**

**INDEPENDENT AUDITOR'S REPORT,
FINANCIAL STATEMENTS AND ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007**

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Independent Auditor's Report**to the shareholders of AB „LIETUVOS JURU LAIVININKYSTE“****Report on Financial Statements**

We have audited the financial statements of AB "Lietuvos Juru Laivininkyste" (thereinafter referred to as "the Company") comprising the balance sheet for the year ended 31 December 2007, income statement, statement of changes in equity, cash flow statement as well as summary of significant accounting principles and other explanatory notes for the year then ended presented on pages 5-21.

Management's Responsibility for the Financial Statements

The management of the Company 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. This responsibility includes: designing and maintaining internal control system relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements on the basis of our audit. The audit was conducted in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about 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 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as 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 opinion.

Opinion

In our opinion, the enclosed financial statements present a true and fair view of the Company's financial position as of 31 December 2007 and its performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

J. Kubiliaus g. 6
LT – 08234 Vilnius
Lietuva

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Fax: +370 (5) 268 5929
admin@moorestephens.lt
www.moorestephens.lt

Report on Other Legal and Regulatory Requirements

Additionally, we have reviewed the annual report of 31 December 2007 including its annex presented on pages 22-60 and nothing has come to our attention that causes us to believe that the financial information in the report does not correspond in all material respects to the audited financial statements for the year ended 31 December 2007.

UAB "Moore Stephens Vilnius"
(certificate No.001226)


Director, Auditor D/Pranckienė
(licence No.000345)

7 March 2008
Vilnius

Approved by the General meeting of shareholders
2008
Minutes No. _____

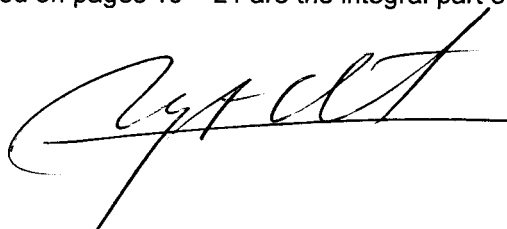
INCOME STATEMENT

Line No.	Items	Note No.	2007	2006
I.	Sales revenue	19	91.701,3	102.205,5
II.	Expenses			
II.1.	Personnel expenses	23	29.741,3	30.630,3
II.2.	Ship maintenance expenses		28.876,3	26.545,3
II.3.	Ship repair expenses		14.695,4	11.116,3
II.4.	Other administrative and selling expenses		1.672,9	1.109,0
	Total expenses		74.986,0	69.400,9
	Profit (earnings) before depreciation (EBITDA)		16.715,3	32.804,7
III.	Profit from sales of ships	2	41.740,4	7.724,4
IV.1.	Depreciation of ships	2	26.522,2	24.394,7
IV.2.	Depreciation of other assets	2	1.070,9	852,1
	Profit (earnings) before interest (EBITA)		30.862,5	15.282,3
V.1.	Effect of changes in exchange rates (profit)	20	4.168,1	315,6
V.2.	Net interest expenses	20	3.178,6	1.560,7
	Profit before tax		31.852,0	14.037,3
VI.	Income tax	21	1.714,9	2.722,5
	Net profit		30.137,1	11.314,8
	Profit (earnings) per share, LTL	22		
	basic profit (earnings) per share, LTL		0,15	0,06
	diluted profit (earnings) per share, LTL		0,15	0,06

Explanatory notes presented on pages 10 – 21 are the integral part of these financial statements.

Director General

7 March 2008



V. Vismantas

BALANCE SHEET (Assets)

	Note No.	As of 31 December 2007	2006
Computer software	1	7,3	10,8
Non-current intangible assets		7,3	10,8
Buildings and construction		3.390,3	3.447,4
Machinery		3.005,6	2.542,6
Vehicles		300,7	384,2
Ships		274.181,5	240.042,8
Repairs		3.510,2	5.436,1
Other tangible assets		253,8	178,6
Non-current tangible assets	2, 3	284.642,1	252.031,7
Prepayments for non-current assets	2	7.990,9	
Deferred tax assets	4		5.216,1
Other non-current assets		7.990,9	5.216,1
Total non-current assets		292.640,3	257.258,7
Raw materials and components	5	2.329,5	813,2
Prepayments	5	935,2	836,0
Trade debtors	6	591,3	545,2
Other amounts receivable	6	370,0	200,0
Current investments		0,0	0,4
Time deposits	7	21.955,0	13.299,6
Cash and cash equivalents	7	1.034,6	314,3
Total current assets		27.215,7	16.008,7
TOTAL ASSETS:		319.856,0	273.267,4

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

BALANCE SHEET (Equity and liabilities)

	Note No.	As of 31 December	
		2007	2006
Authorised (subscribed)	9	200.901,3	200.901,3
Legal reserve	10	10.467,3	9.901,6
Other reserves	10	9.779,5	180,0
Profit (loss) of the reporting year	11	30.137,1	11.314,8
Profit (loss) of the previous years		0,0	
Equity		251.285,2	222.297,6
Liabilities to financial institutions	12	44.345,9	30.020,0
Deferred tax liabilities	13		3.583,2
Non-current liabilities		44.345,9	33.603,2
Liabilities to financial institutions	12	16.689,9	9.494,2
Debts to suppliers	17	1.389,0	1.261,0
Received prepayments	17	2.519,0	988,1
Income tax liabilities	14	91,3	2.067,3
Liabilities related to employment relations	15	2.160,9	2.340,7
Provisions	16	896,6	755,1
Other amounts payable and current liabilities	17	478,2	460,0
Current liabilities		24.224,9	17.366,5
Liabilities		68.570,7	50.969,7
Total equity and liabilities		319.856,0	273.267,4

Explanatory notes presented on pages 10 – 21 are the integral part of these financial statements.

Director General

7 March 2008



V. Vismantas

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

Approved by the General meeting of shareholders

2008

Minutes No. _____

STATEMENT OF CHANGES IN EQUITY

	Authorised capital	Compulsory legal reserve	Other reserves	Retained profit (loss)	Total
Balance as of 31 December 2005	200.901,3	25.947,3	510,0	-16.375,7	210.982,9
Net profit (loss)				11.314,8	11.314,8
Dividends					
Formed reserves			180,0	-180,0	
Used reserves		-16.045,7	-510,0	16.555,7	
Balance as of 31 December 2006	200.901,3	9.901,6	180,0	11.314,8	222.297,6
Net profit (loss) of the reporting period				30.137,1	30.137,1
Dividends				-1.149,5	-1.149,5
Formed reserves		565,7	9.779,5	-10.345,3	
Used reserves			-180,0	180,0	
Balance as of 31 December 2007	200.901,3	10.467,3	9.779,5	30.137,1	251.285,2

Explanatory notes presented on pages 10 – 21 are the integral part of these financial statements.

Director General



V. Vismantas

7 March 2008

Approved by the General meeting of shareholders
2008
Minutes No. _____

CASH FLOW STATEMENT

Items	Note No.	2007	2006
Cash flows from operating activities			
Profit (loss) before tax		31.852,0	14.037,3
Adjustments due to:			
Depreciation	2	31.828,9	25.200,3
Effects of changes in exchange rates	20	-4.168,1	-315,6
Income from investing		-41.740,4	-7.724,4
Interest expenses	20	3.178,6	1.560,6
Changes in deferred income tax and computed income tax	4,13,21	9,3	-492,5
Decrease (increase) in amounts receivable	6	-215,8	436,9
Increase (decrease) in amounts payable	17	1.612,5	-905,2
Decrease (increase) in inventories	5	-1.516,3	-350,5
Income from operating activities			
Paid income tax	14	-2.067,3	-2.245,6
Paid interest	20	-3.826,8	-1.983,9
Net cash flows from operating activities		14.946,6	27.217,4
Cash flows from investing activities			
Acquisition of non-current assets	2	-79.125,6	-46.622,2
Transfers of non-current assets	2	48.340,2	17.542,4
Dividends and interest received	20	648,2	423,3
Cash flows from investing activities		-30.137,2	-28.656,5
Cash flows from financing activities			
Dividends paid to shareholders	11	-1.123,7	-6,1
Loans received	12	48.540,3	17.954,6
Loans repaid	12	-21.732,9	-10.713,9
Cash flows from financing activities		25.683,6	7.234,6
Effects of changes in exchange rates on the balance of cash and cash equivalents			
	20,12	-1.117,8	-1.416,8
Net increase in cash and cash equivalents			
		9.375,2	4.378,7
Cash and cash equivalents at the beginning of the period			
	8,7	13.614,3	9.235,6
Cash and cash equivalents at the end of the period			
	8,7	22.989,7	13.614,3

Explanatory notes presented on pages 10 – 21 are the integral part of these financial statements.

Director General



V. Vismantas

7 March 2008

EXPLANATORY NOTES

General Information

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

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

At the end of the reporting period the Company had 517 employees, of which 63 in coast divisions and 454 on board.

On 31 December 2007 the Company's shareholders were:

	2007		2006	
	Number of shares	Ownership, percent	Number of shares	Ownership, percent
State Property Fund (VĮ Valstybės turto fondas)	16.689.155	8,3%		
Ministry of Transport and Communication	113.833.000	56,66%		
„Hansabank clients“	16.849.753	8,4		
DFDS TOR LINE A/S	11.108.420	5,5%		
Other small shareholders	42.420.968	21,14%		

II. Accounting Policy

Main principles of accounting, which are the basis of preparation of these financial statements, are set out below. These principles were applied consistently in all presented periods, unless stated otherwise.

In the process of preparing financial statements in accordance with International Financial Reporting Standards, the Company's management have to make estimates and assumptions, which have an effect on the carrying amounts of assets and liabilities as well as on required disclosures on the reporting date and on amounts of income and expenses recognised during the reporting period. These estimates may vary from the actual results.

(a) Basis of Preparation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements are prepared in accordance with the accrual and going concern principles. Following the accrual principle, transactions and other events are recognised and recorded in the accounts when they occur, and are presented in the financial statements of such periods.

The financial statements are prepared assuming that AB "Lietuvos Juru Laivininkyste" (LJL) does not have any intentions or requirements to be liquidated or reduce significantly the scope of its operations.

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

During the reporting period the Company has started to apply all new and revised Standards and Interpretations approved by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), which are relevant to the Company's operations and become effective from the reporting periods beginning on 1 January 2007.

Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 4 "Insurance Contracts" related to "Financial Guarantee Contracts" have to be applied in the reporting periods of the Company starting on or after 1 January 2007. The purpose of these amendments is to ensure that the issuers of financial guarantee contracts account for liabilities related to such contracts in their balance sheets. As the Company does not have any transactions of such nature, the application of this Standard did not have any significant effect on the Company's financial statements.

Amendment to IAS 19 related to "Actuarial Gains or Losses, Group's Plans and Disclosures". This amendment is not relevant to the Company;

Amendment to IAS 39 related to "Fair Value Option". This amendment is not relevant to the Company;

Amendment to IAS 21 related to "Net Investment in a Foreign Operation". This amendment is not relevant to the Company;

Amendment to IAS 39 related to "Cash Flow Hedges of Forecast Intragroup Transactions". This amendment is not relevant to the Company;

IFRS 6 "Exploration for and Evaluation of Mineral Resources". This Standard is not relevant to the Company;

IFRIC 4 "Determining Whether an Arrangement Contains a Lease". The Company reviewed its agreements and determined they are not affected by this Interpretation;

IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds". This Interpretation is not relevant to the Company;

IFRIC 6 "Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment". This Interpretation is not relevant to the Company;

Amendment to IFRS "First-time Adoption of International Financial Reporting Standards" and IFRS 6 "Exploration for and Evaluation of Mineral Resources". This amendment is not relevant to the Company;

IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies". The management believe this Interpretation is not relevant to the Company;

IFRIC 8 "Scope of IFRS 2". The management believe this Interpretation is not relevant to the Company;

IFRIC 9 "Reassessment of Embedded Derivatives". The management believe this Interpretation is not relevant to the Company;

IFRIC 11 "IFRS 2: Group and Treasury Share Transactions". The management believe this Interpretation is not relevant to the Company;

IFRIC 12 "Service Concession Arrangements". The management believe this Interpretation is not relevant to the Company.

(b) Non-current Assets

In the financial statements all economic resources controlled by the Company are recognised as assets if the Company can reasonably expect to obtain future economic benefits from using the resources and they have a value which can be measured reliably.

