# AB KLAIPĖDOS JŪRŲ KROVINIŲ KOMPANIJA

CONSOLIDATED AND PARENT COMPANY'S FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31 DECEMBER 2006
PREPARED ACCORDING TO
INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EU
PRESENTED TOGETHER WITH INDEPENDENT AUDITORS' REPORT

## Independent auditors' report to the shareholders of AB Klaipėdos Jūrų Krovinių Kompanija

Report on the Financial Statements

We have audited the accompanying 2006 financial statements of AB Klaipėdos Jūrų Krovinių Kompanija, a joint stock company registered in the Republic of Lithuania (the "Company"), and the consolidated financial statements of AB Klaipėdos Jūrų Krovinių Kompanija and subsidiary (the "Group"), which comprise the balance sheets as of 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Management's Responsibility for the Financial Statements*

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and 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 the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Basis for Qualifications*

a) International Financial Reporting Standards require presentation of property, plant and equipment on a basis of historical cost or revalued amounts (IAS 16) or deemed cost (fair value or revaluation) (IFRS 1). The Company and the Group have not applied any of those valuation principles. In accordance with resolutions of the Lithuanian Government, the Company's and the Group's property, plant and equipment, also including investment property, have been revalued four times prior to 1 January 1996 (Note 6). Due to many movements and lack of separate registrations of the effect of indexations per asset, it is impossible to quantify the effect of indexations on the remaining balances of the property, plant and equipment, including investment property, as of 31 December 2006 and 2005. Accordingly, we are unable to express an opinion on the carrying amounts of the Company's and the Group's property, plant and equipment, including investment property, in accordance with International Financial Reporting Standards.

b) In 2006 and 2005 the Company and the Group carried out a large number of transactions with related parties, i.e. the Group shareholders and the companies controlled by them. There were no practical audit procedures that we could apply to enable us to obtain reasonable assurance regarding the value of the related party transactions and assess a possible effect of the transactions on the Company's and the Group's financial position and the financial results of its operations had the Company and the Group carried them with non-related parties.

c) We have not audited the financial statements of the subsidiary UAB Krovinių Terminalas, which are consolidated into the Group financial statements. Accordingly, we have not obtained sufficient audit evidence with regards to the subsidiary's assets in the amount of LTL 130,866 thousand and liabilities in the amount of LTL 133,558 thousand as of 31 December 2006, revenues in the amount of LTL 35,645 thousand and the net profit for 2006 of LTL 3,093 thousand, all included within the respective captions of the consolidated financial statements of the Group.

d) In 2005 the Company's management changed the estimate of the useful life of the group of machinery (in particular gantry cranes) by reducing their useful lives. We believe that the useful life was reduced too much and as a consequence the depreciation charge for 2005 was overstated by LTL 6,500 thousand and understated by LTL 1,757 thousand for 2006. Accordingly if the proper depreciation charge was accounted for, the shareholders' equity as of 31 December 2005 and the net result for 2005 would increase by approximately LTL 6,500 thousand and the net result for 2006 would decrease by LTL 1,757 thousand.

e) The Company has recalculated income tax and related deferred tax for the previous periods and accounted for this correction retrospectively (Note 4). However, according to IFRS the previous periods profit tax corrections should be accounted for in the current year. If proper accounting was applied the result for the year 2006 would increase by LTL 1,605 thousand and the result for 2005 would decrease by LTL 130 thousand and shareholders equity as of 31 december 2005 would increase by LTL 1,605 thousand.

*Qualified Opinion*

In our opinion, except for the effect of such adjustments, if any, as might have been determined had we been able to perform the procedures described in section *Basis for Qualifications* paragraphs a), b) and c) above, and except for the effect on the financial statements of the matters discussed in paragraph d) and e) of the same section above, the financial statements referred to above present fairly, in all material respects, the financial position of the Group and the Company as of 31 December 2006 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Furthermore, we have reviewed the accompanying Consolidated Annual Report for the year ended 31 December 2006 set out on pages 4-10 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 000514

| | |
|---|---|
| Jonas Akelis | Asta Štreimikienė |
| Auditor's licence | Auditor's licence |
| No. 000003 | No. 000382 |

The audit was completed on 22 March 2007.

## UAB Klaipėdos Jūrų Krovinių Kompanija"

## 2006 Consolidated Annual Report

The company's annual report is prepared in accordance with the requirements of Article 24 of the Financial Reporting Act of the Republic of Lithuania, Article 9(1) of the Company Consolidated Financial Reporting Act of the Republic of Lithuania, Article 21 of the Securities Act of the Republic of Lithuania, the order set forth by Article 34 of the Joint-Stock Companies Act of the Republic of Lithuania. Bylaws of AB Klaipėdos Jūrų Krovinių Kompanija do not contain any additional requirements that should be presented in the company's annual report. Guided by Part 3 of Article 21 of the Security Papers Act of the Republic of Lithuania and Paragraph 20.5 of Rules of Trade of AB "Vilniaus vertybinių popierių birža" ("Vilnius Stock Exchange"), the company shows how it follows the Code of Management of companies the securities of which are traded on the regulated market confirmed by the VVPB (further – the Management Code) and its concrete regulations (Attachment 1).

Attachment 1 – the compliance form for the companies the securities of which are traded on the regulated market – is an integrate part of the present annual report.

### 1. Objective description of the state of the group of companies, review of activity and development, basic types of risks and uncertainties

The activity of AB Klaipėdos Jūrų Krovinių Kompanija (patronizing company) is port loading works, storing of goods, services of port tractors. On the market the company considers other cargo-handling companies working in the Klaipėda State Sea Port and cargo-handling companies working in the sea ports of neighbouring foreign countries to be its competitors. Within 2006 the company reloaded 8.42 million tons of cargoes. This is 1.9 per cent less than in 2005, when in five terminals (liquid and bulk fertilizers, corn, of cargo and sea ferry lines) a record amount of 8.58 million tons of different cargoes was reloaded. Since the container terminal was sold in the end of 2005, its values were not included into the comparative statistics in 2005. Load of the Northern terminals last year decreased, while that of the Sea Ferry Terminal rose by almost a quarter (703 thousand t) to reach 3.6 million tons. The number of passengers travelling by ferries rose by one fifth from 163,524 to 188,328, there were more haulers, trailers and other ro-ro vehicles transported, the number of delivered paper rolls has also grown. Irrespective of the fact that in 2006 the company worked profitably, the activity processes have been further optimized, the salary system has been revised. Nevertheless, last year possibilities of attracting fertilizers from Belarus were not used fully enough, the load of corn terminal was too low, frozen products turnover was rather slow. The company's turnover in 2006 came up to more than one third of total load of the port and has a potential to grow.

One of the possible types of the company's risks due to which the company's profit may drop is intention of the management of the Klaipėda State Sea Port to review the conditions of land rent. Another risk of the activity may be connected with growing tariffs for services of AB Lietuvos Geležinkeliai ("Lithuanian Railways"), which reduces attractiveness of the Port of Klaipėda. The company is planning to develop and by 2010 it is going to increase the area of covered storehouses at the sea ferry terminal and the area of Vitė in Klaipėda, to construct specialized fruit and liquid products terminals on the Smeltė peninsula.

AB Klaipėdos Jūrų Krovinių Kompanija owns 100 per cent of all the shares of AB Krovinių Terminalas. In 2006 AB Krovinių Terminalas completed construction of Oil and Chemical Products Terminal and in March started to operate it. Sales of AB Krovinių Terminalas consist of income from oil, light petroleum products, chemicals and oil chemical products loading services, vessel moorage services and income from other services accompanying cargo-handling activities. The terminal works stably. Operating risk is possible due to which the company's profit may decrease as well as drop of demand for oil products on the world market.

Other companies listed in the explanatory notes to the financial reporting part of nominal capital of which is owned by AB Klaipėdos Jūrų Krovinių Kompanija are busy in forwarding services, participate in the marketing projects. In order to satisfy the demand on the market of cargo transportation, the group of companies is ready to offer the full range of services comprising "door-to-door" cargo transportation.

### 2. Analysis of financial and non-financial results of the activity of the group of companies, information connected with the issues of environment and personnel.

In 2006 the integrated activity of the group of companies included loading of cargoes, storage of cargoes in the Port of Klaipėda, cargo forwarding, vessel towage and other services connected with loading and transportation of cargoes. In 2006 the sale income of the group of companies amounted to 150,215,294 LTL. The profit of the group of companies for the year before taxation amounted to 7,781,011 LTL.

**2. Analysis of financial and non-financial results of the activity of the group of companies, information connected with the issues of environment and personnel (cont'd)**

The main financial and economic values of the group of companies in 2006 (in thousands of litas, unless specified otherwise):

| Period | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales and services | 150,215 | 127,578 | 98,317 |
| Net profit | 6,231 | 9,189 | (305) |
| Sales and services profitability, per cent | 4.15% | 7.20% | - |

Profit structure of the group of companies (in thousands of litas, unless specified otherwise):

| Company | 2006 | Structure, % |
|---|---|---|
| AB Klaipėdos Jūrų Krovinių Kompanija | 2,641 | 42% |
| UAB Krovinių Terminalas | 3,093 | 50% |
| UAB Euroga | 472 | 8% |
| UAB Klasco Ekspedicija | (112) | -2% |
| UAB Krantas Forwarding | 16 | 0% |
| Baltic Transportation Forwarding Company | 121 | 2% |
| Total: | 6,231 | 100% |

Basic values of financial and economic activity of AB Klaipėdos Jūrų Krovinių Kompanija in 2006 (in thousands of litas, unless specified otherwise):

| Period | 2006 | 2005 | 2004 |
|---|---|---|---|
| Sales and services | 114,570 | 127,423 | 94,209 |
| Net profit | 2,641 | 13,551 | 871 |
| Sales and services profitability | 2.31% | 10.63% | 0.92% |

In 2006 profitability of both the group of companies and AB Klaipėdos Jūrų Krovinių Kompanija as compared with results of 2005 dropped significantly due to transfer of container business and implementation of the transfer deal in 2005.

Within the reporting period the number of employees of AB Klaipėdos Jūrų Krovinių Kompanija has been dropping. As of December 31, 2006, AB Klaipėdos Jūrų Krovinių Kompanija had 794 employees. AB Krovinių Terminalas in 2006 formed a working team that as of December 31, 2006, included 60 employees.

**3. Links and additional explanations about the data presented in the consolidated financial reporting**

There are no additional explanations.

**4. Important events that happened since the end of the last financial year**

4.1. On February 28, 2006, AB Klaipėdos Jūrų Krovinių Kompanija informed that the company had acquired 49 per cent of the shares of its subsidiary company AB Krovinių Terminalas.

4.2. On April 07, 2006, AB Klaipėdos Jūrų Krovinių Kompanija informed that the company for the first quarter of 2006 reloaded 2.011 million tons of cargoes.

4.3. On July 27, 2006, AB Klaipėdos Jūrų Krovinių Kompanija informed that the company's non-audited financial result for the first half of 2006 was 2.1 million LTL (0.61 million EUR) of profit before taxes.

4.4. On October 31, 2006, AB Klaipėdos Jūrų Krovinių Kompanija informed that the company for the nine months of 2006 reloaded 6.01 million tons of cargoes and earned 2.062 million LTL of non-audited profit before taxes.

**5. Plans and anticipations for the activity of the group of companies**

In 2007 the goal shall be to increase the sales of the group of companies (for about 5 per cent) by attracting additional cargo flows to AB Klaipėdos Jūrų Krovinių Kompanija, the salary system is going to be further improved to be connected with final work results and effectiveness of work, the loading equipment fleet is going to be brought up to date.