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

Non-current assets presented in the financial statements are stated at the acquisition or production cost of the assets less their accumulated depreciation and impairment value. In accordance with the procedure for non-currents assets accounting approved on 18 July 2001 by the board of directors, LJL recognises assets as non-current tangible assets if their acquisition value is at least LTL 1000 and they are going to be used for more than one year. Residual value of non-current assets is LTL 1, except for "Akville", "Asta", "Audre" and "Daina" ships (residual value 9-9,5% of acquisition value), "Alka", "Deltuva" (Clipper Eagle) and "Clipper Falcone" ships (10% of acquisition value), "Romuva" (2%), "Voruta", "Svilas" and "Staris" (9,5%) and administrative building (6,3%).

Depreciation is calculated from the first day of the next month having started using a non-current tangible asset; it is discontinued from the first day of the next month after its write-off, sale or when all value of a non-current asset in use (less the residual value) is transferred into the cost of goods or services. The assets are depreciated on the basis of the straight-line method.

The management determines the useful life of an asset at the moment of acquisition, later it is reviewed every year. Useful life of assets is determined on the basis of past experience related to similar items as well as expected future events, which may affect the useful life.

If repairs of a non-current tangible asset do not upgrade its useful features (nor will these repairs lead to future income), the value of such works is recognised as expenses of the reporting period when they are carried out.

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there are indications of impairment. If such indications are noticed, the recoverable amounts of such assets are determined. A recoverable amount is the higher of an asset's expected net realisable value and its value in use. An impairment loss is recognised if the carrying amount of an asset is higher than its recoverable amount. All losses related to impairment are presented in the income statement.

In accordance with the requirements of classification companies the ships are repaired periodically: every five years the class of ship is confirmed after repairs (SS); three years after SS repairs dock repair works are carried out. LJL writes off repair expenses related to class-certification within 3 years, dock repairs - within 2 years.

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

(c) Inventories

Inventories are accounted for at the lower of cost of purchase and expected net realisable value. In order to determine the cost of inventories sold FIFO method is applied. Net realisable value is estimated as expected selling price less expenses related to the sale.

When inventories are purchased from third parties, their cost of purchase is their purchase price combined with all purchase-related taxes (custom duties, etc.), transportation, preparation for use and other costs directly attributable to the purchase of the inventories, less received discounts and rebates. Insignificant (or stable for several reporting periods) amounts of inventories transportation and preparation for use costs are written off to operating expenses rather than included into the cost of purchase.

(d) Amounts Receivable

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

(e) Cash And Cash Equivalentents

Cash comprises cash in hand and in bank accounts. Cash equivalentents are liquid investments readily convertible into a known cash amount. The term of these investments is up to three months and they are subject to insignificant risk of changes in value.

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

In the cash flow statement cash and cash equivalents comprise cash in hand, cash at current accounts, other short-term liquid investments.

(f) Liabilities

Borrowing expenses are written off when they are incurred. At the initial recognition, liabilities are stated at the fair value of received funds less the cost of transaction. Thereinafter, they are accounted for at amortised cost, and the difference between the funds received and amount payable within the period of loan is included into the profit or loss for the period. Liabilities are recognised as non-current if a financing agreement made by the date of the financial statements' approval confirms that they are long-term in substance.

(g) Provisions

Provisions are recognised when and only when the Company has a legal obligation or irrevocable commitment as a result of past events; and it is probable that an outflow of resources embodying economic benefits will be required to settle it; and the amount of obligation can be measured reliably. Provisions are reviewed at each balance sheet date and adjusted to reflect the most accurate current estimates. When the time effect on the value of money is significant, the amount of provision is equal to the present value of outflows, which are expected to be required for the settlement of obligation. When discounting is used, an increase in provision reflecting the past period is recorded as interest expenses.

(h) Income Tax

Computation of corporate income tax is based on a yearly profit and is made in accordance with the requirements of the tax laws of the Republic of Lithuania. Deferred income tax is calculated on the basis of temporary differences in the carrying amounts of assets and liabilities in the financial statements and their tax bases. An amount of deferred income tax depends on expected useful lives of assets and future repayments of liabilities and expected tax rates of the corresponding periods. A standard rate of corporate income tax for Lithuanian entities is 15%, however, in 2007 the Company chose to pay a tonnage tax and computes corporate income tax on the basis of ships' payload capacity. Deferred income tax and assets are no longer computed.

In accordance with the amendment of 3 May 2007 of the Law on Corporate Income Tax of the Republic of Lithuania, AB "Lietuvos Juru Laivininkyste" chose to calculate a fixed rate corporate income tax for the tax period beginning with 2007 and subsequent tax periods. The base of the fixed rate corporate income tax is calculated for each 100 payload capacity units (CU) of a sea-going vessel by applying a fixed daily amount and multiplying the resulting amount by the number of days in a tax period of a shipping entity.

(i) Revaluation of Currency

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

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

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

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

(j) Income Recognition

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

(k) Expenses Recognition

The cost of rendered services is always connected with the services rendered during the reporting period. It comprises a portion of costs incurred during the reporting period in order to render the services sold. When it is impossible to relate directly the costs of the reporting period with earning some specific income and they are not going to earn income in the coming periods, such costs are recognised as expenses of the period when they are incurred.

(l) Use of Estimates in Preparation of Financial Statements

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

(m) Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed in the financial statements, except for the cases when it is hardly probable that the outflow of economic resources will be required.

(n) Managing Financial Risks

The Company's transactions are made on international markets in euros and US dollars, therefore, the risk related to fluctuations and changes in foreign currency exchange rates is unavoidable. Credit risk or risk related to the failure of partners to fulfil their obligations is controlled through applying credit terms and control of procedures. The Company does not face a significant credit risk related to any of its partners or partner groups. The Company avoids liquidity risk by keeping a sufficient flow of cash and cash equivalents or receiving financing in a credit form, by planning its cash flows in advance. The Company does not use any financial instruments to mitigate its financial risks.

(o) Events After the Balance Sheet Date

Events after the balance sheet date, which provide additional information about the Company's position at the balance sheet date (events leading to adjustment), are reflected in the financial statements. Post balance sheet events not leading to adjustment are disclosed in the notes if they are significant.

III. Explanatory Notes to Accounts

1. Non-current Intangible Assets

Indicators	Computer software
Acquisition cost	
31 December 2005	288,2
Acquisitions	11,2
Write-offs	
Transfers to other accounts	
31 December 2006	299,4
Acquisitions	3,3
Write-offs	1,5
Transfers to other accounts	
31 December 2007	301,2
Accumulated amortisation	
31 December 2005	275,1
Calculated during the period	13,5
Write-offs	
Transfers to other accounts	
31 December 2006	288,6
Calculated during the period	6,8
Write-offs	1,5
Transfers to other accounts	
31 December 2007	293,9
Carrying amount	
31 December 2005	13,1
31 December 2006	10,8
31 December 2007	7,3

Financial statements of AB „Lietuvos Juru Laivininkyste“
for the year ended 31 December 2007
(in thousands LTL, if not stated otherwise)

12. Financial Liabilities (to credit institutions)

	2007-12-31	2006-12-31
Payable after one year within five	44345,9	30020
Payable within one year	16689,9	9494,2
total	61035,8	39514,2
Balance of loans at the beginning of the year	39514,2	34005,9
Loans received	48540,3	17954,6
Loans repaid	-21732,9	-10713,9
Effect of exchange rates	-5285,8	-1732,4
Balance of loans at the end of the year	61035,8	39514,2

All financial liabilities of LJL to banks are secured by assets. Six ships with the carrying amount of LTL 145767,5 thousand are mortgaged. The increase in loans in 2007 was caused by the acquisition of two ships "Deltuva" (Clipper Eagle) and "Clipper Falcon" in March. The loan for the acquisition of these ships was received from AB SEB Vilniaus bankas. Loan repayment term is set in 2010-2012.

13. Deferred Income Tax Liabilities

After the change in the corporate income tax base in 2007, deferred income tax liabilities were transferred into corporate income tax expenses.

14. Income Tax Liabilities

	2007-12-31	2006-12-31
Corporate income tax payable at the beginning of the year	2.067,3	1.590,4
Calculated corporate income tax	91,3	2.722,5
Paid corporate income tax	-2.067,3	-2.245,6
Corporate income tax payable at the end of the year	91,3	2.067,3

15. Liabilities Related to Employment Relations

	2007-12-31	2006-12-31
Provision for annual leaves (salaries)	1377,7	1443,1
Provision for annual leaves (social insurance)	426,8	447,1
Payable salaries		7,4
Payable social insurance contributions	354,2	440,6
Amount payable to guarantee fund	2,2	2,5
Total	2160,9	2340,7

16. Provisions

	2007-12-31	2006-12-31
Provisions for not received invoices	896,6	755,1

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(in thousands LTL, if not stated otherwise)

Other non-current tangible assets

In 2007 financial year the acquisitions of non-current tangible assets – machinery – amounted to LTL 1860,8 thousand, including holds ventilation system for LTL 614,0 thousand and fire-fighting CO2 system for LTL 255,2 thousand for the motor ship “Voruta”.

3. Ship Repairs

Ship repairs recognised as assets – LTL 3510,1 thousand
of which planned write-offs to expenses in:

2008 m.	-	LTL 2259,1 thousand
2009 m.	-	LTL 1074,6 thousand
2010 m.	-	LTL 176,4 thousand

4. Deferred Tax Assets

	2007-12-31	2006-12-31
Written-off interest		3 340,3
Reduction in ships' value		30 633,2
Provisions for not received invoices		300,0
Social insurance on provision for annual leaves		445,6
Other provisions (audit)		54,8
Temporary differences (total)		34 773,9
Corporate income tax rate		15%
Total deferred income tax assets:		5 216,1

Deferred income tax assets are amounts of corporate income tax recoverable in future reporting periods, which arise due to deductible temporary differences and unused tax losses. As in 2007 the Company started to apply a fixed corporate income tax rate (for the subsequent 10 tax periods), the income tax base changed, therefore, in future reporting periods the Company would not use the deferred income tax assets of LTL 5216,1 thousand (on 31 December 2006) and deferred income tax liabilities of LTL 3583,2 thousand (on 31 December 2006), so the difference was written off into corporate income tax expenses.

5. Inventories and Prepayments

	2007-12-31	2006-12-31
Spare parts	2193,1	605,6
Food provision on ships	136,4	207,6
Prepayments	935,2	836,0
Total:	3264,7	1649,2

6. Amounts Receivable

	2007-12-31	2006-12-31
Trade debtors	81,1	60,5
Foreign trade debtors	503,8	478,8
Amounts receivable from State budget	39,8	12,9
Prepayments to ships	164,3	161,7
Other amounts receivable	172,3	31,3
Total:	961,3	745,2

In 2007 the foreign trade debtors included the amount of LTL 325,5 thousand related to the damage of cargo of the motor ship “Skalva” (at the beginning of 2006). This amount is covered by insurance, so insurance companies were examining the circumstances of the cargo damage and the amount should be repaid to the Company.

Financial statements of AB „Lietuvos Juru Laivininkyste“
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7. Other Current Assets

	2007-12-31	2006-12-31
Fixed-time deposits	21955,0	13299,6
Other current assets	-	0,4
Total:	21955,0	13300,00

8. Cash and Cash Equivalents

	2007-12-31	2006-12-31
Cash in national currency	122,1	112,0
Cash in banks in foreign currencies	864,3	165,8
LJL's cash in hand in national currency	9,9	5,0
LJL's cash in hand in foreign currencies	38,3	31,5
Total:	1034,6	314,3

9. Capital

	Authorised capital	Share premiums	Total
1 January 2006	200901,3	-	200901,3
New emission of shares	-	-	-
Acquisition of own shares	-	-	-
31 December 2007	200901,3	-	200901,3

On 31 December 2007 the Company's authorised capital consisted of 200 901 296 ordinary registered shares. A nominal value of each share in LTL 1.

10. Reserves

	2007-12-31	2006-12-31
Compulsory legal reserves	10467,3	9901,6
Reserve for acquisition of ships	9599,5	
Reserve for employees' bonuses	150	180
Reserve for social and cultural activities	30	
Total:	20246,9	10 081,6

When the reserve for employees' bonuses is used, it is cancelled by the decision of the shareholders by increasing the retained earnings. Bonuses paid to employees are included into the income statement. In 2007 LTL 69 thousand of reserve for employees' bonuses was used, which was presented as expenses in the income statement line "Personnel expenses".