6. **Information about Group's research and development activities**

Stably rising ro-ro transportation flow at the sea ferry terminal of AB Klaipėdos Jūrų Krovinių Kompanija more and more often has to face the lack of space on the territory of Smeltė peninsula. A considerable place is occupied by the sea railway ferry equipment that has lost its importance, green spaces and out-of date access roads. The appearance of the territory is planned to be changed creating area for the cargo zone on the side of Malkų harbour. The idea to restructure the sea ferry terminal developing not only ro-ro but other activity as well was brought about by the needs of Lithuanian industry and trade, development of transportation infrastructure of the Port of Klaipėda in the southern part of the port and the state decision to equip a specialized passenger and cargo terminal in 2007 – 2009. Together with preparing new place for sanitary equipment on the territory of AB Klaipėdos Jūrų Krovinių Kompanija possibilities were analyzed for new types of cargoes to be handled on the Smeltė peninsula. The southern part of the port that in several years shall be connected by a by-road with the highway Klaipėda - Vilnius and Palanga – Šilutė, is one of the most promising parts of the port from the point of view of logistics. Therefore it is planned that after beginning of construction of paper storehouse and storehouses for other general cargoes delivered by ferries AB Klaipėdos Jūrų Krovinių Kompanija shall start a construction marathon on the Smeltė peninsula to last for several years and shall fill the niche of terminals that are lacking in the port of Klaipėda.

7. **The number and nominal value of shares of patronizing company belonging to the company itself, its subsidiary companies or persons acting in their own name but under its instruction**

AB Klaipėdos Jūrų Krovinių Kompanija has not acquired its shares, its subsidiary company has not acquired its shares, neither has any other person that would act in its own name but under instruction of the patronizing company or its subsidiary company acquired shares of AB Klaipėdos Jūrų Krovinių Kompanija.

8. **If the group of companies uses financial means and if this is important in evaluation of the property, obligations, financial status and results of activity of the group of companies, the goals of financial risk management, the used means of insurance of the basic groups of planned deals for which insurance accounting is applicable and the scope of price risk, credit risk, liquidity risk and monetary flows risk are described**

9. **Information about the planned branches and representation offices of the company.**

9.1. Information about branches of AB Klaipėdos Jūrų Krovinių Kompanija

| ID code | Name | Address | Basic activity code | Last year's income, litas | Number of employees |
|---|---|---|---|---|---|
| 141908570 | Branch "Klasco Servisas" | Naujoji Uosto St., 23, 92245, Klaipėda | 930110 | 514,200 | 214 |
| 300076093 | Branch "Klasco Towage Assistance" | | - | 7,095,608 | 36 |

9.2. Information about representation offices of AB Klaipėdos Jūrų Krovinių Kompanija

| Representation offices | Address | Main activity | Number of employees |
|---|---|---|---|
| In Belarus | Skoriny 58, Bldg. 9-17, Minsk | Search for clients and cargoes | 1 |
| In Kazakhstan | Ablay Chana 58A, 480004, Alma Ata | Search for clients and cargoes | 1 |

General Manager V. Greičiūnas

**Attachment 1 to the annual report of AB Klaipėdos Jūrų Krovinių Kompanija for 2006**

**Company's following Management Code for the companies stocks of which are traded on the regulated market report form**

AB Klaipėdos Jūrų Krovinių Kompanija (further – the Company"), guided by part 3 of Article 21 of the LR Security Papers Act and Paragraph 20.5 of trade rules of AB "Vilniaus vertybinių popierių birža" (Vilnius Stock Exchange, further – VVPB), reports how the Company follows the Management Code for the companies stocks of which are traded on the regulated market confirmed by VVPB (further – the Management Code) and its concrete regulations.

The company presents reports on following the Management Code in accordance with each principle specified in the Management Code and recommendations of such principle. A report are presented as confirmations that mean that the Company follows or does not follow concrete recommendations of the Management Code, or as partial confirmations that mean that the Company partially follows or does not follow concrete recommendations of the Management Code.

**Principle I: Basic statements.**
**The basic goal of the company should be satisfaction of all the shareholders' interests ensuring constant rise of value of the shareholders' property.**

The Company confirms that is follows the requirements of Principle I of the Management Code. The Company follows recommendations of paragraph 1.1. of the Management Code for the most part by presenting and constantly renewing this kind of information on the Company's internet site http://www.klasco.lt/lt/news and in VVPB reports and regular reports to the news agency BNS, reports in the newspapers, press conferences, TV programs.

**Principle II: A company's management system should ensure strategic management of the company, effective supervision of the company's management bodies, proper balance and distribution of functions between the company's bodies, protection of shareholders' interests.**

The Company confirms that it follows the requirements of principle II of the Management Code for the most part. The company has a collegial management body – the Management Board, and a sole management body is the head of the Company – the general director. The collegial supervisory body – the Board of Supervisors – is not formed. Supervision of the Company's management and reporting and control of the head is ensured by the management's analyzing and evaluating the materials presented by the head, as specified in the Company's bylaws, on all the issues of the Company's activity. Thus, the Company's management bodies constantly ensure the strategic management of the Company and make sure the head of the Company and its administration implement the Company's plans.
The Company does not follow recommendations of Paragraph 2.3. of the present Management Code – it has only one collegial body – the Management Board, since the Company's management at preset effectively supervises of the functions performed by the head.
The Company's Management Board consists of six members, and this is enough, because in the Company's practice there have been no cases when a separate group of people dominated in the Management Board; decisions in most cases are made by the Management Board unanimously.
The Company follows recommendation of Paragraph 2.7., because the chairman of its Management Board is not and has never been the head of the Company.
As for the shareholders known and existing as of December 31, 2006, when one company holds 92.76 (ninety two and seventy six hundredths) of the Company's shares and votes, one may state that the Company follows requirements of principle II and ensures interests of all the shareholders.

**Principle III: Order of formation of the collegial body elected by the general shareholders' meeting.**
**The order of formation of the collegial body elected by the general shareholders' meeting should ensure representation of interests of minor shareholders of a company, responsibility of this body to the shareholders and objective supervision of a company's activity and its management bodies.**

The Company does not follow this principle of the Management Code for the most part, since the shareholder controlling the Company, in accordance with the number of shares it owns, may in its discretion and in order to ensure its interests without any limitations offer to the meeting of shareholders to withdraw the collegial body elected by the meeting of the Company's shareholders or its single members.
The Company collects and reports all the information about members of the collegial body, their professional education, qualification, interest conflicts in order set forth by paragraph 3.2 of recommendations of this principle in openly published regular reports of the Company. Members of the management Board regularly participate in different educational courses and seminars where they are informed about basic changes of legal enactments regulating the company's activity, besides, business travel reports are presented in accordance with the internal order.
The Company does not follow recommendations of Paragraph 3.6 of the present Management Code, since none of the members of the Management Board may be considered an independent member in accordance with requirements of Paragraph 3.7. Independence of the members of the Company's collegial body elected by the Company's general meeting of shareholders is evaluated in accordance with other elected or appointed position the member of the collegial body actually holds in the connected companies.
The Company follows recommendations of Paragraph 3.11 – members of the Management Board get salary from the Company's funds and the general meeting of shareholders confirms the amount of such salary.

**Principle IV: Duties and responsibility of the collegial body elected by the general meeting of shareholders.**
**A company's management system should ensure that the collegial body elected by the general meeting of shareholders function properly and effectively, and the rights granted to it should ensure effective supervision of a company's management bodies and protection of interests of all the company's shareholders.**

The Company confirms that for the most part it follows recommendations of principle IV of the Management Code.
The Management Board once quarterly listens to reports of the head and the chief accountant, analyzes their activity and evaluates its effectiveness, in case of necessity it gives them recommendations. The Management Board analyzes, evaluates the project of the Company's annual financial report and the project of profit (loss) distribution and presents them to the general meeting of shareholders. In accordance with the Management Board's working regulations, the Management Board may temporarily sustain implementation of decisions of the administration if they could be detrimental to the interests of the Company's shareholders and call for extraordinary meeting of shareholders to solve the disagreement.
It is believed that there are no reasons to believe that members of the Company's Management Board act in contradiction to the Company's interests. The working regulations of the Management Board state that the Management Board, its members have no right to make any decisions that contradict the Company's goals, which obviously exceed normal production and economic risk, are obviously unprofitable or economically useless. Members of the Company's Management Board participated in the sessions of the Management Board, and each of the members spent enough time to perform his duties as a member of the Management Board.
The Company does not follow recommendations presupposed by Paragraphs 4.7 – 4.14, although one may state that the Management Board performing its functions partially performs functions of the distribution committee, the salary committee and the audit committee specified in the recommendations. The Company's Management Board chooses the candidacy of the head of the Company – the general director, other candidacies of the management and offers the chosen candidacies to the head of the Company, constantly evaluates their experience, professional abilities and implementation of strategic goals of the Company, listens to their reports. The Company's Management Board chooses the candidacy of an auditor and presents offers to the general meeting of shareholders to confirm the auditor's candidacy chosen by the management Board.

**Principle V: Order of work of a company's collegial bodies.**
**The order work of collegial and management bodies set forth in a company should ensure effective work and (unreadable) of such bodies and encourage active cooperation of a company's bodies.**

The Company confirms that for the most part it follows recommendations presupposed by paragraphs of the present principle of the Management Code. Sessions of the Company's management body – the Management Board – are held in accordance with a schedule confirmed in advance and the planned agendas. The issues planned to be considered at the sessions of the Management Board, as well as decision projects, are prepared and presented by the head of the Company, members of the Management Board or special groups formed in accordance with decisions of the Management Board that may also include specialists who are not the Company's employees. Each member of the management body may familiarize himself with the material of a session before the day of the session. Informing about the sessions the materials to be considered (handout of reports, projects of decisions, etc.) are presented in advance. Usually agenda of an announced session is not changed, unless otherwise decided during the session provided that all the members of the Company's Management Board participate there, and there are enough materials presented at the session to make a decision on an issue that has not been announced in the agenda.
The Company does not follow recommendations of paragraph 5.4., since only Management Board is formed there.

**VI. Impartial interpretation of shareholders and rights of shareholders**
**A company's management system should ensure impartial interpretation of all the shareholders, including minor ones and foreigners. A company's management system should protect rights of the shareholders.**

The Company confirms that for the most part it follows recommendations of this principle of the Management Code. The Company's capital is constituted by ordinary registered shares that grant to their owners equal personal property and non-property rights.
The Company, concluding all the important deals, property writing off, liquidations, etc. seeks to get approval of shareholders and uses the following practice – each time meeting of shareholders confirms the most important decisions made by the Management Board for the year: those regarding purchase and sale, mortgage of property, support, declaration of debts irrecoverable.
The Company from 2007 plans to publish projects of decisions of announced meeting of shareholders on the Company's internet site in the order regulated by the law.
The place, date and time of the Company's meetings is chosen the way it could ensure all the shareholders' possibilities to participate actively in the meeting of shareholders. Each shareholder may participate in a meeting personally or commission another person to represent him and require advance voting on the issues announced in the agenda of the meeting. In such cases advance voting bulletins are made.
The Company does not follow the requirements of Paragraph 6.7. of the present principle of the Management Code, since the LR Joint-Stock Companies Act does not presuppose for shareholders any possibility to vote using telecommunication terminal equipment.

**Principle VII: avoiding and reporting of interest conflicts**
**A company's management system should encourage members of the company's bodies to avoid interest conflicts and to ensure transparent and effective mechanism of reporting interest conflicts of members of the company's bodies.**

The Company confirms that it follows all the recommendations presupposed by the present principle of the Management Code.

**Principle VIII: A company's salary policy**
**The order of confirmation, review and announcement of salary policy and the director's salary accepted by a company should prevent possible interest conflicts and misuse establishing the director's salary and ensure publicity and transparency of a company's salary policy and the director's salary.**

The Company does not follow recommendations of the present principle of the Management Code regarding open publishing of salary policy. The Company in the order set forth by the law announces in the regular reports only total sum of salaries of the head and the management of the Company. The Company keeps to the confirmed policy that the system of salaries and bonuses to salaries and other payments connected with the labour relations are the information that should not be published openly, and the Company attributes such information to the information containing commercial secret.