11. Retained Earnings (Losses)

	2007-12-31	2006-12-31
Balance at the beginning of the year	11314,8	-16375,7
Net profit (loss) for the year	30137,1	11314,8
allocated to dividends (transferred to amounts payable)	-1149,5	
allocated to other reserves	-9779,5	-180
cancelled reserves	180	16555,7
allocated to compulsory legal reserve	-565,7	
Balance at the end of the year	30137,2	11314,8

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2. Non-current Tangible Assets, in thousand LTL

Indicators	Buildings and construction	Machinery	Ships	Other vehicles	Repairs	Other tangible assets	Total
Acquisition cost							
31 December 2005	3.737,0	4.632,0	346.327,0	726,0	9.402,0	580,0	365.404,0
Acquisitions		1.461,0	43.348,0	0,0	1.766,0	36,0	46.611,0
Write-offs		681,0	9.981,0	0,0	5.733,0	138,0	16.533,0
Transfers to other accounts							
31 December 2006	3.737,0	5.412,0	379.694,0	726,0	5.435,0	478,0	395.482,0
Acquisitions		1.860,7	66.609,4	75,4	2.311,7	175,7	71.032,9
Write-offs		-1.827,4	-26.549,8		4.236,9	-92,3	-32.706,4
Transfers to other accounts							
31 December 2007	3.737,0	5.445,3	419.753,6	801,4	3.509,8	561,4	433.808,5
Revaluation / impairment							
31 December 2005			-36.886,0				
Revalued (+), impaired (-)							
Depreciated during the period							
31 December 2006	0,0	0,0	-36.886,0	0,0	0,0	0,0	0,0
Revalued (+), impaired (-)							
Depreciated during the period							
31 December 2007	0,0	0,0	-36.886,0	0,0	0,0	0,0	0,0
Accumulated depreciation							
31 December 2005	233,0	2.773,0	84.554,0	184,0		348,0	88.092,0
Calculated during the period	57,0	526,0	24.395,0	158,0		52,0	25.188,0
Write-offs		430,0	6.183,0	0,0		102,0	6.715,0
Transfers to other accounts							
31 December 2006	290,0	2.869,0	102.766,0	342,0	0,0	298,0	106.565,0
Calculated during the period	57,1	786,7	26.522,2	158,9		60,2	27.585,1
Write-offs		-1.216,4	-20.601,4			-51,9	-21.869,7
Transfers to other accounts							
31 December 2007	347,1	2.439,3	108.686,8	500,9	0,0	306,3	112.280,4
Carrying amount							
31 December 2005	3.504,0	1.859,0	224.887,0	542,0	9.402,0	232,0	240.426,0
31 December 2006	3.447,0	2.543,0	240.042,0	384,0	5.435,0	180,0	252.031,0
31 December 2007	3.389,9	3.006,0	274.180,8	300,5	3.509,8	255,1	284.642,1

Ships

At the end of the financial year the non-current tangible assets of LJI included 15 ships, an administrative building, a warehouse, vehicles and machinery.

In March 2007 the Company acquired motor ships "Deltuva" (Clipper Eagle) and "Clipper Falcon". In 2007 motor ships "Kapitonas Simkus", "Kapitonas A. Lucka", "Kapitonas Kaminskas", "Kapitonas Domeika" and "Mindaugas" were sold.

The Company paid LTL 7990,9 thousand for the planned acquisition of a ship in 2008.

6 ships are mortgaged for loans received from SEB Vilniaus bankas (12 note).

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17. Other Amounts Payable

	2007-12-31	2006-12-31
Debts to agents	152,6	93,4
Debts to suppliers	1236,4	1167,6
Prepayments from clients	2519	988,1
Dividends payable	103,2	77,5
Liabilities related to freight	167,4	143,2
Accrued expenses	191,6	226,3
Other liabilities	16	13
Total	4386,2	2709,1

18. Contingent Liabilities

The Company granted a guarantee letter for the amount 25000 US dollars for the benefit of "North of England P&I Association", related to the damage of cargo in Djendjen (Morocco) port on 12 August 1999. When the investigation of this claim is finished, LJL will settle a part of the claim in proportion to its fault. The maximum settlement amount is set in the guarantee letter, i.e. 25000 US dollars.

19. Sales

Sales revenue, LTL thousand	2007-12-31	2006-12-31	%
Time charter income	91239,5	102129,2	89,3
Other time charter income	1,9	-	-
Freight income from short-term agreements	358,1	-	-
Total:	91599,5	102129,2	89,7

Time charter income decreased due to a lower number of ships' work days, earlier sale of ships and later acquisition of ships, as well as due to the decrease in the exchange rate of the dollar. In 2007 all ships operated on the basis of time charter agreements.

20. Financing and Investing Activities

	2007-12-31	2006-12-31	%
Received interest	648,2	423,2	
Positive effect of changes in exchange rates	4168,0	315,6	
Paid interest	(3826,8)	(1983,9)	192,9
Negative effect of changes in exchange rates	-	-	
Total:	989,4	(1245,1)	

21. Income Tax Expenses

	2007	2006
Net profit before tax	31.852	14.037
Fixed corporate income tax	91	2.527
Expenses not reducing the taxable profit		4.587
Income not increasing the taxable profit		
Increase in corporate income tax due to taxable differences		688

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Effect of deferred corporate income tax assets	5.216	508
Effect of deferred corporate income tax liabilities	-3.583	-1.001
Corporate income tax expenses	1.724	2.722

22. Profit (Earnings) per Share

Profit per share is calculated by dividing the net profit of the period belonging to the owners of the shares LTL 30137085 by the number of ordinary shares at the end of the period – 200901296.

23. Related Party Transactions

The Company regards the members of the board of directors, Director General, ship park management director, technical director, director of finance, chief financial officer and members of their families as related parties. In 2007 the Company calculated and paid them in salaries LTL 615,2 thousand, in 2006 – LTL 417,3 thousand.

24. Test of Determining Fair Value

On 7 December 2007 the ship valuers from English White Shipping Limited determined that at the date of ship valuation the value of each ship and the total value of ships were higher than the carrying amounts. The total value of the ship park was USD 162 million or LTL 381,9 million.

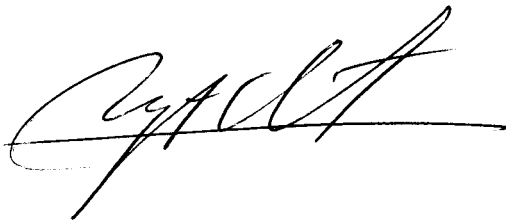
The Company reduced the value of “Asta”, “Audre” and “Akville”.

25. Events After the Balance Sheet Date

In the 1st quarter of 2008 the warehouse in Melnrage was sold. In April 2008 it is planned to acquire a ship with a higher carrying capacity (above 24 thousand DWT).

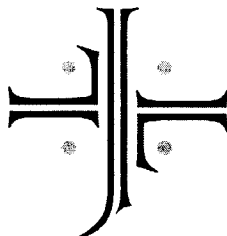
Director General

7 March 2008



V. Vismantas

AKCINĖ BENDROVĖ
"LIETUVOS JŪRŲ LAIVININKYSTĖ"



PUBLIC COMPANY
"LITHUANIAN SHIPPING COMPANY"

5 March 2008

No. (01)-5-122

Klaipėda

In response
to

No.

ANNUAL REPORT FOR 2007

I. ABOUT THE COMPANY

The public company "Lithuanian Shipping Company" (hereinafter LJJ („Lietuvos Jūrų Laivininkystė“ in Lithuanian), company code 110865039, address: Malūninkų str. 3, Klaipėda) was established on 27 June 2001.

The Company's securities have been listed on the current list of the National Stock Exchange since 9 July 2001:

- size of emission - 200.901.296 units;
- nominal value – LTL 1;
- total nominal emission value – LTL 200.901.296.

On 14 December 2007 the shareholders owning more than 5 percent of the issuer's authorised capital were:

- State enterprise State Property Fund (VĮ Valstybės turto fondas) – 16 689 155 shares (8,3 percent);
- "DFDS Tor Line" A/S – 11 108 420 shares (5,5 percent);
- Ministry of Transport and Communications of the Republic of Lithuania – 113 833 000 shares (56,66 percent);
- "Hansabank Clients" – 16 849 753 shares (8,4 percent).

Small shareholders held 21,14 percent of shares. The state enterprise State Property Fund transfers its shares to citizens of the Republic of Lithuania as a compensation for land and real estate, therefore, with time the part owned by the Fund should pass into the hands of small shareholders.

In 2007 two shareholders' meetings took place: an ordinary annual meeting on 26 April 2007, and an extraordinary meeting on 14 December 2007, during which UAB „Moore Stephens Vilnius“ was selected as the auditor of the Company's financial years ending on 31 December 2007, 2008 and 2009 and of the Company's performance. At the date of the latest shareholders meeting the Company had 1 681 shareholders.

In 2007 there were 7 meetings of the Company's Board, 2 meetings of the Supervisory Board and 9 resolutions were passed by the Board.

Since its establishment the Company has been participating in the activities of the Association of Lithuanian Ship Owners and Association of Klaipėda Industrialists, it is a member of BIMCO (The Baltic and International Maritime Council).

II. PERFORMANCE OF THE COMPANY SHIPS IN 2007

Composition of the ship park in 2007

During the reporting period the Company had the following ships:

1. At the beginning of the year - six bulk cargo ships of "Kapitan Panfilov" type (14 632 DWT each), 4 of which were sold:
 - 1.1. motor ship "Kapitonas Šimkus" operated until 28 February 2007;
 - 1.2. motor ship "Kapitonas A. Lučka" – until 20 April 2007;
 - 1.3. motor ship "Kapitonas Kaminskas" – until 18 August 2007;
 - 1.4. motor ship "Kapitonas Domeika" – until 14 November 2007.
2. Two universal ships ("Staris", "Svilas") – 9650 DWT each;
3. One general cargo ship ("Skalva") – 9498 DWT (from 3 June 2004);
4. Four universal ship of "Asta" type – 5820 DWT each;
5. Two universal ships of "Uglegorsk" type – 4500 DWT each:
 - 5.1. "Algirdas"
 - 5.2. "Mindaugas" until 20 September 2007.
6. One general cargo ship ("Alka") – 7346 DWT;
7. One general cargo ship ("Romuva") – 17504 DWT;
8. One general cargo ship ("Voruta") – 17504 DWT;
9. One general cargo ship ("Clipper Eagle", now – "Deltuva") from 8 March 2007;
10. One general cargo ship ("Clipper Falcon", after repairs – "Raguva") from 15 March 2007.

Demand for *Handysize* type dry cargo ships

Ships operated by LJL are attributed to *Handysize* type ships. For the past several years market conditions for this type of ships have been favourable, although they did not manage to find the same „gold vein“ as the large ships. As summarised in the table presented below, the growth of demand for smaller ships was rather restrained compared to that for the large ships. Expressing it in deadweight (DWT), the demand grew on average 3,4 percent for the past 4 years (including the forecast for 2007), compared to the average of 6,7 percent for the total park of dry cargo ships for the past 4 years (including the forecast for 2007).

The forecast is that the demand for *Handysize* type ships will continue to grow although slower than for larger segments. The analysts expect some decline in demand for 2008 and 2009. The main reason for such potential vulnerability of demand for *Handysize* market is a decline in the import of steel to China, which is caused by the rapid growth of Chinese domestic production and export limitations.