**Principle IX: Role of interest-holder in the company's management**
**A company's management system should recognize rights of interest-holders stated by the legislation and encourage active cooperation of the company and interest-holders creating the company's well-being, jobs and financial stability. In the context of this principle the notion "Interest-holders" include investors, workers, creditors, suppliers, clients, local community and other people having interests in the concrete company.**

The Company confirms that it follows all the recommendations presupposed by the present principle of the Management Code. Constructive work with trade unions acting in the Company is carried on, collective agreement is implemented.

**Principle X: Information disclosure.**
**A company's management system should ensure that information about all the basic issues of the company, including financial situation, activity and the company's management, be published in time and transparently.**

The Company confirms that for the most part it follows the present principle of the Management Code, except for recommendations presupposed by paragraph 10.3, and this is explained in the reports how the Company follows recommendations of principle VIII. Confirmation that the Company follows recommendations of principle IX of the present Management Code, to our mind, includes as well confirmation that the Company follows recommendations of paragraph 10.4 of principle X.
The Company seeks to follow recommendations of paragraph 10.5, although twice due to significant informational flow and mutual inconsistence of information of internal structures the information first was presented in an interview, and then was confirmed by VVPB.
The Company plans to follow recommendations presupposed by paragraph 10.7 – to publish on the Company's internet site the Company's annual report and other reporting.

**Principle XI: choice of a company's audit company**
**The mechanism of choice of a company's audit company should ensure independence of audit's conclusion and opinion.**

The Company states that for the most part it follows recommendations of the present principle of the Management Code. The Company's Management Board presents candidacy of the audit company to the meeting of shareholders; the Company's meeting of shareholders confirms the audit company, therefore one may state that the Company follows recommendations of paragraph 11.2 of principle XI of the Management Code. Recommendations of paragraph 11.3. of principle XI of the Management Code are not actual for the Company, because the audit company did not receive any payment for non audit services from the Company.

General Manager V. Greičiūnas

## Balance sheets

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | As of 31 December 2006 | As of 31 December 2005 (restated) | As of 31 December 2006 | As of 31 December 2005 (restated) |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Intangible assets | 5 | 26,486 | 247 | 35 | 239 |
| Property, plant and equipment | 6 | | | | |
| Land | | 11,777 | 11,777 | 11,777 | 11,777 |
| Buildings and constructions | | 236,984 | 146,111 | 125,255 | 142,481 |
| Machinery and equipment | | 31,111 | 29,493 | 23,432 | 28,960 |
| Other assets | | 5,804 | 4,993 | 5,007 | 4,345 |
| Construction in progress and prepayments | | 2,480 | 109,511 | 2,461 | 540 |
| Total property, plant and equipment | | 288,156 | 301,885 | 167,932 | 188,103 |
| Investment property | 7 | 7,349 | 1,175 | 7,349 | 1,175 |
| Non-current financial assets | | | | | |
| Investments into subsidiaries, joint ventures and associates | 8 | 991 | 655 | 28,538 | 2,567 |
| Available-for-sale investments | 9 | 50 | 3,155 | 50 | 3,155 |
| Non-current receivables | 10 | 905 | 1,876 | 905 | 110,118 |
| Total non-current financial assets | | 1,946 | 5,686 | 29,493 | 115,840 |
| Deferred income tax asset | 23 | 665 | 1,021 | - | - |
| **Total non-current assets** | | **324,602** | **310,014** | **204,809** | **305,357** |
| **Current assets** | | | | | |
| Inventories | 11 | 3,423 | 2,901 | 3,191 | 2,818 |
| Receivables and prepayments | 12 | 18,840 | 87,716 | 15,919 | 87,379 |
| Cash and cash equivalents | 13 | 31,771 | 19,104 | 25,287 | 18,362 |
| **Total current assets** | | **54,034** | **109,721** | **44,397** | **108,559** |
| **Total assets** | | **378,636** | **419,735** | **249,206** | **413,916** |

The accompanying notes are an integral part of these financial statements.

## Balance sheets (cont'd)

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | As of 31 December 2006 | As of 31 December 2005 (restated) | As of 31 December 2006 | As of 31 December 2005 (restated) |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| **Equity attributable to equity holders of the parent** | | | | | |
| Share capital | 1 | 126,704 | 126,704 | 126,704 | 126,704 |
| Legal reserve | 14 | 12,899 | 12,899 | 12,899 | 12,899 |
| Retained earnings | | 88,359 | 102,078 | 92,465 | 109,774 |
| | | **227,962** | **241,681** | **232,068** | **249,377** |
| **Minority interest** | | - | - | - | - |
| **Total equity** | | **227,962** | **241,681** | **232,068** | **249,377** |
| **Liabilities** | | | | | |
| **Non-current liabilities** | | | | | |
| Non-current borrowings | 15 | 107,498 | 88,786 | - | 88,786 |
| Financial lease | 18 | 897 | - | 897 | - |
| Deferred income tax liability | 23 | 456 | 1,942 | 456 | 1,942 |
| Non-current trade payables | | 1,557 | 1,026 | - | 1,026 |
| **Total non-current liabilities** | | **110,408** | **91,754** | **1,353** | **91,754** |
| **Current liabilities** | | | | | |
| Current portion of non-current borrowings and short-term borrowings | 15 | 15,000 | 47,367 | - | 47,367 |
| Current portion of financial lease | 18 | 210 | - | 210 | - |
| Current portion of non-current trade payables | | 239 | - | - | - |
| Trade payables | | 4,264 | 8,318 | 4,264 | 8,318 |
| Income tax payable | 23 | 1,411 | 1,392 | 1,411 | 1,392 |
| Advances received | | 4,787 | - | 3 | - |
| Other payables | 16 | 14,355 | 29,223 | 9,897 | 15,708 |
| **Total current liabilities** | | **40,266** | **86,300** | **15,785** | **72,785** |
| **Total equity and liabilities** | | **378,636** | **419,735** | **249,206** | **413,916** |

The accompanying notes are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Manager | V. Greičiūnas | | 22 March 2007 |
| Chief Accountant | Š. Kručius | | 22 March 2007 |

## Income statements

| | Notes | Group 2006 | Group 2005 (restated) | Company 2006 | Company 2005 (restated) |
|---|---|---|---|---|---|
| Sales | | 150,215 | 127,578 | 114,570 | 127,423 |
| Cost of sales | 19 | (93,831) | (99,816) | (74,601) | (99,653) |
| **Gross profit** | | **56,384** | **27,762** | **39,969** | **27,770** |
| Operating expenses | 20 | (44,899) | (46,751) | (37,502) | (43,071) |
| **Profit (loss) from operations** | | **11,485** | **(18,989)** | **2,467** | **(15,301)** |
| Other operating income (expenses), net | 21 | 763 | 31,712 | 798 | 30,944 |
| Income from financial and investment activities | 22 | 650 | 764 | 4,588 | 3,472 |
| (Expenses) from financial and investment activities | 22 | (5,603) | (4,344) | (4,018) | (4,293) |
| **Profit from ordinary activities** | | **7,295** | **9,143** | **3,835** | **14,822** |
| Share of profit from joint ventures and associates | 8 | 486 | 296 | - | - |
| **Profit before tax** | | **7,781** | **9,439** | **3,835** | **14,822** |
| Income tax | 23 | (1,550) | (250) | (1,194) | (1,271) |
| **Net profit (loss)** | | **6,231** | **9,189** | **2,641** | **13,551** |
| | | | | | |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **6,231** | **9,189** | **2,641** | **13,551** |
| Minority interest | | - | - | - | - |
| | | **6,231** | **9,189** | **2,641** | **13,551** |
| | | | | | |
| Basic and diluted earnings per share (LTL) | 24 | 0.49 | 0.73 | | |

The accompanying notes are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Manager | V. Greičiūnas | | 22 March 2007 |
| Chief Accountant | Š. Kručius | | 22 March 2007 |

## Statements of changes in equity

| Group | Notes | Equity attributable to equity holders of the parent | | | | | |
|---|---|---|---|---|---|---|---|
| | | Share capital | Legal reserve | Retained earnings | Total | Minority interest | Total |
| **Balance as of 31 December 2004** | | **126,704** | **12,906** | **102,547** | **242,157** | **1,099** | **243,256** |
| Correction of deferred income tax | 4 | - | - | 1,735 | 1,735 | - | 1,735 |
| **Balance as of 31 December 2004 (restated)** | | **126,704** | **12,906** | **104,282** | **243,892** | **1,099** | **244,991** |
| Dividends declared | 25 | - | - | (11,400) | (11,400) | - | (11,400) |
| Transfer from reserve | | - | (7) | 7 | - | - | - |
| Change due to non-consolidation | 1 | - | - | - | - | (1,099) | (1,099) |
| Net profit for the year | 4 | - | - | 9,189 | 9,189 | - | 9,189 |
| **Balance as of 31 December 2005** | | **126,704** | **12,899** | **102,078** | **241,681** | **-** | **241,681** |
| Dividends declared | 25 | - | - | (19,950) | (19,950) | - | (19,950) |
| Net profit for the year | | - | - | 6,231 | 6,231 | - | 6,231 |
| **Balance as of 31 December 2006** | | **126,704** | **12,899** | **88,359** | **227,962** | **-** | **227,962** |

| Company | Notes | Share capital | Legal reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance as of 31 December 2004** | | **126,704** | **12,899** | **105,888** | **245,491** |
| Correction of deferred income tax | 4 | - | - | 1,735 | 1,735 |
| **Balance as of 31 December 2004 (restated)** | | **126,704** | **12,899** | **107,623** | **247,226** |
| Dividends declared | 25 | | - | (11,400) | (11,400) |
| Net profit for the year | 4 | | - | 13,551 | 13,551 |
| **Balance as of 31 December 2005** | | **126,704** | **12,899** | **109,774** | **249,377** |
| Dividends declared | 25 | - | - | (19,950) | (19,950) |
| Net profit for the year | | - | - | 2,641 | 2,641 |
| **Balance as of 31 December 2006** | | **126,704** | **12,899** | **92,456** | **232,068** |

The accompanying notes are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Manager | V. Greičiūnas | | 22 March 2007 |
| Chief Accountant | Š. Kručius | | 22 March 2007 |

## Cash flow statements

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **Cash flows from (to) operating activities** | | | | |
| Net profit | 6,231 | 9,189 | 2,641 | 13,551 |
| **Adjustments for non-cash items:** | | | | |
| Depreciation | 27,664 | 38,563 | 22,247 | 38,053 |
| Amortisation | 205 | 370 | 204 | 370 |
| Result from joint ventures and associates | (486) | (296) | - | - |
| Negative goodwill on acquisition | - | (111) | - | - |
| Interest expenses | 5,410 | 4,032 | 3,844 | 4,032 |
| Interest (income) | (386) | (176) | (4,430) | (2,972) |
| Dividend (income) | - | (8) | (150) | (108) |
| Income tax expenses | - | 250 | 1,194 | 1,271 |
| Change in accrued income and deferred expenses | 5,307 | (6,278) | 7,507 | (7,701) |
| Discounting of loans granted | - | 171 | - | 171 |
| (Decrease) increase in impairment loss of property, plant and equipment | (710) | 4,380 | (710) | 4,380 |
| Change in allowance for of doubtful receivables | - | 146 | - | 146 |
| Change in allowance for and write-offs of inventory | - | 1,440 | - | 1,440 |
| (Gain) on property, plant and equipment sales | (114) | (23,525) | (114) | (22,765) |
| Write-off of property, plant and equipment and other assets | 1,550 | 2,382 | - | 2,078 |
| Change in allowance for investments | - | - | 162 | - |
| | 44,671 | 30,529 | 32,395 | 31,946 |
| **Changes in working capital:** | | | | |
| (Increase) decrease in inventories | (522) | 1,690 | (373) | 1,761 |
| Decrease (increase) in receivables and prepayments | 64,678 | (2,386) | 65,062 | (184) |
| (Decrease) increase in payables | (3,284) | (3,581) | (5,080) | 4,344 |
| Income tax (paid) | (2,661) | - | (2,661) | - |
| (Decrease) increase in other current liabilities | (10,979) | 26,560 | (5,186) | 9,517 |
| **Net cash flows from operating activities** | **91,903** | **52,812** | **84,157** | **47,384** |

The accompanying notes are an integral part of these financial statements.