Demand for Handysize type dry cargo ships

	Tons for mile (billion)	Change, %	Deadweight (million)	Change, %
2002	1,660	n/a	34.1	n/a
2003	1,723	3.8 %	35.4	3.8 %
2004	1,864	8.2 %	38.3	8.2 %
2005	1,912	2.6 %	39.7	3.7 %
2006	2,022	5.8 %	39.9	0.5 %
2007	2,111	4.4 %	40.3	1.0 %
2008	2,138	1.3 %	40.1	-0.5 %
2009	2,200	2.9 %	39.5	-1.5 %
2010	2,267	3.0 %	39.7	0.1 %
2011	2,308	1.8 %	38.4	-3.3 %

Source: *Drewy shipping consultants*

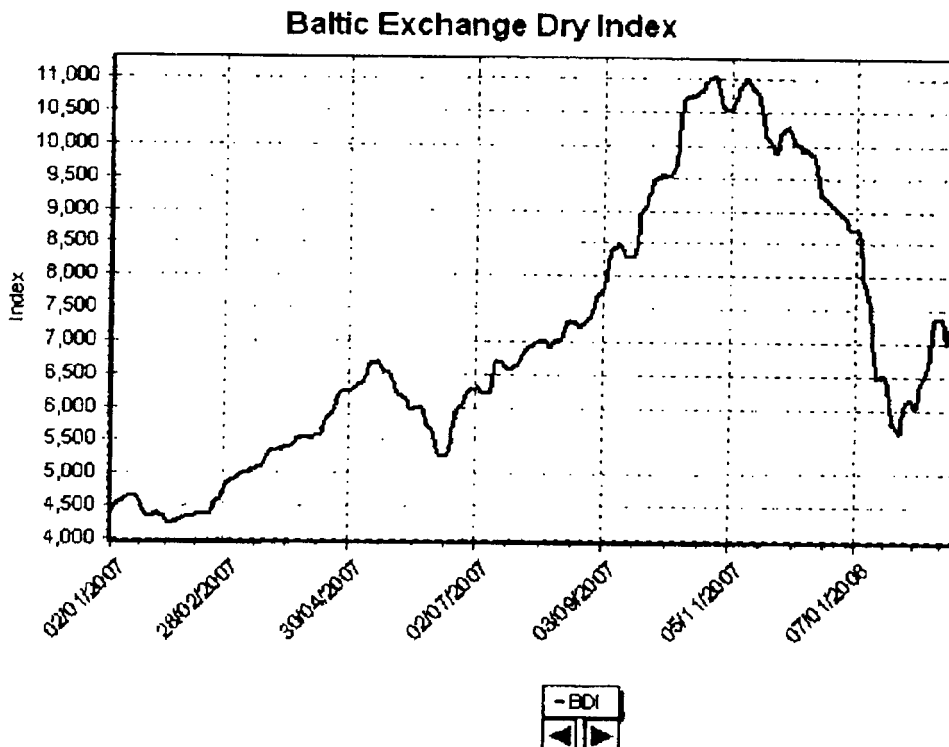
Summing up the performance of the Company's ship park

The Company's strategy is based on long-term relationships with freighters who are inclined to charter ships for a short or medium period. One might say that LJL prefers lower but stable and easier predictable charter income rather than more profitable but risky operations on „Spot“ market.

The ship park operated on the basis of long-term agreements with the companies "Arctic Trading" (Greece), "UB Trading" (Germany), "Navalis Shipping" (Germany), "Brodin Shipping" (Sweden), "Olof Brodin" (Sweden), "Clipper" (Denmark), "Onego Shipping & Chartering" divisions in America, Estonia, the Netherlands and Russia.

Modifications of ship navigation regions, timely conclusion and extension of agreements ensured stable and profitable performance of the ship park.

Market tendencies. Special publications do not present an analysis of shipping market for small ships such as managed by LJL. World shipping indices are calculated starting with *Handymax* type ships (35 000 - 50 000 DWT). Booms and slumps on the market of large ships influence the market of small ships as well. Therefore, *Baltic Dry Index (BDI)* can be used for its analysis, which summarises all sectors where *Capesize*, *Panamax* and *Handymax* ships operate. The fluctuations of BDI in 2007 are shown on the diagram below. From the presented diagram we cannot predict market tendencies for 2008.



III. PERFORMANCE RESULTS IN 2007

In 2007 LJL made LTL 31,9 million profit. In comparison with the planned budget, the pre-tax profit was LTL 20,6 million (or 42 %) higher.

In 2007 the Company earned LTL 145,6 million income, comprising LTL 91,6 million from shipping services, LTL 48,5 million from sales of old used ships and from rendering other services

(for lease of premises, other services) and LTL 5,5 million from bank interest and income from operations in foreign currencies. In 2007 expenses incurred in order to earn the income amounted to LTL 113,7 million, including LTL 75,1 million of personnel expenses, ships repairs and maintenance and other operating and sales expenses, LTL 6,6 million – carrying amount of sold old ships, LTL 27,6 million – depreciation of ships and other assets, LTL 3,8 million – interest paid to bank and LTL 0,6 million – expenses related to changes in exchange rates.

In 2007 sales revenue was LTL 11,0 million lower than in 2006 because the ships worked 473 days less. All LJL ships worked on the basis of time charter agreements.

The Company's services were sold at the average rate of LTL 2,5315 for US dollar, while the rate of LTL 2,71 was planned in the budget. Due to the difference between the actual and the planned rate of US dollar, the Company received on average LTL 3,4 million lower income for the reporting period. The other reason for deviation of income from the forecast is a lower than planned number of working days of the ship park, due to which the income was LTL 5,9 million lower. The ship park operated 461 days less than planned because of the later acquisition of two "Clipper" ships, earlier or unplanned sales of ships and longer than planned repairs of ships „Akvilė”, “Audrė”, “Mindaugas”, “Voruta”, “Deltuva“ (in total 68 days).

Income received from shipping services exceeded expenses related to ships maintenance, other administrative, sales and ships repair expenses and personnel expenses, therefore, LJL had a profit before ships depreciation and sales. In 2007 the profit before ships depreciation and sales amounted to LTL 16,7 million. After the sale of old and/or unfit for use ships, or used ships not satisfying the Company's requirements, which had been received after reorganisation of old LISCO, the Company received LTL 48,3 million income compared to their carrying amount of LTL 6,6 million, i.e. it earned LTL 41,7 million profit.

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

In 2007 personnel expenses amounted to LTL 29,7 million and were LTL 0,7 million lower than planned. The main portion of personnel expenses, LTL 25,4 million (86 %), is crew sustenance expenses. They were LTL 0,3 million lower than planned.

In 2007 expenses related to repairs of the ship park amounted to LTL 14,7 million and exceeded the plan by LTL 2,4 million due to unplanned repairs. Unplanned repairs, LTL 3,6 million, form 25 % of all repair expenses.

Spare parts, lubricants, ship insurance, commissions, supplies to ships, water expenses, off-hire expenses (charter not received due to ship failures, accidents, detentions, etc.) are ships' exploitation expenses, which in 2007 amounted to LTL 28,9 million. In comparison with the forecast, lubrication expenses were LTL 2,5 million lower than planned.

Off-hire expenses due to ship failures, accidents, detentions and similar events amounted to LTL 3,6 million, or 12 % of the ships' exploitation expenses. LTL 3,3 million (93 %) were not received due to technical reasons.

Expenses of supplies to ships (work clothes, laundry, laundering agents, utensils, etc.) amounted to LTL 0,9 million. They were LTL 0,3 million higher than planned.

Water expenses to ships amounted LTL 0,2 million. They were in line with the planned amount.

Communication expenses of the ship park amounted to LTL 0,2 million and were lower than planned.

The depreciation of the ship park amounted to LTL 27,2 million, of which 97 % was depreciation of ships. In 2007 the depreciation expenses of the ship park were LTL 1,6 million lower than planned, of which LTL 1,0 million due to later than planned acquisition of "Clipper" type ships (ships were acquired in March instead of February), and LTL 0,4 million due to earlier sale of „Kapitan Panfilov“ type ships.

Expenses related to maintenance of premises, including insurance of assets and life on shore, amounted to LTL 0,104 million or 0,1 % of the Company's expenses, of which LTL 0,047

million (in 2006 – LTL 0,045 million) were insurance expenses, LTL 0,027 million (in 2006 – LTL 0,027 million) – electricity expenses (including warehouses), LTL 0,025 million (in 2006 – LTL 0,022 million) – heating expenses.

The Company's profit before interest and influence of exchange rates amounted to LTL 30,9 million. The Company receives interest from banks on fixed-time and current deposits and pays interest to banks for loans received in order to acquire ships.

In 2007 the Company paid through bank LTL 12,4 million remuneration, LTL 8,0 million per diem payments, LTL 4,7 million contributions to the Social Insurance Fund, LTL 0,6 million residents' income tax, settled LTL 65,3 million of suppliers' invoices and carried out other payments for the amount of LTL 29,3 million (insurance, contributions to trade unions on behalf of employees, payments to banks in accordance to loan agreements, income tax, etc.). The Company paid LTL 0,16 million to banks for their services (including LTL 0,036 million loan administration fee for 2007).

IV. FINANCIAL ACTIVITIES

In 2007 the public company "Lithuanian Shipping Company" had its accounts in these banks: AB „SEB Vilniaus bankas“ (from 24 January 2008 its name was changed to AB "SEB bankas"), Klaipeda branch of AB „DnB NORD“, AB „Sampo bankas“. The main turnover of money (77 %) went through AB „SEB Vilniaus bankas“.

The Company concentrates its financial means in the banks which provide more competitive and attractive services. In order to minimise expenses and ensure quick transactions the Company carries out its bank transactions electronically. LJL constantly searches for ways to minimise its expenses for banking services and transactions fees: these expenses, which amounted to LTL 365 thousand in 2002, have been decreasing constantly and were LTL 124 thousand in 2007, i.e. they decreased by more than 66 %.

The Company earns the largest portion of its operating revenue in US dollars and euros. On average the income in US dollars (excluding sales of ships) constituted 52 %. On average in 2007 the price of US dollar was LTL 2,5230, in 2006 – LTL 2,7513. The Company sold its services at the average price of US dollar equal to LTL 2,5313, while in 2006 – to LTL 2,75. In order to perform payments in Lithuania, currency was being sold to the banks, which offered more competitive and expedient rates of exchange. For payments in currencies other than those of revenues, LJL performs currency purchase because the Company does not accumulate financial resources in these currencies, i.e. it does not freeze resources, on which no interest accrues.

Payments to the personnel are made in accordance with the Collective Agreement of 30 March 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. The work pay to sailors constitutes the main personnel expenses of the Company. Salaries to sailors, including provisions for annual leaves and days off, amount to 78 % of total Company's salaries expenses, their business trips - 95% of overall business trips expenses. In 2007, the average monthly gross salary amounted to LTL 2248,1 (in 2006 – LTL 2304,3). This indicator is calculated applying the methodology of the statistical report DA-01K of the Department of Statistics, used to determine the average conditional number of employees. On 31 December 2007 the Company had 516 employees, including 63 on shore and 453 in the ship park (respectively in 2006 – 533 employees, including 64 on shore and 469 in the ship park). The average number of employees in 2007 was 539, the average conditional number of employees – 498,9. In 2006 the average number of employees was 539, in 2005 - 555.

In 2007 cash and fixed-time deposits of LJL increased by LTL 9,3 million to LTL 23 million. In 2007 the rest of state bonds, inherited after reorganisation, were redeemed. Through its ship part renewal program the Company seeks to acquire newer ships of larger carrying capacity. In 2007 LJL acquired two „Clipper“ type ships of 16,9 thousand DWT each for LTL 63,4

million by receiving 18,5 million US dollar (LTL 48,6 million or 77 %) loan from the bank.

LJL holds its cash not required for payments in fixed-term and/or overnight accounts. Free cash is accumulated in order to acquire suitable ships. In 2007 LJL received LTL 0,644 million income from banks for the right to use its free financial resources, in 2006 – LTL 0,423 million.

LJL inherited from the old LISCO LTL 55,9 million of financial liabilities for four "Asta" type ships, the liabilities being expressed in US dollar with a variable rate of interest (LIBOR for a selectable period and a bank margin – annual interest of 1,5 %). This inherited loan had a complex structure and the Company incurred not only interest expenses, but additional expenditure as well (administrative, tonnage, registration, insurance, representation), related to the names of ships of four firms registered in Cyprus. In order to minimise its expenses and risk exposure, LJL swapped the existing scheme with a loan from AB "Vilniaus bankas" during 2003-2004. Although the ongoing process of the Company's privatisation complicated the negotiations, LJL managed to agree on more favourable agreement conditions.

In 2007 the Company repaid SEB bankas in total LTL 25,6 million of loans and interest (respectively in 2006 – LTL 12,7 million, in 2005 – LTL 6,3 million). These included loans for four "Asta" type ships and loans received for acquisition of "Romuva" in 2005, "Voruta" in 2006 and two "Clipper" ships in 2007. The Company repays loans and accrued interest in accordance with the deadlines and amounts set in the agreements. LTL has not received any claims from banks since the date of the Company's establishment.

At the end of 2007 financial liabilities to banks including LTL 55,9 million inherited from the old LISCO after reorganisation, and the loans received by LJL for acquiring the ships specified above, amounted to LTL 61,0 million. Loans in Euro comprised 53 %, loans in US dollars – 47 %.

In 2007 LJL paid LTL 3,8 million of interest to the bank or LTL 1,8 million more than in 2006 due to loans received for acquisition of two "Clipper" type ships. In comparison to the budget, the interest payments were LTL 0,9 million lower because of the lower loan (instead of a planned loan of USD 20,5 million for 7 years, the loan of USD 18,5 million was taken for 5 years). In addition, it was planned in the budget to receive a loan on 15 January 2007 with 7 % annual interest rate and to repay USD 7,7 million during the current year. Actually, the ships were acquired on 7 and 14 March 2007, the interest on loan was approximately 6,1 %, and a part of loan equal to USD 4,9 million was repaid. The rate of US dollar was LTL 2,52, which also differed from 2,71 planned in the budget. We would also like to draw your attention to the fact that LIBOR in US dollars, which was equal to above 1 % at the beginning of 2004, grew in 2007 and at the end of the year was above 5 % (based on fixed interest rates). However, LIBOR in US dollars grew slower than LIBOR in euros (on 1 January 2007 the 6-month LIBOR in US dollars was 14 % higher than on 29 December 2005, while LIBOR in euros for the respective dates grew by 46 %). During 2007 LIBOR in euros increased by 21 %, while LIBOR in US dollars decreased by 17 %.

The Company pays considerable attention to its performance analysis, administration of process of its financial statements preparation and improvement of accounting procedures. Efficient management is impossible without analysis and improvement of relevant reports, so the Company pays constant attention to these issues. The debts of freighters and the status of their settlement are under constant control. LTL continuously improves work organisation and structure. LTL is reliable with regard to suppliers. In 2007 as well as in 2006 the turnover period of debts to suppliers was lower than 5 days.

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

During the 2007 reporting financial year the Company neither acquired nor transferred nor had its own shares.

V. TECHNICAL MAINTENANCE OF THE SHIP PARK

In 2007 repairs for confirmation of ships' class were carried out on motor ships "Akvilė", "Audrė", "Mindaugas", and dock repairs were carried out on motor ships "Voruta" and "Deltuva".

The ships' repair expenses in 2007 amounted to LTL 14695426.

Repairs of "Deltuva" motor ship were especially extensive. Ballast tanks and all holds were cleaned and painted.

A CO2 extinguishing system in the cargo holds, a smoke detector and the holds ventilation system were installed on the motor ship "Voruta". This allowed transporting hazardous cargos.

Ships „Svilas“ and "Alka" were repeatedly repaired due to breakdowns.

In 2007 the equipment of two ships, "Deltuva" and „Clipper Falcon", was fully introduced. Important job of preparing maintenance, ISPS plans, instructions and other documents for them was done.

Depreciated ship radars, satellite systems, GPRS receivers, satellite buoys and other communication and navigation equipment were changed. LTL 791 296 was spent.

Prices for ship repairs in Europe have become hardly predictable. The repairs take longer. Repairs are much cheaper in China but LJI ships do not operate in Asian region, so they were not repaired there. In 2008 it is planned to repair motor ship "Clipper Falcon" in China.

The prices of spare parts have grown significantly and the term of delivery has become longer. In order to avoid down time due to technical faults, spare parts are ordered and purchased earlier and in larger quantities.

2007 was a favourable year for selling ships. With the permission of the Board, four old bulk cargo ships were sold: "Kapitonas Šimkus", "Kapitonas A. Lučka", motor ship "Kapitonas Kaminskas" and motor ship "Kapitonas Domeika". It would have been very expensive to carry out high-quality repairs on those ships, and the expenses would not have been compensated by earnings until the next repairs. In 2008 it is planned to pass a convention on utilisation, and it will become rather complicated to turn in ships to scrap metal when it becomes effective.

VI. MANAGEMENT OF SAFE NAVIGATION

In 2007 the employees of the Service of Safe Navigation Management carried out the following major activities in the fields of safe navigation and management of legal ship documents:

1. All the documents required for the preparation of the necessary *US Non Tank Vessel Response Plans* for two LJI ships were prepared and sent to the USA. The agreements with two USA companies „Donjon – Smit LLC“ and „National Response Corporation“ concerning the provision of services in emergency situations in the USA internal waters and territorial sea were supplemented. The ships „Deltuva" and "Clipper Falcon" were provided with the above-mentioned plans, prepared by the USA company "Hudson Marine Management Services", in due time. The same USA company prepared another plans for these ships, namely SOPEP for Panama channel, required for the ships' navigation through Panama channel.

2. The ships "Deltuva" and "Clipper Falcon" were registered in the Maritime Register of the Republic of Lithuania and provided with all necessary legal documents. In addition, plans for waste management, water ballast cleaning and SOPEP plans (plans prepared by "Baltic Engineering Centre" company and its representative I. Žukov), packages of working, ship and technical instructions in working languages were prepared for these ships.

3. The Company's auditors carried out reviews of internal ship safety management systems (SMS) on 16 ships and once at the coast divisions of the Company. The Company's safety officer performed internal audits of the ships' safety on 6 ships.

4. One correction of the Safety management instructions was made.

5. Corrections of contact details in ships' SOPEP plans were made four times and distributed to the ships.

6. 14 navigators were approved for promotion into higher positions. Special additional testing of ships' captains, chief assistants of captain and chief mechanics on ship safety management system was started (knowledge of 11 professionals was tested in November - December).

7. All ships were periodically provided with International Maritime Organisation and national documentation regulating ship safety and security, safety management and environmental protection, sea charts and navigation manuals.

8. Organisational work related to preparation of modern computerised software for the calculation of stability, carriage and hull tension was carried out for the ships „Deltuva“ and „Clipper Falcon“. The software itself was created by company „Spro – Invest LLC“.

9. Organisational work related to the safety plans for the motor ships „Deltuva“ and „Clipper Falcon“ and certification of these ships in accordance with the requirements of the International Ship and Port Facility Security Code and the International Safety Management Code.

10. A review of emergency cases of LJL ships in 2006 was prepared. The conclusions of the analysis of all emergency cases in 2006 were distributed to LJL ships.

11. An analysis of PAC reviews of LJL ships in 2006 was carried out on the basis of signs of non compliance. The information was presented to the Company's management.

12. Lists of critical equipment for all ships were reviewed and updated in accordance with the Lithuanian Safe Shipping Administration (LSSA) requirements.

13. Manuals for using safety boat systems were prepared in accordance with the requirements of the International Maritime Organisation (IMO) circular of 15 May 2006 MSC.1/Circ.1205 in Lithuanian and Russian languages; usage instructions of other specific life saving measures and fire fighting equipment and measures were updated in working languages for the ships "Voruta", "Deltuva" and "Clipper Falcon". The update of technical maintenance plans and schedules for the life saving measures was completed for all ships in accordance with the new requirements of the mentioned IMO circular MSC.1/Circ.1205.

14. Organisational work related to the performance of independent audits of the ships' safety management system (SMS) and protection was carried out:

14.1. Inspectors of the Russian Maritime Register (RMR) performed 4 audits of the ships' SMS, inspectors of the Lithuanian Safe Shipping Administration (LSSA) – 5 audits.

14.2. Inspectors of LSSA performed protection audits of 7 ships.

15. Organisational work related to the preparation of updated information on stability and hull strength when carrying general cargo for the ships "Kapitonas Serafinas" and "Kapitonas Stulpinas" was carried out. This document was prepared by UAB „Baltic engineering centre“ and approved by the RMR. Unfortunately, the desired result was not achieved, because in order to officially allow the transportation of general cargo on the motor ship „Kapitonas Serafinas“ the RMR required additional documents, without which this ship had been successfully transporting general cargo for 26 years.

Implementation of ISM Code, ISPS Code and environmental requirements by LJL in 2007

In 2007 the representatives of the Russian Maritime Register and the Lithuanian Safe Shipping Administration checked and issued the renewed safe management certificates (SMC) for five motor ships of LJL: „Kapitonas Serafinas“, „Kapitonas Stulpinas“, „Asta“, „Staris“ and „Svilas“. After the performance of preparatory works, the ships „Deltuva“ and „Clipper Falcon“ acquired in 2007 were certified to receive temporary SMCs. After several months "Deltuva" and „Clipper Falcon“ were audited again and they received permanent SMCs.

After the ships' detention, at the request of the Lithuanian Safe Shipping Administration, additional audits of the ships „Alka“, „Kapitonas Domeika“ and „Kapitonas Stulpinas“ were performed.

In May 2007 the representatives of the Lithuanian Safe Shipping Administration performed an annual audit of the Company in order to renew the document of compliance. The Safe

Shipping Management Service, the Personnel Division, the Technical Maintenance Division and the Ship Park Management Unit were checked. Eight cases/notes of noncompliance were formulated. One of the notes of the LSSA inspectors is still actual today: the superintendants of the Technical Maintenance Division do not ensure that the annual inspection of the technical state evaluation is carried out. As this note was included by the representatives of the LSSA in 2007, the results will be checked during the Company's audit in 2008. During the internal audit of the Technical Maintenance Division in December, it was stated that the superintendants had checked only nine ships where they had filled in the technical state evaluation control sheets.

In 2007, on the basis of a plan prepared beforehand, an internal audit was performed on all ships.

In 2007 the necessary ISM Code and ISPS code documentation was prepared for the acquired ships "Deltuva" and „Clipper Falcon“ They were certified in accordance with the requirements of the ISM Code and ISPS Code.

At the end of 2007 the Company's auditors performed an internal audit of the Company's divisions and services.

In 2008 the interim SMS inspections are planned on the motor ships "Alka", "Romuva" and "Daina" in order to renew their safe management certificates. In May the annual audit of the Company will be performed.

In 2007 the internal ISPS Code audits were carried out on six ships. The most frequent nonconformities: 1. Unused doors of zones with limited access were left unlocked while standing in harbour; 2. No evidence was found that annual external and monthly internal tests were carried out on ship safety alarm equipment.

In the middle of 2007 the ISPS Code trainings were carried out on all LJL ships imitating violation of the ship's protection system. Preparation of ships and readiness of sailors, their actions, knowledge of the ship protection plan, effectiveness of communication between ships, the Company and Klaipeda Co-ordination Saving Centre were tested. Such exercises are also planned for the end of 2008.

In 2007 the external interim ISPS Code inspections were carried out on seven LJL ships to renew the International ship safety certificates. These inspections were performed by the representatives of the Lithuanian Safe Shipping Administration. In 2008 it is planned to carry out interim ISPS Code inspections on three ships ("Alka", "Voruta", "Romuva").

In 2007 the safety of the acquired ships "Deltuva" and "Clipper Falcon" was evaluated, the new ships' safety plans were prepared and the ships were certified in accordance with the ISPS Code requirements.

Safety plans of most of LJL ships were amended because the instructions for using ship safety alarm system and using and testing AIS had to be updated.

As the Lithuanian Safe Shipping Administration carried out the SMS renewal certification for the ships "Kapitonas Serafinas", "Staris", "Svilas", "Deltuva" and "Kapitonas Stulpinas" and granted a new safe management certificate, the documents of the continuous logging journal of these ships had to be updated.

Shipboard oil pollution emergency plans (SOPEP plans), waste management plans, water ballast management plans were prepared for the motor ships "Deltuva" and "Clipper Falcon" acquired in 2007. All these plans were approved by the Lithuanian Safe Shipping Administration.

VII. EMPLOYEES SAFETY AND HEALTH REGULATIONS, FIRE PREVENTION AND CIVIL PROTECTION

In 2007 four light accidents and one incident took place.

364 employees were ill for a combined time of 6511 days during 2007.

In 2007, 143 introductory trainings were conducted for newly-hired employees of LJL.

In 2007 LTL 87 751 was spent on medicaments for the ships' first-aid sets and sailors' treatment, LTL 54 952 – on individual protection measures.

Before the sailors' departure to ships 24 work safety trainings were carried out with the participation of 265 sailors.

In 2007 the issues related to fire prevention and civil protection were tackled in accordance with the legal acts of the Republic of Lithuania. Measures and instructions provided for in the orders of the Director General of LJL were implemented.

In 2007 the state of fire prevention and civil protection was satisfactory, the officials did not find any cases of non compliance in these areas during their inspections.