## Cash flow statements (cont'd)

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Cash flows from (to) investing activities** | | | | |
| (Acquisition) of property, plant and equipment | (20,639) | (99,383) | (8,776) | (20,488) |
| (Acquisition) of intangible assets | (311) | (18) | - | (10) |
| Proceeds from sale of property, plant and equipment | 63,679 | 1,398 | 63,675 | 1,398 |
| (Acquisition) of associates and minority interest | (26,133) | (977) | (26,133) | (977) |
| Proceeds from sales of subsidiaries and other investments | 3,105 | 3 | 3,105 | 3 |
| Loans (granted) | (161) | (23) | (161) | (74,479) |
| Loans repaid | 43 | 57 | 108,285 | 53 |
| Dividends received | 150 | 108 | 150 | 108 |
| Interest received | 366 | 176 | 4,410 | 2,146 |
| **Net cash flows from (to) investing activities** | **20,099** | **(98,659)** | **144,555** | **(92,246)** |
| | | | | |
| **Cash flows from (to) financing activities** | | | | |
| Dividends (paid) | (19,879) | (11,351) | (19,879) | (11,351) |
| Proceeds from loans | 129,998 | 74,242 | - | 74,242 |
| (Repayment) of loans | (143,653) | - | (136,153) | - |
| Interest (paid) | (4,583) | (3,739) | (4,537) | (3,739) |
| Financial lease (payments) | (271) | - | (271) | - |
| **Net cash flows (to) from financial activities** | **(38,388)** | **59,152** | **(160,840)** | **59,152** |
| | | | | |
| **Net increase in cash and cash equivalents** | **(2,059)** | **13,305** | **(6,075)** | **14,290** |
| | | | | |
| Change due to non consolidation | - | (307) | - | - |
| | | | | |
| **Cash and cash equivalents at the beginning of the year** | **19,104** | **6,106** | **18,362** | **4,072** |
| **Cash and cash equivalents at the end of the year** | **17,045** | **19,104** | **12,287** | **18,362** |

The accompanying notes are an integral part of these financial statements.

| | | | |
|---|---|---|---|
| General Manager | V. Greičiūnas | Greičiūnas | 22 March 2007 |
| Chief Accountant | Š. Kručius | | 22 March 2007 |

# Notes to the financial statements

## 1 General information

AB Klaipėdos Jūrų Krovinių Kompanija (hereinafter "the Company") is a public limited liability company registered in the Republic of Lithuania. The address of its registered office is as follows:

J. Zauerveino Str. 18, Klaipėda
Lithuania

The Company is engaged in provision of stevedoring and related services in the seaport of Klaipėda. The Company started its activities in September 1994. Until 31 May 1994 the Company's name was SPĮ Klaipėdos Valstybinis Jūrų Prekybos Uostas. On 3 May 1995 the Company was registered as a public limited liability company. The Company's shares are included in the Current Baltic Equity List of Vilnius Stock Exchange.

As of 31 December 2006 and 2005 the shareholders of the Company were:

| | Number of shares held | Percentage |
|---|---|---|
| UAB Koncernas Achemos Grupė | 11,753,023 | 92.76% |
| Other minor shareholders | 917,406 | 7.24% |
| Total | 12,670,429 | 100.00% |

All the shares of the Company are ordinary shares with the par value of LTL 10 each and were fully paid as of 31 December 2006 and 2005. The share capital did not change in 2006 and 2005. Subsidiaries, joint ventures and associated companies did not hold any shares of the Company as of 31 December 2006 and 2005. The Company did not hold its own shares either.

The Group consists of the Company and the subsidiary as of 31 December 2006 and 2005 (hereinafter referred to as "the Group"):

| Company | Registration address | Share of the stock held by the Group (%) | Year of establishment / acquisition | Main activities |
|---|---|---|---|---|
| UAB Krovinių Terminalas | Lithuania | 100 | 1999 | Cargo services |

On 22 December 2005 the Company signed 3 share purchase-sales agreements with 3 private persons for an acquisition of 14,700 ordinary shares of UAB Krovinių Terminalas with a par value of LTL 100 each (49% of share capital). According to the agreements and subsequent amendments the total purchase price is LTL 26,133 thousand. According to the agreements, the title to the shares is transferred after the final settlement for the shares. The final settlement for the shares was made on 23 February 2006.

In 2005 the Company sold 40.68% of share capital of UAB Klaipėdos Keleivių Ir Krovinių Terminalas (former name UAB Transfosa). Additionally, in 2005 the Company had no control in UAB Klasco Ekspedicija and UAB Krantas Forwarding, therefore these companies were not included in the Group's consolidated financial statements as of 31 December 2005.

As of 31 December 2006, the number of employees of the Company was 794 (858 as of 31 December 2005). As of 31 December 2006 the number of employees of the Group was 854 (925 as of 31 December 2005).

The Company's management approved these financial statements on 22 March 2006.The shareholders of the Company have a statutory right not to approve the financial statements and require a new set of financial statements to be presented by management.

## 2 Form and contents of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, except for the accounting for property, plant and equipment acquired before 1 January 1996, as disclosed in the accounting policies hereafter.

### 2.1. Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, except as discussed above.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Group and the Company have adopted the following new and amended IFRS and IFRIC interpretations during the year:

- IAS19 Amendment-Employee Benefits
- IAS 21 Amendment-The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments-Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment

Adoption of these revised standards and interpretations had no material effect on the financial statements of the Group and the Company.

The Group and the Company has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IFRS 7 requires disclosures that enable users to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.
- IFRS 8 Operating Segments (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2009). The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. IFRS 8 supersedes IAS 14 Segment Reporting.
- Amendments to IAS 1 ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007). This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes of managing capital.
- IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006). This interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.
- IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). This interpretation requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.
- IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

## 2 Form and contents of the financial statements (cont'd)

### 2.1. Basis of accounting (cont'd)

- IFRIC 10 Interim Financial Reporting and Impairment (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 November 2006). This interpretation establishes that entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 March 2007). The interpretation provides guidance on classification of transactions as equity-settled or as cash-settled and also gives guidance on how to account for share-based payment arrangements that involve two or more entities within the same group in the individual financial statements of each group entity.
- IFRIC 12 Service Concession Agreements (effective once adopted by European Union, but not earlier than for annual periods beginning on or after 1 January 2008). The interpretation addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements.

The Group and the Company expects that the adoption of the pronouncements listed above will have no significant impact on the Group's and the Company's financial statements in the period of initial application, except for IFRS 7 "Financial Instruments: Disclosures"; IAS 1 amendment Capital Disclosures and IFRS 8 "Operating Segments". The Group and the Company are still estimating the impact of adoption of these pronouncements on the disclosures of the financial statements.

### 2.2. Functional currency

The Company's and the Group's functional currency is local currency, Litas (LTL). The amounts shown in these financial statements are also presented in the local currency, Litas. Lithuanian Litas is pegged to EUR at the rate of 3.4528 Litas for 1 EUR, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

## 3 Accounting principles

The principal accounting policies adopted in preparing the Company's and the Group's financial statements for 2006 are as follows:

### 3.1. Consolidation

The consolidated financial statements of the Group include AB Klaipėdos Jūrų Krovinių Kompanija and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 percent of the voting rights of a company's share capital and/or is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

Subsidiaries are consolidated from the date from which effective control is transferred to the Company and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or to the date of disposal. The acquisition of minority interest of the subsidiary is accounted using the Parent entity extension method by recognising the difference between the cost and proportional share of the net assets of investee as goodwill.

Investments in associated companies where significant influence is exercised by AB Klaipėdos Jūrų Krovinių Kompanija in the consolidated financial statements are accounted for using the equity method. An assessment of investment in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

## 3 Accounting principles (cont'd)

### 3.1 Consolidation (cont'd)

All other investments are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

Consolidated financial statements are prepared by using uniform accounting policies for like transactions and other events in similar circumstances.

In the parent's separate financial statements investments in subsidiaries and associates are carried at cost. The carrying value of investments is reduced to recognise an impairment loss of the value of the investments, such reduction being determined and made for each investment individually.

The losses applicable to the minority in a consolidated subsidiary exceeding the minority interest in the equity of the subsidiary and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

### 3.2. Interest in a joint venture

The Group has an interest in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. The Group recognises its interest in the joint venture applying the equity method. The financial statements of the joint venture are prepared for the same reporting year as the Parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognise its share of the profits of the joint venture from the transaction until it resells the asset to an independent party.

### 3.3. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

## 3 Accounting principles (cont'd)

### 3.4. Other intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives.

Licenses

Amounts paid for licences are capitalised and then amortised over their validity period.

Software

The costs of acquisition of new software are capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised over a period not exceeding 3 years.

Costs incurred in order to restore or maintain the future economic benefits that the Company expects from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

### 3.5. Property, plant and equipment

The Company's and the Group's property, plant and equipment, acquired before 1 January 1996, are stated at indexed cost less indexed accumulated depreciation and impairment losses (Note 6). Property, plant and equipment other than acquired before 1 January 1996, are stated at cost less accumulated depreciation and impairment losses.

The accounting policy applied for property, plant and equipment represents a departure from International Financial Reporting Standards (IAS 16 and IAS 29), which require the use of either historical cost as adjusted for hyperinflation through a general price index, or a valuation supported by independent, professionally qualified valuers. The Company and the Group is unable to quantify the impact of non-compliance with IAS 29 on these financial statements. The above indexation was not performed in accordance with the provisions of IAS 16 since the revaluation method did not assure the indexed amount of buildings to be approximate to their fair value as at the date of indexation.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operations, such as repair and maintenance costs, are normally charged to income statement in the period the costs are incurred. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised. The Company and the Group capitalizes property, plant and equipment purchases with an estimated useful life exceeding one year and an acquisition cost above LTL 200.

Depreciation is computed on a straight-line basis over the following ranges of estimated useful lives:

| | |
|---|---|
| Buildings and constructions | 10-70 years |
| Machinery and equipment | 5-33 years |
| Vehicles | 4-10 years |
| Other non-current assets | 3-30 years |

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Construction in progress is stated at cost less impairment losses. This includes the cost of construction, plant and equipment and other directly attributable costs. Construction in progress is not depreciated until the relevant assets are completed and put into operation.

## 3 Accounting principles (cont'd)

### 3.6. Investment property

Investment property, comprising buildings, is held for long term rental yields and is not occupied by the Group. Investment property, acquired before 1 January 1996, is stated at indexed cost less accumulated indexed depreciation and any accumulated impairment losses. Investment property, acquired after 1 January 1996, is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is computed on a straight-line basis over 10-90 years.

### 3.7. Investments and other financial assets

According to IAS 39 Financial Instruments: Recognition and Measurement financial assets (except for investments into subsidiaries, associates and joint ventures) are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

*Financial assets at fair value through profit or loss*

The category "financial assets at fair value through profit or loss" includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in income.

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments that are intended to be held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

*Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### 3.8. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow-moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost is determined by the first-in, first-out (FIFO) method. Unrealisable inventory has been fully written-off.

## 3 Accounting principles (cont'd)

### 3.9. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term highly liquid investments.

### 3.10. Borrowings

Borrowing costs are expensed as incurred.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings.

### 3.11. Financial and operational leases

<u>Financial lease</u>

The Group recognizes financial leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate of financial lease payment, when it is possible to determine it, in other cases, Group's composite interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets and it also gives rise to financial expenses in the Group's income statement for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets can not be depreciated over the period longer than lease term, unless the Group, according by the lease contract, gets transferred their ownership after the lease term is over.

If the result of sales and lease back transactions is financial lease, any profit from sales exceeding the book value is not recognised as income immediately. It is postponed and amortised over the lease term.

<u>Operating lease</u>

*The Group as the lessee*

Leases where the lessor retains all the risk and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

The gains from discounts provided by the lessor are recognised as a decrease in lease expenses over the period of the lease using the straight-line method.

If the result of sales and lease back transactions is operating lease and it is obvious that the transaction has been carried out at fair value, any profit or loss is recognised immediately. If the sales price is lower than the fair value, any profit or loss is recognised immediately, except for the cases when the loss is compensated by lower than market prices for lease payments in the future. The profit is then deferred and it is amortised in proportion to the lease payments over a period, during which the assets are expected to be operated. If the sales price exceeds the fair value, a deferral is made for the amount by which the fair value is exceeded and it is amortised over a period, during which the assets are expected to be operated.

## 3 Accounting principles (cont'd)

### 3.11 Financial and operational leases (cont'd)

*The Group as the lessor*

Assets leased out under operating leases are included in property, plant and equipment and investment property in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognized on a straight-line basis over the lease term.

### 3.12. Income tax

Income tax charge is based on profit for the year and considers deferred taxation. Income tax is calculated based on the Lithuanian tax legislation.

In 2005 the standard income tax rate in Lithuania was 15%. On 1 January 2006 the Provisional Social Tax Law came into effect in the Republic of Lithuania, which stipulates that along with the corporate income tax, for one financial year beginning on 1 January 2006, companies have to pay an additional 4% tax calculated based on the income tax principles, and for the following year a 3% tax starting from 1 January 2007. After the year 2007 the income tax applied to the companies in the Republic of Lithuania will be standard, i.e. 15%.

Tax losses can be carried forward for 5 consecutive years, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments that can be carried forward for 3 consecutive years. The losses from disposal of securities and/or derivative financial instruments can only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse based on tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax asset has been recognised in the balance sheet to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax asset is not going to be realised, this part of the deferred tax asset is not recognized in the financial statements.

### 3.13. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts. Revenue for stevedoring and related services is recognised when the cargo is loaded to ships / unloaded from ships.

### 3.14. Expense recognition

Expenses are recognised on the basis of accrual and revenue and expense matching principles in the reporting period when the income related to these expenses was earned, irrespective of the time the money was spent. In those cases when the costs incurred cannot be directly attributed to the specific income and they will not bring income during the future periods, they are expensed as incurred.

The amount of expenses is usually accounted for as the amount paid or due, excluding VAT. In the cases when a long period of payment is established and the interest is not distinguished, the amount of expenses shall be estimated by discounting the amount of payment using the market interest rate.

### 3.15. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies on the balance sheet date are recognized in the income statement. Such balances are translated at period-end exchange rates.

## 3 Accounting principles (cont'd)

### 3.16. Segment information

In these financial statements a business segment means a constituent part of the Company or the Group participating in production of an individual product or provision of a service or a group of related products or services, the risk and returns whereof are different from other business segments.

In these financial statements a geographical segment means a constituent part of the Company or the Group participating in production of individual products or provision of services within certain economic environment the risk and returns whereof are different from other constituent parts operating in other economic environments.

For the management purposes, the activities of the Group are organised as one major segment – provision of cargo services. Other services such as forwarding, towage, document handling, weighting and moorage are supporting the main business and are not treated as separate segments. Further, all the Group's operations are in Lithuania. Therefore, the Group does not present segment information.

### 3.17. Impairment of assets

Financial assets

Financial assets as well as goodwill are reviewed for impairment at each balance sheet date.

For financial assets carried at amortised cost, whenever it is probable that the Company and the Group will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the income statement. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the income statement. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted in the same caption of the income statement as the impairment loss.

### 3.18. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements relate to accruals, depreciation and impairment evaluation. Future events may occur which may cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

### 3.19. Contingencies

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

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

### 3.20. Subsequent events

Post-balance sheet events that provide additional information about the Company's and the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

## 3 Accounting principles (cont'd)

### 3.21. Offsetting and comparative figures

When preparing the financial statements, assets and liabilities, as well as revenue and expenses are not set off, except the cases when certain IFRS specifically require or allow such set-off.

Where necessary, comparative figures have been adjusted to correspond to the presentation of the current year.

## 4 Correction of an error

In 2006 the Company has recalculated income tax and consequently deferred income tax for prior periods and accounted for this retrospectively by correcting retained earnings as of 31 December 2004 and the result for 2005. The effect of the corrections on the result for 2005 and retained earnings as of 31 December 2005 is presented in the table below:

| | Group | | Company | |
|---|---|---|---|---|
| | Net profit | Shareholders' equity | Net profit | Shareholders' equity |
| **In financial statements as of 31 December 2005** | **9,319** | **240,076** | **13,681** | **247,772** |
| Correction of deferred tax for 2004 | - | 1,735 | - | 1,735 |
| Correction of deferred tax for 2005 | (686) | (686) | (686) | (686) |
| Correction of current income tax for 2005 | 556 | 556 | 556 | 556 |
| **In financial statements as of 31 December 2005 after correction of an error** | **9,189** | **241,681** | **13,551** | **249,377** |

## 5 Intangible assets

Movements in the Company's and Group's intangible assets during 2006 can be specified as follows:

| | Group | | | |
|---|---|---|---|---|
| | Goodwill | Other | Total | Company |
| **Cost:** | | | | |
| Balance as of 31 December 2005 | - | 1,703 | 1,703 | 1,695 |
| Additions | 26,133 | 311 | 26,444 | - |
| Disposals and write-offs | - | (47) | (47) | (47) |
| Balance as of 31 December 2006 | 26,133 | 1,967 | 28,100 | 1,648 |
| **Accumulated amortisation:** | | | | |
| Balance as of 31 December 2005 | - | 1,456 | 1,456 | 1,456 |
| Charge for the year | - | 205 | 205 | 204 |
| Disposals and write-offs | - | (47) | (47) | (47) |
| Balance as of 31 December 2006 | - | 1,614 | 1,614 | 1,613 |
| **Net book value as of 31 December 2006** | **26,133** | **353** | **26,486** | **35** |

## 5 Intangible assets (cont'd)

Movements in the Company's and Group's intangible assets during 2005 can be specified as follows:

| | Group | | | |
|---|---|---|---|---|
| | Goodwill | Other | Total | Company |
| **Cost:** | | | | |
| Balance as of 31 December 2004 | 6,818 | 2,069 | 8,887 | 1,897 |
| Additions | - | 60 | 60 | 52 |
| Disposals and write-offs | (4,706) | (254) | (4,960) | (254) |
| Impairment loss | (2,112) | - | (2,112) | - |
| Transfers to construction in progress | - | (172) | (172) | - |
| Balance as of 31 December 2005 | - | 1,703 | 1,703 | 1,695 |
| **Accumulated amortisation:** | | | | |
| Balance as of 31 December 2004 | 170 | 1,494 | 1,664 | 1,340 |
| Charge for the period | - | 370 | 370 | 370 |
| Disposals and write-offs | (170) | (254) | (424) | (254) |
| Impairment loss | - | (154) | (154) | - |
| Balance as of 31 December 2005 | - | 1,456 | 1,456 | 1,456 |
| **Net book value as of 31 December 2005** | **-** | **247** | **247** | **239** |

Amortisation expenses of intangible assets are included within operating expenses in the income statement.

Part of the non-current intangible assets of the Company and the Group with the acquisition value of LTL 1,584 thousand and LTL 1,584 thousand, respectively, as of 31 December 2006, was fully amortised (LTL 794 thousand and LTL 794 thousand as of 31 December 2005 respectively) but was still in use.

*Goodwill*

As described in Note 1, on 23 February 2006 the Company acquired the remaining 49% of share capital of UAB Krovinių Terminalas for an amount of LTL 26,133 thousand. As the net assets of subsidiary were equal to zero as of the date of the transaction, the goodwill of LTL 26,133 thousand was recognised in the Group financial statements.

The recoverable amount of each cash generating unit (UAB Krovinių Terminalas) as of 31 December 2006 was determined based on the value in use calculation using cash flow projections based on the eight-year financial forecasts prepared by the management. The forecasted revenues were estimated based on the long-term loading agreement signed as of 31 December 2006. The costs were projected based on the actual cost level taking into account estimated inflation. In addition, the management assumed that the cost of personnel will increase beyond the effect of the expected inflation due to the overall significant increase of the salary levels in the Lithuanian market. 10% discount rate (post – tax) was applied to the cash flow projections and cash flows beyond eight-year period were extrapolated using 2% growth rate that reflects the best estimate of the management based on the current situation in the respective industry.

With regard to the assessment of the recoverable amount of UAB Krovinių Terminalas, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 6 Property, plant and equipment

Movements in property, plant and equipment during the year ended 31 December 2006 can be specified as follows:

| Group | Land | Buildings and constructions | Machinery and equipment | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Cost, historical or indexed:** | | | | | | |
| Balance as of 31 December 2005 | 11,777 | 219,370 | 213,353 | 41,385 | 110,240 | 596,125 |
| Additions | 2,339 | 94 | 3,724 | 1,662 | 14,198 | 22,017 |
| Disposals | (2,339) | (144) | (181) | (511) | - | (3,175) |
| Retirements | - | (116) | (2,132) | (1,577) | (85) | (3,910) |
| Transfers to investment property | - | (7,451) | - | - | - | (7,451) |
| Transfers between captions | - | 112,030 | 4,572 | 4,542 | (121,144) | - |
| Balance as of 31 December 2006 | 11,777 | 323,783 | 219,336 | 45,501 | 3,209 | 603,606 |
| **Accumulated depreciation:** | | | | | | |
| Balance as of 31 December 2005 | - | 69,955 | 182,677 | 36,392 | - | 289,024 |
| Charge for the year | - | 15,135 | 10,547 | 1,566 | - | 27,248 |
| Disposals | - | (37) | (19) | (501) | - | (557) |
| Retirements | - | (110) | (2,285) | 1,515 | - | (3,910) |
| Transfers to investment property | - | (861) | - | - | - | (861) |
| Transfers between captions | - | - | (3,755) | 3,755 | - | - |
| Balance as of 31 December 2006 | - | 84,082 | 187,165 | 39,697 | - | 310,944 |
| **Impairment losses:** | | | | | | |
| Balance as of 31 December 2005 | - | 3,304 | 1,183 | - | 729 | 5,216 |
| Reversals | - | (587) | (123) | - | - | (710) |
| Balance as of 31 December 2006 | - | 2,717 | 1,060 | - | 729 | 4,506 |
| **Net book value as of 31 December 2006** | **11,777** | **236,984** | **31,111** | **5,804** | **2,480** | **288,156** |

## 6 Property, plant and equipment (cont'd)

| Company | Land | Buildings and constructions | Machinery and equipment | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Cost, historical or indexed:** | | | | | | |
| Balance as of 31 December 2005 | 11,777 | 214,728 | 212,644 | 40,497 | 1,269 | 480,915 |
| Additions | 2,339 | | 3,389 | 1,353 | 3,073 | 10,154 |
| Disposals | (2,339) | (144) | (180) | (488) | - | (3,151) |
| Retirements | - | (116) | (2,132) | (1,577) | (85) | (3,910) |
| Transfers to investment property | - | (7,451) | - | - | - | (7,451) |
| Transfers to intangible assets | - | (195) | (3,275) | 4,537 | (1,067) | - |
| Balance as of 31 December 2006 | 11,777 | 206,822 | 210,446 | 44,322 | 3,190 | 476,557 |
| **Accumulated depreciation:** | | | | | | |
| Balance as of 31 December 2005 | - | 68,943 | 182,501 | 36,152 | - | 287,596 |
| Charge for the year | - | 10,915 | 9,509 | 1,407 | - | 21,831 |
| Disposals | - | (37) | (19) | (481) | - | (537) |
| Retirements | - | (110) | (2,285) | 1,515 | - | (3,910) |
| Transfers to investment property | - | (861) | - | - | - | (861) |
| Transfers between captions | - | - | (3,752) | 3,752 | - | - |
| Balance as of 31 December 2006 | - | 78,850 | 185,954 | 39,315 | - | 304,119 |
| **Impairment losses:** | | | | | | |
| Balance as of 31 December 2005 | - | 3,304 | 1,183 | - | 729 | 5,216 |
| Reversals | - | (587) | (123) | - | - | (710) |
| Balance as of 31 December 2006 | - | 2,717 | 1,060 | - | 729 | 4,506 |
| **Net book value as of 31 December 2006** | **11,777** | **125,255** | **23,432** | **5,007** | **2,461** | **167,932** |