The members of the ships' crews and employees of coast divisions receive continuous methodological assistance, information and consultations. All members of the crews preparing to leave for foreign ports receive additional training and are introduced to the new legal acts. In 2007 ten welders had a training on the basis of the technical minimum programme, and 143 newly hired employees passed introductory training. In accordance with the plan of the LJL working committee for work safety and fire prevention, inspections were carried out on ships and coast divisions. The findings of these inspections were discussed with the captains of the ships and heads of the divisions.

VIII. ACTIVITIES IN OTHER COAST DIVISIONS

Insurance and claims

During the reporting period the Division of Insurance and Claims dealt with the following claims:

1. Concerning transportation of cargo

Based on the data for 1 January 2007, LJL had 12 claims and received 8 reports about claims. In 2007 five claims for the total amount of USD 837 666 were examined and rejected. Two claims were cancelled. Negotiations regarding one claim for USD 85 433 led to the reduction of the amount to USD 10 000, which was paid.

In 2007 received and rejected claims included:

1. three claims for EUR 4 653,86 each;
2. one claim for USD 2 200,00;
3. one claim for the initial amount of EUR 11 000,00 was reduced to EUR 2 337,00 and settled.

On 1 January 2008 six claims were outstanding, including two claims for EUR 297 444,89, four claims for USD 94 323,76 and eight reports about claims. Of the remaining claims, three are of a considerable amount:

- motor ship "Kapitonas Lučka", port of Moerdijk, 30 October 2004 - EUR 225 000,00;
- motor ship "Skalva", port of Puerto Cortes, 8 November 2004 – EUR 72 444,89;
- motor ship "Skalva", port of New Orleans, 4 December 2007, pollution of cargo with fuel oil – USD 50 000,00.

2. Other claims

On 1 January 2007 there were 22 claims, on 31 December there remained 21 claims, including the new ones.

During the reporting period the Company settled one large claim: on 4 January 2006 a cargo on board of the motor ship "Skalva" was damaged due to a fire in the hold, the amount of claim – USD 1 052 112,00. USD 179 250,00 was paid from the funds of the mutual insurance club „Skuld“.

In Stralsund (Germany) the court proceeding regarding the announcement of bankruptcy of „Whitle Dolphin Shipping and Trading GmbH“ company were finished.

11 smaller claims were settled, for which the insurance premiums were received.

In 2007 these new large claims were received:

1. motor ship "Svilas", port of Sunndalsor, 18 November 2006, damage to the port's quay, the amount of claim – USD 290 000,00;
2. motor ship "Daina", collision with the motor ship "Nordana Andrea" in the Kiel Channel on 9 November 2007, preliminary amount of claim – EUR 120 000,00;
3. illness of the member of the crew K. Bogdanov on board of the motor ship "Asta", transportation of the patient from Mexico to Klaipeda, the amount of claim - USD 180 000,00 - paid from the funds of the mutual insurance club "Skuld".

The liability of AB "Lithuanian Shipping Company", as the owner of ships, for cargos and other claims is insured by insurance companies and mutual insurance clubs.

3. Claims in the coastal divisions

1. On 10 January 2007 the request was submitted to M. Trijonienė and L. Uniokaitė judicial office concerning the arrest of the shares of AB "Lithuanian Shipping Company", which belonged to "Trident Marine Aps" company of the Denmark Kingdom, and were accounted for by the financial brokerage company UAB "Suprema", on the basis of the ruling of the Court of Appeal of Lithuania No. 2A-4521/2006.

2. On 17 March 2007 the Court of Appeal of Lithuania examined the civil case No. 2A-85/2007 following the appeal of the claimant, "Trident Marine Aps" company of the Denmark Kingdom, regarding the ruling of the Court of Vilnius District of 19 July 2006 on the civil case No. 2-1231-28/2006 concerning the claim of "Trident Marine Aps" company of the Denmark Kingdom to the respondents AB "Lithuanian Shipping Company", Special Investigations Service of the Republic of Lithuania, and the third person – the State Property Fund, regarding the spreading of information not corresponding to the truth, hurting business reputation of a legal person, denial of such information and compensation of damages caused by such information. The appeal was partly satisfied, the litigation costs adjudged to AB "Lithuanian Shipping Company" were reduced.

3. On 2 May 2007 the official decision No. 2-1231-28/2006 was granted by the Court of Vilnius District, following which the enforcement of judgement was carried out on 29 October 2007. The case was closed.

4. On 5 June 2007 the Court of Klaipeda District examined the civil case No. 2-518-538/2007 on the basis of the claim by Tatjana Žgunova requiring an immediate restoration to her working position, adjudgement of compensation for the complete period of forced absence from work, restoration of working experience period, adjudgement of severance pay, restoration of annual and unpaid leaves, transfer of the date of dismissal, adjudgement of pay premium for annual leave, adjudgement of remuneration for performed additional work, compensation for material and immaterial damages. On 4 July 2007 T. Žgunova submitted an application to the Court of Appeal of Lithuania regarding the judgement of the Court of Klaipeda District of 5 June 2007. On 3 January 2008 the Court of Appeal examined the civil case No. 2A-83/2008 regarding the application by T. Žgunova concerning the judgement of the Court of Klaipeda District, the application was rejected.

Activities of the Division of Information Technology

1. Expenses:

1.1. Computer software maintenance – LTL 97 746, compared to the budget this amount is LTL 12 254 lower.

1.2. Maintenance of computer hardware and network - LTL 13 019,92, compared to the budget this amount was LTL 19,92 higher.

2. Investment:

2.1. Modernisation of computer hardware and software of the office network – LTL 33 882,23;

2.2. Modernisation of computer hardware and software of the ship park – LTL 6 382.

The total amount of investment – LTL 40 264,23, while the amount provided for in the budget was LTL 208 000. The investment funds were not used because a processing system for large format

documentation (copying, printing, scanning) and a new server were not acquired; time charter module was not acquired and installed; GPRS connection module on ships was not modernized.

3. Programming tasks:

3.1. A new version of programming task „Testing the knowledge of crew members“ was created on the basis of MARPOL convention and ISM Code requirements.

3.2. A new version of information transfer from the software of ships, entering the USA ports, was installed.

3.3. An electronic catalogue of the components of the main engine on "Asta" type ships was created and installed. The catalogue made the search for the necessary components and the preparation of requests for purchase easier.

4. Modernisation of computer network and systems:

4.1. A new complex centralised multi-level security system was deployed on LJL computer system. The system included anti-spam protection, anti-virus protection of e-mail and web and protection from hacker attacks. The system was installed on the server, which provides more opportunities for security management and control.

4.2. A new internet data processing technology was installed on the server in order to transfer the data from the office to the ships. It made software updates and information transfer to ships easier.

4.3. Three workplaces were modernised in LJL coastal divisions.

4.4. A new version of *Panda Platinum 2007 Internet Security* system was installed on the ships' computers.

Activities of the Business Support Division

In 2007 LTL 96 500 (including VAT) of income from lease of uninhabitable premises was earned.

In 2007 the following agreements on lease of uninhabitable premises were signed:

On 28 February 2007 - on the lease of 25,08 m2 of administrative premises on the second floor,

On 31 January 2007 – on the lease of 32,22 m2 of administrative premises on the second floor,

On 27 February 2007 – on the lease of 204,45 m2 of warehouse at Vėtros str. 7 Melnragė,

On 13 March 2007 – on the lease of 273,07 m2 of warehouse at Vėtros str. 7 Melnragė.

Insurance expenses:

insurance of real estate (administrative premises, office equipment and warehouse) by UAB “IF draudimas” – LTL 4300;

general insurance of civil liability – LTL 500;

insurance of vehicles by UAB “IF draudimas” – LTL 32614;

travel insurance by UAB “IF draudimas” – LTL 5932.

Expenses of maintenance of administrative premises:

for the lease of state-owned land (0,1618 ha) to the Municipality of Klaipėda – LTL 2957,76;

for the management of rain waste to AB “Klaipėdos vanduo” – LTL 201,60 (without VAT);

for used cold water and management of waste water to AB “Klaipėdos vanduo” – LTL 2096,08 (without VAT);

for heating of premises and preparation of hot water to AB “Klaipėdos energija” – LTL 25130,08 (without VAT);

for used electricity to the branch “Klaipėdos elektros tinklai” of AB “Vakarų skirstomieji tinklai” – LTL 23 553,52 (without VAT);

for disposal of waste to UAB “Švaros diena” – LTL 677,4 Lt (without VAT);

for protection services (reaction to alarm button) to R. Jonaičio IĮ “Argus” – LTL 600 (without VAT);

for telecommunications:

to AB “Lietuvos telekomas” – LTL 46 669,73 (without VAT);

to UAB “Telekomunikacijų grupė” – LTL 316,59 (without VAT);

to UAB "Linkotelus" – LTL 4 309,53 (without VAT);
 to UAB "Bitė GSM" – LTL 73 099,20 (without VAT).
 for repairs of the roof of the administrative building – LTL 4146 (without VAT).
 for internal repairs of premises – LTL 4705,20 (without VAT).
 for repairs of security alarm – LTL 480 (without VAT).
 for maintenance of plumbing in the administrative premises – LTL 1510 (without VAT).
 For the preparation for 2007-2008 heating season LTL 7109,30 (without VAT) was spent.
 In 2007 1 382,5 kg of copying paper was bought for LTL 4 096,44 (without VAT).
 The expenses of the maintenance the warehouse in Melnragė in 2007:
 land tax paid to the Klaipėda State Sea Port – LTL 10446;
 for used electricity to AB "Klaipėdos jūrų krovinių kompanija" – LTL 3348,30 (without VAT);
 for telecommunications to UAB "Bitė GSM" – LTL 221,22 (without VAT);
 for waste disposal to UAB "Švaros diena" – LTL 365,14 (without VAT);
 for technical maintenance of protection systems to R. Jonaičio IĮ "Argus" – LTL 1200 (without VAT);
 for electricity installation in the warehouse – LTL 300 (without VAT);
 for repairs of the gate of the warehouse – LTL 1400 (without VAT).

The real estate tax to the budget amounted to LTL 14 799.

The tax of owners or users of vehicles was LTL 2500.

An eight-place car "Renault Trafic" was acquired for LTL 75423,73 (without VAT).

The bus "Iveco Irisbus Midys", registration No. ARJ 535 and the car "Renault Trafic", registration No. DEL 125, were used for changing the ships' crews; 42 191 km were travelled in Lithuania and abroad.

During the year the fuel for LTL 46 609,73 (without VAT) was purchased from UAB "Lietuva Statoil" in Lithuania and abroad for the Company's vehicles (bus "Iveco Irisbus Midys", vehicles "Peugeot Boxer", "Renault Trafic", "VW Passat" and "Peugeot 406").

Personnel management

On 1 January 2007 the Company had 533 employees, including 64 coastal employees and 469 sailors. On 1 January 2008 there were 516 employees, including 63 coastal employees and 453 sailors.

In 2007 the Company hired 141 sailors:

46 AB sailors, 17 motorists, 2 turners, 10 third assistants of captain, 8 second assistants of captain, 8 third mechanics, 3 second mechanics,
 4 chief mechanics, 6 cooks, 6 trainee motorists, 4 trainee sailors;

In 2007 the Company terminated employment contracts with 157 sailors, including:
 50 in accordance with article 127 (at the initiative of the employee), 69 – in accordance with article 126 (end of term of the contract), 25 – in accordance with article 125 (mutual agreement of the parties), 10 – at the end of training.

Employees at the following positions were dismissed:

3 captains, 4 chief assistants of captains, 9 second assistants of captain, 9 third assistants of captain,
 7 chief mechanics,
 10 second mechanics, 6 third mechanics, 3 electro mechanics, 47 AB sailors, 5 boatswains, 17 motorists, 3 turners, 4 cooks.

OBJECTIVES OF THE COMPANY'S ACTIVITIES

In order to achieve a faster growth of income, the following should be done:

1. To acquire ships with larger carrying capacity. The objective to renew the ship park has been gradually implemented since 2002. Since the establishment of the Company on 27 June 2001, when the main objective was merely to survive, it has been thought that it would be more efficient to work with newer ships with larger deadweight. By 31 December 2007 LJL sold 12 old and acquired 8 newer ships with the larger carrying capacity. While renewing its ship park, the Company has to have in mind another objective: to manage at least two ships of each type. On the market the demand for services of such minimum ship group is higher.

At present the ships with 24 000 – 26 000 DWT can be engaged to earn USD 18 000 – 24 000 per day. This amounts to the aggregated day tariffs of such ships as "Alka", "Algirdas" and "Kapitonas Serafinas". The maintenance expenses of such ship would amount to maintenance expenses of only two of the above-mentioned ships.