## 6 Property, plant and equipment (cont'd)

Movements in property, plant and equipment during the year ended 31 December 2005 can be specified as follows:

| Group | Land | Buildings and constructions | Machinery and equipment | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Cost, historical or indexed:** | | | | | | |
| Balance as of 31 December 2004 | 7,069 | 226,629 | 269,488 | 45,078 | 39,021 | 587,285 |
| Retirements due to non consolidation (Note 1) | - | (5,815) | (2,498) | (540) | (104) | (8,957) |
| Additions | 4,708 | - | 727 | 739 | 95,130 | 101,304 |
| Disposals | - | (14,770) | (56,847) | (3,583) | (156) | (75,356) |
| Retirements | - | (1,934) | (5,514) | (272) | (389) | (8,109) |
| Transfers to intangible assets | - | - | - | - | (42) | (42) |
| Transfers between captions | - | 15,260 | 7,997 | (37) | (23,220) | - |
| Balance as of 31 December 2005 | 11,777 | 219,370 | 213,353 | 41,385 | 110,240 | 596,125 |
| **Accumulated depreciation:** | | | | | | |
| Balance as of 31 December 2004 | - | 66,727 | 186,976 | 38,884 | - | 292,587 |
| Retirements due to non consolidation (Note 1) | - | (2,612) | (1,949) | (462) | - | (5,023) |
| Charge for the year | - | 11,321 | 25,462 | 1,583 | - | 38,366 |
| Disposals | - | (4,775) | (23,062) | (3,341) | - | (31,178) |
| Retirements | - | (706) | (4,735) | (286) | - | (5,727) |
| Transfers between captions | - | - | (15) | 14 | - | (1) |
| Balance as of 31 December 2005 | - | 69,955 | 182,677 | 36,392 | - | 289,024 |
| **Impairment losses:** | | | | | | |
| Balance as of 31 December 2004 | - | - | - | - | 836 | 836 |
| Charge for the year | - | 3,304 | 1,183 | - | - | 4,487 |
| Reversals | - | - | - | - | (107) | (107) |
| Balance as of 31 December 2005 | - | 3,304 | 1,183 | - | 729 | 5,216 |
| **Net book value as of 31 December 2005** | **11,777** | **146,111** | **29,493** | **4,993** | **109,511** | **301,885** |

**6 Property, plant and equipment (cont'd)**

| Company | Land | Buildings and constructions | Machinery and equipment | Other assets | Construction in progress and prepayments | Total |
|---|---|---|---|---|---|---|
| **Cost, historical or indexed** | | | | | | |
| Balance as of 31 December 2004 | 7,069 | 216,046 | 266,743 | 44,176 | 7,636 | 541,670 |
| Additions | 4,708 | - | 599 | 206 | 16,896 | 22,409 |
| Disposals | - | (14,770) | (56,847) | (3,583) | (156) | (75,356) |
| Retirements | - | (1,808) | (5,514) | (263) | (181) | (7,766) |
| Transfers to intangible assets | - | - | - | - | (42) | (42) |
| Transfers between captions | - | 15,260 | 7,663 | (39) | (22,884) | - |
| Balance as of 31 December 2005 | 11,777 | 214,728 | 212,644 | 40,497 | 1,269 | 480,915 |
| **Accumulated depreciation:** | | | | | | |
| Balance as of 31 December 2004 | - | 63,471 | 184,903 | 38,232 | - | 286,606 |
| Charge for the year | - | 10,924 | 25,410 | 1,522 | - | 37,856 |
| Disposals | - | (4,775) | (23,062) | (3,341) | - | (31,178) |
| Retirements | - | (677) | (4,735) | (276) | - | (5,688) |
| Transfers between captions | - | - | (15) | 15 | - | - |
| Balance as of 31 December 2005 | - | 68,943 | 182,501 | 36,152 | - | 287,596 |
| **Impairment losses:** | | | | | | |
| Balance as of 31 December 2004 | - | - | - | - | 836 | 836 |
| Charge for the year | - | 3,304 | 1,183 | - | - | 4,487 |
| Reversals | - | - | - | - | (107) | (107) |
| Balance as of 31 December 2005 | - | 3,304 | 1,183 | - | 729 | 5,216 |
| **Net book value as of 31 December 2005** | **11,777** | **142,481** | **28,960** | **4,345** | **540** | **188,103** |

The depreciation charge of the Company's and the Group's property, plant and equipment for the year 2006 amounts to LTL 21,831 thousand and LTL 27,248 thousand, respectively (LTL 37,856 thousand and LTL 38,366 thousand in 2005 respectively). The Company's and the Group's depreciation expenses amounting to of LTL 21,580 thousand and LTL 25,209 thousand for the year 2006, respectively (LTL 37,645 thousand and LTL 37,645 thousand for the year 2005 respectively), have been included into cost of sales in the income statement. The remaining amounts have been included into operating expenses for the year.

Property, plant and equipment of the Company and the Group with a net book value of LTL 98,240 thousand as of 31 December 2006 (LTL 99,680 thousand as of 31 December 2005) and land rent rights were pledged to banks as a collateral for the loans (see Note 15).

Property, plant and equipment of the Company and the Group with the acquisition cost of LTL 173,453 thousand and LTL 173,608 thousand respectively were fully depreciated as of 31 December 2006 (LTL 189,189 thousand and LTL 189,824 thousand as of 31 December 2005 respectively) but were still in active use. The major part of fully depreciated assets in use is machinery and equipment.

## 6 Property, plant and equipment (cont'd)

The impairment, amounting to LTL 4,487 thousand, for structures and machinery not in use, located in a distant area from the main operations of the Company, was accounted for in 2005. As it is not possible to assess the fair (sales) value of these assets, value in use method was used for impairment calculation. The mentioned structures and machinery are not used in the operations of the Company and do not generate income for the Company and the management's plans for the future usage are unclear, therefore an impairment for a full amount was recorded in the financial statements of 2005. In 2006 the impairment was reduced due to depreciation charge amounting to LTL 710 thousand calculated for those assets.

The Company has changed depreciation calculation (useful life) estimates in the year 2005. The useful life of the group of machinery and equipment was reduced from 15 years to 5-10 years. The management believes that this estimate better reflects the pattern of usage of the respective asset group. The effect of the change in the amount of LTL 13,477 thousand has been included into cost of sales for the year 2005. Due to the change in accounting estimates the expenses in the year 2006 increased by LTL 795 thousand.

Four revaluations of property, plant and equipment were performed during a period of hyperinflation prior to 1 January 1996. Revaluations of property, plant and equipment were performed by indexing the cost and accumulated depreciation of property, plant and equipment, applying indexation rates set by the Lithuanian Government for different asset categories. The revalued amounts have not been specifically assessed by independent, professionally qualified valuators.

Indexation rates used for the four revaluations were as follows (depending upon the date of acquisition and category of property, plant and equipment):

| Revaluation | The range of indexes for property, plant and equipment revaluation |
|---|---|
| Revaluation effective 1 July 1991 | 2.2 times |
| Revaluation effective 1 January 1992 | 2 – 5 times |
| Revaluation effective 1 April 1994 | 1.4 – 14 times |
| Revaluation effective 31 December 1995 | 1.6 – 1.7 times |

Because of major movements and lack of separate registrations of the effect of indexations per asset, the Company and the Group cannot quantify the remaining effect of indexation on the balance of property, plant and equipment as of 31 December 2006. The net book value of indexed property, plant and equipment was LTL 25,172 thousand as of 31 December 2006 (LTL 26,118 thousand as of 31 December 2005).

## 7 Investment property

Movements in the Company's and the Group's investment property during the year ended 31 December 2006 can be specified as follows:

| | Buildings |
|---|---|
| **Cost, historical or indexed:** | |
| Balance as of 31 December 2005 | 2,911 |
| Disposals | - |
| Transfers from property, plant and equipment | 7,451 |
| Balance as of 31 December 2006 | 10,362 |
| | |
| **Accumulated depreciation:** | |
| Balance as of 31 December 2005 | 1,736 |
| Charge for the year | 416 |
| Disposals | - |
| Transfers from non-current assets | 861 |
| Balance as of 31 December 2006 | 3,013 |
| | |
| **Net book value as of 31 December 2006** | **7,349** |

Movements in the Company's and the Group's investment property during the year ended 31 December 2005 can be specified as follows:

| | Buildings |
|---|---|
| **Cost, historical or indexed:** | |
| Balance as of 31 December 2004 | 3,015 |
| Disposals | (104) |
| Balance as of 31 December 2005 | 2,911 |
| | |
| **Accumulated depreciation:** | |
| Balance as of 31 December 2004 | 1,643 |
| Charge for the year | 197 |
| Disposals | (104) |
| Balance as of 31 December 2005 | 1,736 |
| | |
| **Net book value as of 31 December 2005** | **1,175** |

Investment property includes rented warehouses and other buildings and structures. The management can not determine the fair value of investment property as there is no reliable market value of such type of assets at the moment.

The expenses related to investment property are depreciation charge.

## 8 Investments into subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associated companies of the Company as of 31 December 2006 and 2005 could be specified as following:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Share of capital** | **Cost value** | **Share of capital** | **Cost value** |
| UAB Krovinių Terminalas | 100% | 28,263 | 51% | 2,130 |
| UAB Krantas Forwarding | 50% | 200 | 50% | 200 |
| UAB Klasco Ekspedicija | 50% | 5 | 50% | 5 |
| ZAO Baltijskaja Transportnaja-ekspeditorskaja Kompanija - 2K | 50% | - | 50% | 162 |
| UAB Euroga | 49% | 70 | 49% | 70 |
| | | 28,538 | | 2,567 |

Movement in investments in subsidiaries, joint ventures and associated companies of the Company during 2006 and 2005 are presented below:

| | | Company | |
|---|---|---|---|
| | | **2006** | **2005** |
| At the beginning of the year | | 2,567 | 10,694 |
| Acquisition of subsidiary | a) | 26,133 | - |
| Allowance for investment in subsidiary | b) | (162) | - |
| Increase in share capital of subsidiary | | - | 907 |
| Disposals of shares to minority shareholders | c) | - | (5,999) |
| Transfers to available for sale investments | | - | (3,105) |
| Acquisition of associate and subsidiary | | - | 70 |
| | | 28,538 | 2,567 |

a) As described in Note 1, on 22 December 2005 the Company signed 3 share purchase-sales agreements with 3 private persons for an acquisition of 14,700 ordinary shares of UAB Krovinių Terminalas with a par value of LTL 100 each (49% of share capital). According to the agreements and subsequent amendments the total purchase price is LTL 26,133 thousand. According to the agreements, the title to the shares is transferred after the final settlement for the shares. The final settlement for the shares was made on 23 February 2006.

b) In 2006 associated company ZAO Baltijskaja Transportnaja-ekspeditorskaja Kompanija - 2K suspended its activities and the management of the Company does not expect to recover the amount of investment, therefore 100% allowance for this investment was accounted as of 31 December 2006.

c) On 15 July 2005 the Company signed a share purchase-sale agreement for the sale of 6,957 ordinary shares (40.68% of share capital) of UAB Klaipėdos Keleivių Ir Krovinių Terminalas at the cost value equal to LTL 5,999 thousand. The management of the Company planned to sell the remaining part of the shares in 2006 and therefore reclassified the investment in UAB Klaipėdos Keleivių Ir Krovinių Terminalas to available-for-sale investments caption as of 31 December 2005 (Note 9).

## 8 Investments into subsidiaries, joint ventures and associates (cont'd)

The following tables illustrate summarised information of the Group's investment in joint ventures and associated companies as of 31 December 2006 and 2005.

| | 2006 | | | | |
|---|---|---|---|---|---|
| | **UAB Klasco Ekspedicija** | **UAB Krantas Forwarding** | **UAB Euroga** | **ZAO Baltijskaja Transportnaja-ekspeditorskaja Kompanija - 2K** | **Total** |
| Share of the balance sheet: | | | | | |
| Current assets | 1,464 | 125 | 2,629 | - | 4,218 |
| Non-current assets | 25 | 12 | 69 | - | 106 |
| Current liabilities | (1,315) | (35) | (1,943) | - | (3,293) |
| Non-current liabilities | - | - | (40) | - | (40) |
| Net assets | 174 | 102 | 715 | - | 991 |
| Share of the revenue and profit | | | | | |
| Revenue | 7,888 | 435 | 28,604 | - | 36,927 |
| Profit (loss) / allowance | 39 | 16 | 472 | (41) | 486 |
| Dividends received | (150) | - | - | - | (150) |
| Carrying amount of the investment | 174 | 102 | 715 | - | 991 |

| | 2005 | | | | |
|---|---|---|---|---|---|
| | **UAB Klasco Ekspedicija** | **UAB Krantas Forwarding** | **UAB Euroga** | **ZAO Baltijskaja Transportnaja-ekspeditorskaja Kompanija - 2K** | **Total** |
| Share of the balance sheet: | | | | | |
| Current assets | 2,213 | 94 | 241 | 9 | 2,557 |
| Non-current assets | 32 | 15 | 18 | 32 | 97 |
| Current liabilities | (1,960) | (23) | (16) | - | (1,999) |
| Non-current liabilities | - | - | - | - | - |
| Net assets | 285 | 86 | 243 | 41 | 655 |
| Share of the revenue and profit | | | | | |
| Revenue | 6,345 | 472 | 954 | - | 7,771 |
| Profit (loss) | 232 | 2 | 62 | - | 296 |
| Carrying amount of the investment | 285 | 86 | 243 | 41 | 655 |

In consolidated Group financial statements for the year 2005 the Company recognised the loss of UAB Krovinių Terminalas applicable to the minority in the consolidated subsidiary exceeding the minority interest in the equity of the subsidiary against the Company's interest.

## 9 Available-for-sale investments

Available-for-sale investments of the Company and the Group as of 31 December 2006 and 2005 are presented in the table below:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Share of capital | Book value | Share of capital | Book value |
| AB Laivitė | 0.25% | 49 | 0.25% | 49 |
| AB Pramonės Ir Verslo Centras | 10.00% | 1 | 10.00% | 1 |
| UAB Klaipėdos Keleivių Ir Krovinių Terminalas | | - | 19.32% | 3,105 |
| | | 50 | | 3,155 |

As the fair values of the investments in the above companies are not available, therefore the available-for-sale investments are accounted at cost value in the Company's and the Group's financial statements as of 31 December 2006 and 2005 less impairment. The management of the Company estimates that the cost value of available-for-sale investment does not materially differ from the fair value.

Based on the share purchase-sales agreement signed on 22 May 2006 the Company sold 19.32% of the shares of UAB Klaipėdos Keleivių Ir Krovinių Terminalas for its cost value of LTL 3,105 thousand.

## 10 Non-current receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Long-term receivable from UAB Klaipėdos Keleivių Ir Krovinių Terminalas | 510 | 490 | 510 | 490 |
| Long-term loans granted to the Company's employees | 395 | 351 | 395 | 351 |
| Long-term loan to subsidiary UAB Krovinių Terminalas | - | - | - | 108,242 |
| Non-current deferred expenses | - | 1,035 | - | 1,035 |
| | 905 | 1,876 | 905 | 110,118 |

Long-term receivable from UAB Klaipėdos Keleivių Ir Krovinių Terminalas represents a receivable for the gantry crane sold. The receivable matures in 2012 and bears no interest rate. This receivable is accounted at discounted value using 4% interest rate.

Long-term loans granted to the employees of the Company are non interest bearing and mature from 2007 to 2020. These loans are accounted at discounted value using 4% interest rate.

In 2006 the subsidiary UAB Krovinių Terminalas has repaid the loan taken from the Company by the syndicated loan taken from AB PAREX BANKAS (Lithuania) and AS Parex-Banka (Latvia) (Note 15).

## 11 Inventories

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Spare parts | 3,820 | 3,246 | 3,689 | 3,230 |
| Other inventory | 2,337 | 2,389 | 2,236 | 2,322 |
| | 6,157 | 5,635 | 5,925 | 5,552 |
| Less: net realisable value allowance | (2,734) | (2,734) | (2,734) | (2,734) |
| | 3,423 | 2,901 | 3,191 | 2,818 |

The carrying value of the Company's and the Group's inventories accounted for at net realisable value as of 31 December 2006 and 2005 amounted to LTL 3,191 thousand and LTL 2,818 thousand respectively. Changes in the allowance for inventories for the year 2006 and 2005 have been included into operating expenses.

## 12 Receivables and prepayments

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Trade receivables | 10,201 | 9,669 | 9,887 | 10,240 |
| Other receivables | 4,883 | 66,358 | 4,547 | 65,570 |
| Loans granted | 124 | 50 | 124 | 50 |
| | 15,208 | 76,077 | 14,558 | 75,860 |
| Less: allowance for doubtful trade receivables | (144) | (144) | (144) | (144) |
| | 15,064 | 75,933 | 14,414 | 75,716 |
| Accrued income, deferred expenses and prepayments | 3,776 | 11,783 | 1,505 | 11,663 |
| | 18,840 | 87,716 | 15,919 | 87,379 |

## 13 Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Cash at bank | 11,622 | 1,951 | 11,365 | 1,923 |
| Cash on hand | 24 | 60 | 22 | 56 |
| Deposits with a term of less than three months | 20,125 | 17,093 | 13,900 | 16,383 |
| | 31,771 | 19,104 | 25,287 | 18,362 |

The subsidiary UAB Krovinių Terminalas has a commitment to ensure that all cash turnovers are made through the bank accounts with AB PAREX BANKAS (Lithuania) and AS Parex Banka (Latvia) and the Company and the Group has a commitment to ensure that this cash turnover is not less than LTL 75,000 thousand during half a year (Note 15).

As of 31 December 2006 the Company's term deposits with AB PAREX BANKAS are comprised of LTL 10,000 thousand deposit with maturity at 30 March 2007 and an annual interest rate of 3.615%, of LTL 3,000 thousand deposit with a maturity at 1 March 2007 and an annual interest rate of 3.55% and EUR 261 thousand (LTL 901 thousand equivalent as of 31 December 2006) deposit with a maturity at 29 January 2007 and an annual interest rate of 3.3%.

## 13 Cash and cash equivalents (cont'd)

As of 31 December 2006 the Group's term deposits with AB PAREX BANKAS in addition are comprised of EUR 900 thousand (LTL 3,108 thousand equivalent as of 31 December 2006) deposit with a maturity at 10 January 2007 and an annual interest rate of 3.4%, also of EUR 403 thousand (LTL 1,391 thousand equivalent as of 31 December 2006) deposit with a maturity at 12 February 2007 and an annual interest rate of 3.5% and of EUR 500 thousand (LTL 1,726 thousand equivalent as of 31 December 2006) deposit with a maturity at 12 March 2007 and an annual interest rate of 3.57%.

## 14 Equity

Legal reserve

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfers of not less than 5% of net profit, calculated in accordance with IFRS, are compulsory until the reserve reaches 10% of the share capital. The legal reserve is fully formed by the Company.

## 15 Borrowings

Borrowings of the Company and the Group could be specified as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| **Non-current borrowings** | | | | |
| Loan from AS Parex-Banka (secured by the Company's assets) | 107,498 | 88,786 | - | 88,786 |
| | 107,498 | 88,786 | - | 88,786 |
| **Current borrowings** | | | | |
| Current portion of loan from AS Parex-Banka (secured by the Company's assets) | 15,000 | 14,798 | - | 14,798 |
| Current borrowing from AB Achema (related party) | - | 22,569 | - | 22,569 |
| Credit line in SEB Vilniaus Bankas (secured by the Company's assets) | - | 10,000 | - | 10,000 |
| | 15,000 | 47,367 | - | 47,367 |
| | 122,498 | 136,153 | - | 136,153 |

## 15 Borrowings (cont'd)

Terms of repayment of non-current debts are as follows:

| | As of 31 December 2006 | | | |
|---|---|---|---|---|
| | Group | | Company | |
| Year | Fixed interest rate | Variable interest rate | Fixed interest rate | Variable interest rate |
| 2007 | - | 15,000 | - | - |
| 2008 | - | 15,000 | - | - |
| 2009 | - | 15,000 | - | - |
| 2010 | - | 16,000 | - | - |
| 2011 and later | - | 61,498 | - | - |
| | - | 122,498 | - | - |

Weighted average effective interest rates of borrowings outstanding at the year-end:

| | 2006 | 2005 |
|---|---|---|
| Current borrowings | - | 4.00% |
| Non-current borrowings | 4.75% | 3.95% |

Parts of borrowings at the end of the year in national and foreign currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Borrowings denominated in:** | | | | |
| EUR | 122,498 | 103,584 | - | 103,584 |
| LTL | - | 32,569 | - | 32,569 |
| | 122,498 | 136,153 | - | 136,153 |

In 2006 the Company has repaid the loan to AS Parex-Banka (Latvia) after the recovery of the loan granted to the subsidiary UAB Krovinių Terminalas (Note 10).

On 13 September 2006 the subsidiary UAB Krovinių Terminalas signed a syndicated loan agreement with AB PAREX BANKAS (Lithuania) and AS Parex Banka (Latvia) (further "the Banks") to refinance the loan received from the Company for financing of construction of Oil and chemical products terminal and financing of working capital. The loan amount is EUR 37,650 thousand (LTL 129,998 thousand) and its maturity is 10 June 2014. Interest rate for the loan is 6 months EUR LIBOR + 1.3% for the 73.99% portion of the loan and 6 months EUR LIBOR + 1.0% for the 26.01% portion of the loan.

As of 31 December 2006 buildings and structures of the subsidiary UAB Krovinių Terminalas with the net book value of LTL 98,240 thousand and land rent rights were pledged to the Banks (Note 6).

The subsidiary UAB Krovinių Terminalas has a commitment to ensure that all cash turnovers are made through the bank accounts with the Banks and the Company and the Group has a commitment to ensure that this cash turnover is not less than LTL 75,000 thousand during half a year (Note 13).

The Company has guaranteed the repayment of the loan taken by the subsidiary UAB Krovinių Terminalas from AB PAREX BANKAS (Lithuania) and AS Parex-Banka (Latvia).

In 2006 the Company has repaid the credit line taken from AB SEB Vilniaus Bankas.

## 16 Other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Taxes, salaries and social security payable | 4,072 | 8,855 | 3,214 | 8,668 |
| Vacation pay and social security accrual | 3,576 | 2,980 | 3,268 | 2,784 |
| Amounts received in advance | 4,787 | - | 3 | - |
| Interest and commitment fees accrued | - | 693 | - | 693 |
| Other payables and accrued expenses | 6,707 | 16,695 | 3,415 | 3,563 |
| | 19,142 | 29,223 | 9,900 | 15,708 |

## 17 Operating lease

The Company and the Group concluded several contracts of operating lease of vehicles. The terms of lease do not include restrictions of the activities of the Company and the Group in connection with the dividends, additional borrowings or additional lease agreements. In 2006, the lease expenses of the Company and the Group amounted to LTL 381 thousand (LTL 359 thousand in 2005). The Company made prepayments for operating lease amounting to LTL 325 thousand.

Future lease payments according to the signed lease contracts are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 594 | 594 |
| From one to five years | 410 | 410 |
| | 1,004 | 1,004 |
| | | |
| Denominated in: | | |
| - EUR | - | - |
| - LTL | 1,004 | 1,004 |

The Company signed eight Klaipėda State Seaport land rent agreements for a total area of 1,248,306 square meters with the maturity terms ending from 31 December 2044 till 14 October 2054. One square meter annual rent fee varies from LTL 1.50 to LTL 7.11. Rent fee is reviewed periodically.