2. To stop using "Uglegorsk" type ship "Algirdas" (built in 1991 in Turkey, 4470 DWT), which earns lower income and has unreliable equipment. This objective will be reached by renewing the ship park. In 2007 the motor ship "Mindaugas" was sold, in 2008 it is planned to sell the motor ship "Kapitonas Serafinas", approaching repairs time in 2009 the motor ship "Algirdas" should be sold. Repair expenses for such ship are high because its construction quality is low.

In order to reduce the ships' maintenance expenses, repair expenses, which comprise a very large part of the maintenance expenses, have to be reduced.

Repair expenses can be minimised in the following ways:

1. Repairs of larger ships can be carried out in Asian countries, preferably China, where the prices are much lower than in Europe or America. The Company has entered into business relations with several Chinese ship repair companies.

2. To carry cargos on the way to repair base, thus reducing high costs of navigation with ballast without cargo.

In order to work on the more expensive transportation market, ships of larger than 20 000 t deadweight are required. These ships can be engaged for longer periods and more stable tariffs can be negotiated. In 2008 it is planned to acquire a ship with 24 200 DWT. It is hoped to arrange a successful charter for it.

Safe shipping and work without detentions in foreign ports - these are the objectives which, if achieved, ensure a good reputation of the Company and strengthen the image of the Republic of Lithuania as a maritime country in the world.

The Company continuously seeks to reach these objectives. LJL implemented the safety management system (SMS), which helps ensure:

1. shipping without accidents and breakdowns of equipment;
2. protection of environment though avoiding pollution by ships;
3. safety of employees, by eliminating risk factors leading to accidents, traumas and injuries;
4. safe technologies are employed for transporting cargos, which help to avoid damage or loss of transported cargos.

To make SMS more effective, these tasks should be implemented in 2008-2009:

- to review ships' documentation, which is examined during the ships' inspections;
- to formulate a procedure of preparing a ship for repairs, so that the registers are as accurate as possible, presenting the technical state of the ships' machinery and the scope of future repairs.

In order to increase the effectiveness of the SMS, the following measures are planned:

1. to send all sailors to paid trainings (UAB "Novikontas") about the International Safe Management Code;
2. to send all superintendants of the Technical Maintenance Division to trainings (UAB "Novikontas") about the International Safe Management Code;

3. to oblige all ship captains, chief assistants of captains and chief mechanics to revise by themselves the Instructions of safe management, the order No. 1-02 of the Director General of 2 January 2007 and to test their knowledge in the Safe Shipping Management Service.

4. to oblige the specialists of the Safe Shipping Management Service to organise a special testing of all LJL captains, chief assistants of captains and chief mechanics about the Company's and ships' safety management systems and to formulate the results of testing in a protocol.

The strategic plan of AB "Lithuanian Shipping Company" for 2008 was prepared when the rate of Euro was LTL 3,4528, the rate of US dollar - LTL 2,38. Unpredicted decline in the rate of the dollar and its future outlook have a negative effect on the Company's income (for ten months of 2007 approximately 55 % of the operating income was earned in US dollars). Quite low rate of US dollar may lead to certain changes in the Company's operations and necessity to adjust the strategic plan.

Although the shipping market is not easily predictable, in April 2008 the Company plans to acquire a ship with 24 200 DWT for USD 33,9 million by taking a bank loan of USD 23 million for 7 years.

The planned sales revenue of 15 ships is LTL 95,6 million, based on the agreements signed by the Shipping Management Division for separate ship types, assuming that the ships operate for the total of 5138 days, are repaired for 281 days, do not work for 50 days (navigation to the repairs base), and one day's equivalent of the time charter for all ship park is LTL 18 118 or EUR 5 247. It is planned that income in US dollars will amount to around 48 % of the total income, although in order to avoid the negative influence of the decline in the dollar rate on the Company's performance, where possible, the Company is planning to move to tariffs in Euro.

In 2008 it is planned to carry out the repairs of 10 ships (approximately 67 % of the ship park: "Kapitonas Stulpinas", "Alka", "Skalva", "Daina", "Staris", "Svilas", "Romuva", "Voruta", "Raguva" and newly acquired ship) within 281 days for the cost of LTL 17,4 million not including spare parts. The Company set out the procedure for writing off repair expenses in accordance with the requirements of item 34 of BAS 12, whereas class certification repairs and dock repairs are included into expenses within the period until the next planned repairs. Therefore, the strategic plan for 2008 provides for LTL 2,4 million repair expenses deferred in the previous years and LTL 16,4 million of current period repair expenses. It is planned to include LTL 3,4 million into deferred expenses for 2009 - 2010.

It is planned to purchase spare parts for LTL 6,0 million. Operating expenses of LTL 3,4 million are planned to for each ship to be spread evenly on a monthly basis.

The sailors' remuneration increased from 1 January 2008. The remuneration includes a salary (fixed part) and variable bonus, which depends on the sailor's qualifications and other job-related factors.

A disclosure form concerning the compliance with the Governance Code for AB „Lithuanian Shipping Company“, listed on the regulated market, is included into Annex No.1 of this report.

AB "Lietuvos jūrų laivininkystė"
Director General, member of the Board



Vytautas Vismantas

Disclosure form concerning the compliance with the Governance Code for Public Company "Lithuanian Shipping Company", 2007, listed on the regulated market

The public company „*Lithuanian Shipping Company*“, following Article 21 paragraph 3 of Law on Government Securities of the Republic of Lithuania and item 20.5 of Trading Rules of Vilnius Stock Exchange, discloses its compliance with Governance Code, approved by VSE for the companies listed on the regulated market, and its specific provisions.

PRINCIPLES/ RECOMMENDATIONS	YES/NO /NOT APPLICABLE	COMMENT
<p>Principle I: Basic Provisions</p> <p>The overriding objective of a company should be to operate in common interests of all the shareholders by optimizing over time shareholder value.</p>		
<p>1.1. A company should adopt and make public the company's development strategy and objectives by clearly declaring how the company intends to meet the interests of its shareholders and optimize shareholder value.</p>	<p>Yes</p>	<p>Financial reports are the key source of information about the company. Development strategy and objectives of the company are published and declared at the annual general shareholders' meeting following the end of the financial year.</p>
<p>1.2. All management bodies of a company should act in furtherance of the declared strategic objectives in view of the need to optimize shareholder value.</p>	<p>Yes</p>	<p>In other case, the implementation of the strategic objectives is impossible.</p>
<p>1.3. A company's supervisory and management bodies should act in close co-operation in order to attain maximum benefit for the company and its shareholders.</p>	<p>Yes</p>	<p>Manager is elected, revoked, as well as dismissed by the board of the company. Manager in his activities follows the Articles of Association of the company as well as the decisions of the bodies of the company – general shareholders' meeting, supervisory board, as well as board. The board discusses, approves, analyzes, assesses, and accepts. The supervisory board elects, supervises, presents offers to the board and the manager, as well as solves supervisory matters related to the activities of the management bodies of the company.</p>
<p>1.4. A company's supervisory and management bodies should ensure that the rights and interests of persons other than the company's shareholders (e.g. employees, creditors, suppliers, clients, local community), participating in or connected with the company's operation, are duly respected.</p>	<p>Yes</p>	
<p>Principle II: The corporate governance framework</p> <p>The corporate governance framework should ensure the strategic guidance of the company, the effective oversight of the company's management bodies, an appropriate balance and distribution of functions between the company's bodies, protection of the shareholders' interests.</p>		

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	The company complies with this recommendation. Management bodies of the company are the general shareholders' meeting, the supervisory board, the board, as well as the manager of the company.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	The supervisory board is a collegial body performing the supervision of the activities of the company. The board is a collegial management body of the company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the supervisory board and the board are formed in the company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body. ¹	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies. ²	Yes	Supervisory board consists of 5 members, as well as the board – 5 members.
2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	The supervisory board of the company is elected for the period of 4 years. The number of reelections of the member of the supervisory board is not limited. The members of the board are elected by the supervisory board for the period of four years. The number of reelections of the members of the board and the chairman of the board is not limited.

¹ Provisions of Principles III and IV are more applicable to those instances when the general shareholders' meeting elects the supervisory board, i.e. a body that is essentially formed to ensure oversight of the company's board and the chief executive officer and to represent the company's shareholders. However, in case the company does not form the supervisory board but rather the board, most of the recommendations set out in Principles III and IV become important and applicable to the board as well. Furthermore, it should be noted that certain recommendations, which are in their essence and nature applicable exclusively to the supervisory board, should not be applied to the board, as the competence and functions of these bodies according to the Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) are different. For instance, item 3.1 of the Code concerning oversight of the management bodies applies to the extent it concerns the oversight of the chief executive officer of the company, but not of the board itself; item 4.1 of the Code concerning recommendations to the management bodies applies to the extent it relates to the provision of recommendations to the company's chief executive officer; item 4.4 of the Code concerning independence of the collegial body elected by the general meeting from the company's management bodies is applied to the extent it concerns independence from the chief executive officer.

² Definitions 'executive director' and 'non-executive director' are used in cases when a company has only one collegial body.

<p>2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to depart from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.</p>	<p>Yes</p>	<p>Company complies with this recommendation by implementing the provisions thereof in practice – the chairman of the supervisory board of the company has not been the manager of the company.</p>
<p>Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting</p> <p>The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.³</p>		
<p>3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.</p>	<p>Yes</p>	
<p>3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7, should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.</p>	<p>Yes</p>	
<p>3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.</p>	<p>Yes</p>	

³ Attention should be drawn to the fact that in the situation where the collegial body elected by the general shareholders' meeting is the board, it is natural that being a management body it should ensure oversight not of all management bodies of the company, but only of the single-person body of management, i.e. the company's chief executive officer. This note shall apply in respect of item 3.1 as well.

<p>3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.</p>	Yes	
<p>3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.</p>	Yes	
<p>3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient⁴ number of independent⁵ members.</p>	Yes	

⁴ 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 corporate governance.

⁵ 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.

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 dependant 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 key criteria for identifying whether a member of the collegial body can be considered to be independent are the following:

- 1) He/she 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/she 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/she 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/she 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/she 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, counseling and consulting services), major client or organization receiving significant payments from the company or its group;
- 6) He/she is not and has not been, during the last three years, partner or employee of the

Yes

The portfolio of the company is owned by the State, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority of the board.

<p>current or former external audit company of the company or associated company;</p> <p>7) He/she 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/she has not been in the position of a member of the collegial body for over than 12 years;</p> <p>9) He/she 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 items 1 to 8. Close relative is considered to be a spouse (common-law spouse), children and parents.</p> <p>3.8. The determination of what constitutes 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 special personal or company-related circumstances.</p>	<p>Yes</p>	
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<p>3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.</p>	Yes	
<p>3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.</p>	Yes	<p>The portfolio of the company is owned by the State, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority of the board.</p>
<p>3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.⁶ The general shareholders' meeting should approve the amount of such remuneration.</p>	Yes	<p>The general shareholders' meeting of the company has not approved such remuneration yet.</p>
<p>Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting</p> <p>The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring⁷ of the company's management bodies and protection of interests of all the company's shareholders.</p>		
<p>4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.⁸</p>	Yes	

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 (tantiems) 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 (tantiems) 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.

⁸ See Footnote 3. In the event the collegial body elected by the general shareholders' meeting is the board, it should provide recommendations to the company's single-person body of management, i.e. the company's chief executive officer.

<p>4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).</p>	Yes	<p>According to the data, available to the company, all members of the supervisory board and the board act in good faith in respect of the company, follow the interests of the company rather than their own interests or those of the third persons, trying to keep their independence in decision-making.</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 half⁹ of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.</p>	Yes	<p>The portfolio of the company is owned by the State, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority (4/5) of the board. Other data is not available to the company.</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>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>	Maybe	<p>This is provided for in the Articles of Association of the company.</p>

⁹ 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 corporate governance.

<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 bodies¹⁰. 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.</p>	Yes	
<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 committees. 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>	Yes	<p>The board of the company elects and revokes as well as dismisses the director general – a single-person management body of the company, moreover, it determines his remuneration, approves his job description, promotes him, as well as imposes penalties. The board discusses and approves the management structure of the company and job descriptions of the employees, as well as job descriptions for positions, which are filled in through announced competitive vacancies. The director general organizes the everyday activities of the company, issues procures and powers of attorney, employs and dismisses employees, enters into and terminates employment contracts with them, promotes and imposes penalties on them. He is also responsible for the organization of the activities of the company as well as express implementation thereof. The company operates in accordance with the Articles of Association of the company as well as the work regulations of the supervisory board and the board.</p>

¹⁰ In the event the collegial body elected by the general shareholders' meeting is the board, the recommendation concerning its independence from the company's management bodies applies to the extent it relates to the independence from the company's chief executive officer.

<p>4.8. 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 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>	Not applicable	Committees are not formed in the company. Such functions are implemented by the collegial body.
<p>4.9. Committees established by the collegial body should normally be composed 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.</p>	Not applicable	Committees are not formed in the company. So far there have not been any requirements concerning the establishment of the committees in the Law on Companies.
<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 corporate governance 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>	Not applicable	See items 4.8 and 4.9.
<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>	Not applicable	See items 4.8 and 4.9.

<p>4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following:</p> <ol style="list-style-type: none"> 1) Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; 2) Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; 3) Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; 4) Properly consider issues related to succession planning; 5) Review the policy of the management bodies for selection and appointment of senior management. <p>4.12.2. 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>	Not applicable	See items 4.8 and 4.9.
<p>4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following:</p> <ol style="list-style-type: none"> 1) Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; 2) Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the 	Not applicable	Remuneration as well as other payouts are paid to the employees in the company following the Collective Agreement as of March 30, 2004, Regulation on the wages system for the onshore personnel of the public company "Lithuanian Shipping Company", declaration of the remuneration procedure of the Director General, directors, and accountant-general, which are approved by the board.

<p>affiliated companies;</p> <p>3) Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies;</p> <p>4) 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>5) Make general recommendations to the executive directors and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies.</p> <p>4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should:</p> <p>1) Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body;</p> <p>2) Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting;</p> <p>3) Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has.</p> <p>4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.</p>		
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<p>4.14. Audit Committee.</p> <p>4.14.1. Key functions of the audit committee should be the following:</p> <ol style="list-style-type: none"> 1) Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); 2) At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; 3) Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; 4) Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; 5) Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy establishing types of non-audit services that are (a) excluded, (b) permissible only after review by the committee, and (c) permissible without referral to the committee; 6) Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter. <p>4.14.2. . All members of the committee should be furnished with complete information on particulars of accounting, financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centres and/or activities carried out through special purpose vehicles (organizations) and justification of</p>	<p>Not applicable</p>	<p>See items 4.8 and 4.9.</p> <p>The procedure for the selection of the audit firm is approved in the company.</p>
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<p>such operations.</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. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act 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/No	

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

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>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>5.2. It is recommended that meetings of the company's collegial bodies should be carried out 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 corporate governance 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 month¹¹.</p>	<p>Yes</p>	<p>The company discusses all the matters, which are in the competence of the collegial bodies. This is provided in the work regulation of the collegial bodies.</p>
<p>5.3. Members of a collegial body should be notified about the meeting being convened 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>	

¹¹ 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.

<p>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-ordinating dates of the meetings, their agendas and resolving other issues of corporate governance. 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.</p>	Yes	
<p>Principle VI: The equitable treatment of shareholders and shareholder rights</p> <p>The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.</p>		
<p>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.</p>	Yes	<p>The authorized capital of the company amounts to 200 901 296 Lit. Authorized capital of the company is divided into 200 901 296 ordinary registered shares with the par value of 1 Lit. Shares of the company are of one class – ordinary registered.</p>
<p>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.</p>	Yes	<p>This is provided in both the Law on Companies as well as the Articles of Association of the company. Only the general shareholders' meeting has a prerogative right to establish the class, number, par value, and minimum issue price of the shares, issued by the company.</p>
<p>6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.¹² All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are discussed.</p>	Yes	<p>It is provided in the Articles of Association of the company that the board makes the decisions regarding the investment, transfer, lease, mortgage, and hypothec of the capital asset with the book value higher than 1/20 of the authorized capital of the company. This provision is not against the Law on Companies and it has been adopted seeking not to encumber the activities of the company, the number of shareholders of which, according to the last data of the company, is 1848.</p>
<p>6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.</p>	Yes	

¹² 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.

<p>6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance¹³. 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 English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.</p>	Yes	<p>The procedure of calling the general shareholders' meeting of the company, decision-making, as well as its organization is established in the Law on Companies of the Republic of Lithuania as well as the Articles of Association of the company, and it is followed by the company.</p> <p>Substantial events, as well as the agenda, resolutions and draft resolutions of the shareholders' meeting, are published on the website of Vilnius Stock Exchange. The company does not have a possibility to translate all the documents into foreign language, and they think that the public interest might be violated in this way. The company prefers the content to the form. Under the necessity of distributing the information in other than the state language, we offer to do so in a centralized way, moreover, maybe by even by unifying the form of presentation of information.</p>
<p>6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.</p>	Yes	<p>This is provided by the Articles of Association of the company.</p>
<p>6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.</p>	Yes /Not applicable	<p>Company is planning to use modern technologies for voting at the shareholders' meeting without increasing the expenses and (or) costs significantly, which might violate the interests of the same shareholders. At present there is no need to implement that.</p>
<p>Principle VII: The avoidance of conflicts of interest and their disclosure</p> <p>The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.</p>		
<p>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.</p>	Yes	<p>The members of the supervisory and management bodies of the company are aware of that.</p>

¹³ The documents referred to above should be placed on the company's website in advance with due regard to a 10-day period before the general shareholders' meeting, determined in paragraph 7 of Article 26 of the Law on Companies of the Republic of Lithuania (Official Gazette, 2003, No 123-5574).

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 corporate 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 corporate 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 corporate 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 corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.	Yes	The members of the supervisory and management bodies of the company have not had any transactions with the company. They are aware of these requirements.
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	
<p>Principle VIII: Company's remuneration policy</p> <p>Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.</p>		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	Yes /No	Now the company declares the average number of employees as well as the monthly salaries following the procedure, established by the Lithuanian Securities Commission, in the prospectus of the year of the company – report for the year ended. This information about the company is available at the company, Lithuanian Securities Commission (Konstitucijos pr. 23, Vilnius), Listing Department of Vilnius Stock Exchange (Konstitucijos pr. 7, 15 th floor, Vilnius), as well as websites of the last-mentioned companies, where the information is public and available for everyone.
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.	No	Not prepared, as it is not provided for by either the legal acts or the Articles of Association of the company. As compared with the last financial year, no fundamental changes have taken place in the remuneration policy.

<p>8.3. Remuneration statement should leastwise include the following information:</p> <ol style="list-style-type: none"> 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) Sufficient information on the linkage between the remuneration and performance; 4) The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; 5) A description of the main characteristics of supplementary pension or early retirement schemes for directors, but commercial information should not be presented in remuneration reports. 	No	Annual bonus system is not available, such bonuses are not awarded, extra pensions and early retirement plan are not available either, therefore, the main characteristics thereof are not described. Payouts are paid to the employees following the documents mentioned above and the same has been indicated in the reports on the activities.
<p>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.</p>	No	So far the company has not practiced such policy, as there is no and there has not been any legal grounds and (or) legal base for that.
<p>8.5. 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>		See an explanation to item 4.13.
<p>8.6. 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>		So far it has not taken place, as this is not covered by the laws and other legal acts.
<p>8.7. 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 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year.</p> <p>8.7.1. 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; 	Not applicable	Remuneration statement is not formed and there are no legal grounds for that. Also see the explanation to item 4.13.

<p>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;</p> <p>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;</p> <p>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;</p> <p>6) Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points.</p> <p>8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed:</p> <p>1) The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application;</p> <p>2) The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year;</p> <p>3) The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights;</p> <p>4) All changes in the terms and conditions of existing share options occurring during the financial year.</p> <p>8.7.3. The following supplementary pension schemes-related information should be disclosed:</p> <p>1) When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year;</p> <p>2) When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year.</p> <p>8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements 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>8.8. 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>This is not practiced by the company.</p>

<p>8.9. 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>	Yes/Not applicable	
<p>8.10. 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>	Not applicable	The Articles of Association of the company do not cover that.
<p>8.11. Provisions of Articles 8.8 and 8.9 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>	Yes/Not applicable	The Articles of Association of the company do not cover that.
<p>8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8, 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>		Introduction to the draft decisions is provided for both in the Law on Companies as well as the Articles of Association of the company.
<p>Principle IX: The role of stakeholders in corporate governance</p> <p>The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.</p>		
<p>9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.</p>	Yes	For the noncompliance with them, respective penalties are provided for in the laws. The company seeks to avoid the conflict of interests.

<p>9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company; consulting the employees on corporate governance and other important issues; employee participation in the company's share capital; creditor involvement in governance in the context of the company's insolvency, etc.</p>	<p>Yes</p>	<p>The company operates as provided for in the Law on Companies and the Articles of Association of the company.</p>
<p>9.3. Where stakeholders participate in the corporate governance process, they should have access to relevant information.</p>	<p>Yes</p>	<p>In other case, there is no participation in the management process of the company.</p>

Principle X: Information disclosure and transparency

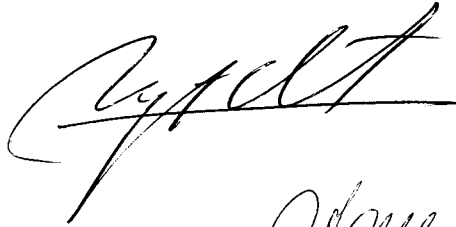
The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.

<p>10.1. The company should disclose information on:</p> <ol style="list-style-type: none"> 1) The financial and operating results of the company; 2) Company objectives; 3) Persons holding by the right of ownership or in control of a block of shares in the company; 4) Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; 5) Material 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) Material issues regarding employees and other stakeholders; 8) Governance 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>	<p>Yes</p>	<p>This has been disclosed so far in the reports on activities of the company, and since 2007 – in the annual report. This has been disclosed in the prospectus-reports of the company (annual, six months) following the procedure and terms, established by the Lithuanian Securities Commission and Vilnius Stock Exchange. Information on the compliance with individual items of this list is disclosed following the procedure, established by the laws as well as other standard acts, and the procedure set by as well as practice formed by the company. Public interest of the shareholders is governed by the Law on Companies, other standard acts, which must be observed by the company and which are actually observed.</p>
<p>10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure.</p>	<p>Yes/Not applicable</p>	<p>There is no group.</p>
<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 item 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 stakeholders, 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 item 7 of Recommendation 10.1 is under disclosure.</p>		<p>The existence of these relations is governed by the legal acts, the Articles of Association of the company, as well as assumed contractual undertakings. They are assumed seeking to avoid the conflict of interests and providing 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>	Yes	<p>However, first of all, the interests of the shareholders and the main shareholder shall not be violated or discriminated against the interests of the future investor.</p>
<p>10.6. Channels for disseminating information should provide for fair, timely and cost-efficient 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>	Yes	<p>The company is planning to publish the information on the website of the company.</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>	Yes/No	<p>We think that these means protect the rights of the shareholders less than the placement of information on the special websites, which are specially intended and meet their expectations, such as the websites of Vilnius Stock Exchange, Lithuanian Securities Commission, or similar. If the company duplicates the same information, it costs extra resources.</p>
<p>Principle XI: The selection of the company's auditor</p> <p>The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.</p>		
<p>11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.</p>	Yes/No	<p>An independent audit firm carries out the audit of the annual financial statements of the company and up to present used to carry out the audit of the report on activities in accordance with the provisions of the Law on Companies. Since 2007, an independent audit firm reviews if the information provided in the annual report conforms to the data presented in the financial statements, as well as carries out the audit of the financial statements in accordance with the provisions of the laws. Interim financial statements are not audited by the audit company.</p>
<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.</p>	Yes/Not applicable	<p>A candidate audit firm is selected following the terms, approved by the board of the company for the selection of the auditor. The board presents the winner of the tender to the general shareholders' meeting for the election as the auditor of the company. The supervisory board does not have a right to propose a candidate according to its working regulations.</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/Not applicable	Following the resolution of the Lithuanian Securities Commission No. 9 as of 14/04/2005 "Regarding the establishment of further requirements for the audit enterprises and auditors", the candidate audit firm and auditor prior to presentation to the general shareholders' meeting are submitted to the Lithuanian Securities Commission's approval following the set order, respective appendixes are filled in, as well as respective information is presented in them.
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Director General



Vytautas Vismantas

Financial Director



Sigutė Noreikaitė