In the year 2006 Company signed an additional agreement for Klaipėda State Seaport land rent for an area of 8,000 square meters with the maturity date 17 November 2031. One square meter annual rent fee amounts to LTL 1.50.

Due to sales of Konteinerių Terminalas in 2006, part of land rent agreements were terminated. As of 31 December 2006 the Company's total rented area is 472,382 square meters.

The Group additionally signed three Klaipėda State Seaport land rent agreements for a total area of 57,433 square meters with the maturity terms ending from 31 December 2021 till 8 August 2035. One square meter annual rent fee varies from LTL 1.50 to LTL 12. Rent fee is reviewed periodically.

## 18 Financial lease

In 2006 the Company and the Group concluded one contract of financial lease of vehicle. The terms of lease do not include restrictions of the activities of the Company and the Group in connection with the dividends, additional borrowings or additional lease agreements. In 2006, the lease expenses of the Company and the Group amounted to LTL 437 thousand. Net book value of the assets acquired under financial lease as of 31 December 2006 amounts to LTL 1,254 thousand.

Future lease payments according to the signed lease contracts are as follows:

| | Group | Company |
|---|---|---|
| Within one year | 255 | 255 |
| From one to five years | 979 | 979 |
| Total financial lease obligations | 1,234 | 1,234 |
| Interest | (127) | (127) |
| Present value of financial lease obligations | 1,107 | 1,107 |
| Financial lease obligations are accounted for as: | | |
| - current | 210 | 210 |
| - non-current | 897 | 897 |
| Denominated in: | | |
| - EUR | 1,107 | 1,107 |
| - LTL | - | - |

## 19 Cost of sales

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Employee compensation costs | 28,643 | 31,790 | 26,731 | 31,790 |
| Depreciation | 25,209 | 37,645 | 21,580 | 37,645 |
| Maintenance and repairs | 9,861 | 10,267 | 9,802 | 10,267 |
| Rent expenses | 7,963 | 9,256 | 7,332 | 9,256 |
| Forwarding services | 13,232 | 368 | 479 | 368 |
| Other production overheads | 9,631 | 10,490 | 9,387 | 10,327 |
| | 94,541 | 99,816 | 75,311 | 99,653 |

Employee compensation costs decreased due to decrease in volume of loading services provided.

## 20 Operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Employee compensation costs | 16,000 | 12,665 | 13,955 | 10,628 |
| Management fee | 10,100 | 13,333 | 9,500 | 13,333 |
| Security services | 3,721 | 2,397 | 3,134 | 2,397 |
| Charity and donations | 2,909 | 2,259 | 2,909 | 2,259 |
| Depreciation and amortisation | 2,660 | 1,288 | 871 | 778 |
| Taxes (other than income tax) | 1,991 | 2,652 | 1,267 | 2,640 |
| Advertising | 1,032 | 451 | 1,012 | 440 |
| Rent expenses | 776 | 1,086 | 773 | 588 |
| Consultation and similar services | 699 | 492 | 419 | 394 |
| Maintenance and repair | 616 | 1,816 | 361 | 1,724 |
| Insurance | 519 | 215 | 208 | 199 |
| Employee trainings | 484 | 495 | 410 | 421 |
| Business trips | 361 | 355 | 333 | 293 |
| Utilities | 403 | 266 | 279 | 222 |
| Bank services | 199 | 79 | 37 | 70 |
| Write-off and impairment of property, plant and equipment | (710) | 4,380 | (710) | 4,380 |
| Change in allowance for inventories | - | 1,439 | - | 1,439 |
| Other | 2,429 | 1,083 | 2,034 | 866 |
| | 44,189 | 46,751 | 36,792 | 43,071 |

## 21 Other operating income (expenses), net

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Gain on disposal of property, plant and equipment | 114 | 23,525 | 114 | 22,765 |
| Rent income | 1,166 | 7,029 | 1,166 | 7,029 |
| Other income | 2,964 | 2,833 | 2,941 | 2,670 |
| Gain (loss) from sale of inventories, net | 19 | (370) | 19 | (370) |
| Correction of Containers Terminal sales price | (2,000) | - | (2,000) | - |
| Other expenses | (1,500) | (1,305) | (1,442) | (1,150) |
| | 763 | 31,712 | 798 | 30,944 |

In 2006 the Company received a claim for the poor condition of equipment of Containers Terminal sold in 2005, and has corrected the sales price by LTL 2,000 thousand.

## 22 Income (expenses) from financial and investment activities, net

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Interest income | 386 | 176 | 4,430 | 2,972 |
| Foreign currency exchange (loss) gain, net | (47) | 300 | (30) | 286 |
| Interest expenses | (5,410) | (4,032) | (3,844) | (4,032) |
| Recognition of negative goodwill from acquisition | - | 111 | - | - |
| Dividend income | - | 8 | 150 | 108 |
| Loan discounting | - | (171) | - | (171) |
| Other financial income (expenses) | 118 | 28 | (136) | 16 |
| | (4,953) | (3,580) | 570 | (821) |

## 23 Income tax

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Current income tax for the reporting year | 2,680 | 1,392 | 2,680 | 1,392 |
| Change in deferred income tax due to change in tax rate | 24 | 284 | 24 | 284 |
| Change in temporary differences | (1,154) | (1,426) | (1,510) | (405) |
| Income tax expenses recorded in income statement | 1,550 | 250 | 1,194 | 1,271 |
| | | | | |
| **Deferred income tax asset** | | | | |
| Tax loss carry forward | 1,281 | 1,021 | - | - |
| Impairment of property, plant and equipment | 588 | 718 | 588 | 718 |
| Allowance for inventories | 693 | 729 | 693 | 729 |
| Vacation pay accrual | 301 | 205 | 290 | 205 |
| Other temporary differences | 263 | 226 | 263 | 226 |
| | 3,126 | 2,899 | 1,834 | 1,878 |
| Less: realisation allowance | - | - | (1,605) | - |
| Deferred income tax asset, net of allowance | 3,126 | 2,899 | 1,834 | 1,878 |
| | | | | |
| Deferred income tax asset netted liability | (2,461) | (1,878) | (1,834) | (1,878) |
| Deferred income tax asset, net | 665 | 1,021 | - | - |
| | | | | |
| **Deferred income tax liability** | | | | |
| Investment incentive | (2,494) | (2,656) | (2,121) | (2,656) |
| Depreciation rates differences | (305) | (784) | (51) | (784) |
| Non-taxable income | (118) | (380) | (118) | (380) |
| Deferred income tax liability | (2,917) | (3,820) | (2,290) | (3,820) |
| | | | | |
| Deferred income tax liability netted with asset | 2,461 | 1,878 | 1,834 | 1,878 |
| Deferred income tax liability, net | (456) | (1,942) | (456) | (1,942) |

## 23 Income tax (cont'd)

While assessing deferred income tax assets and liability components for the year ended 31 December 2006 and 2005 the Group and the Company used income tax rates of 19% and 18% for those items, which will be realised in 2006 and 2007, respectively, and 15% rate was used for the items which will be realised in 2008 and later.

The reported amount of income tax expenses attributable to the period can be reconciled to the theoretical amount of income tax expenses that would arise from applying statutory income tax rate to pre-tax income as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Profit before tax | 7,781 | 9,439 | 3,835 | 14,822 |
| Income tax expenses computed using the statutory tax rate (19% in 2006 and 15% in 2005) | 1,478 | 1,416 | 729 | 2,223 |
| Permanent differences | 48 | 305 | 441 | (443) |
| Change in tax rate | 24 | 284 | 24 | 284 |
| Change in valuation allowance | - | (1,755) | - | (793) |
| | 1,550 | 250 | 1,194 | 1,271 |

## 24 Basic and diluted earnings per share

Basic earnings per share reflect the Group's net profit, divided by the outstanding number of shares. The Company does not have any potential shares, therefore basic and diluted earnings per share are the same. Calculation of the basic and diluted earnings per share is presented below:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Net profit, attributable to the shareholders | 6,231 | 9,319 |
| Weighted average number of shares outstanding (in thousand items) | 12,670 | 12,670 |
| Basic and diluted earnings per share (in LTL) | 0.49 | 0.74 |

## 25 Dividends per share

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| Dividends paid | 19,950 | 11,400 |
| Weighted average number of shares outstanding (in thousand items) | 12,670 | 12,670 |
| Dividends per share (LTL) | 1.57 | 0.90 |

## 26 Financial assets and liabilities and risk management

Credit risk

The Company and the Group has significant concentration of trading counterparties. The main three customers of the Group – AB Achema (a related company), AB DFDS Lisco and UAB Forlika – on 31 December 2006 account for approximately 56% (AB Achema (a related company) and Belaruskalij - 37% as of 31 December 2005) of the total Group's trade receivables.

The Company's and the Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit.

The Company and the Group does not guarantee obligations of other parties, except for one guarantee related to the loan repayment by a subsidiary (Note 15). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, if any, in the balance sheet. Consequently, the Company and the Group considers that its maximum exposure is reflected by the amount of trade receivables, net of allowance for doubtful accounts recognised at the balance sheet date.

Interest rate risk

The major part of the Company's and the Group's borrowings is with variable rates, related to LIBOR, which creates an interest rate risk. There are no financial instruments designated to manage the exposure to fluctuation in interest rates outstanding as of 31 December 2006 and 2005.

Liquidity risk

The Company's and the Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans. The Group's liquidity and quick ratios as of 31 December 2006 were 1.34 and 1.26 respectively (1.26 and 1.23 as of 31 December 2005 respectively). The Company's liquidity and quick ratios as of 31 December 2006 were 2.81 and 2.61 respectively (1.48 and 1.44 as of 31 December 2005 respectively).

Foreign exchange risk

The Company's and the Group's policy is to match cash flows arising from highly probable future sales and purchases in each foreign currency. The Company and the Group does not use any financial instruments to manage its exposure to foreign exchange risk other than aiming to borrow in EUR, to which LTL is pegged. Monetary assets and liabilities stated in various currencies as of 31 December 2006 were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| LTL | 36,371 | 21,186 | 33,356 | 16,452 |
| EUR | 14,995 | 129,028 | 8,606 | 226 |
| USD | 149 | 4 | 149 | 4 |
| Total | 51,515 | 150,218 | 42,111 | 16,682 |

## 26 Financial assets and liabilities and risk management (cont'd)

Fair value of financial instruments

The Company and the Group principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, long-term and short-term borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

(a) The carrying amount of current trade accounts receivable, current trade accounts payable, other receivables and other payables and short-term borrowings approximates fair value.
(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The fair value of non-current borrowings with variable interest rates approximates their carrying amounts.

## 27 Commitments and contingencies

In 2005 VĮ Klaipėdos Valstybinio Jūrų Uosto Direkcija (state enterprise Klaipėda State Seaport Authority) increased the port land rent fee as it has improved the port infrastructure. However, the Company disputes the fee increase and claims that the infrastructure was not improved according to the agreement, and refused to pay the increased rent fee. On 28 February 2006 Klaipėda State Seaport Authority sued the Company for an amount of LTL 626 thousand for unpaid rent fee. On 4 December 2006 the Klaipėda district court has satisfied the claim of Klaipėda State Seaport Authority of LTL 626 thousand, however the Company has appealed this decision. Not paid port land rent fee as of 31 December 2006 amounts to LTL 793 thousand. As the management of the Company expects to win this case, no provision is made for these amounts as of 31 December 2006 and 2005.

As described in Note 15, the Company has guaranteed the repayment of the loan taken by subsidiary UAB Krovinių Terminalas from AB PAREX BANKAS (Lithuania) and AS Parex-Banka (Latvia).

## 28 Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are its shareholders and other companies that are controlled by the shareholders.

| 2006 | Purchases | Sales | Receivables | Payables |
|---|---|---|---|---|
| UAB Koncernas Achemos Grupė | 9,524 | 2,458 | - | - |
| AB Achema | 569 | 30,265 | 1,466 | 29 |
| UAB Achema Shipping | - | 43 | 21 | - |
| UAB Achemarida | 1,053 | 4 | - | 128 |
| UAB Achemos Mokymo Centras | 412 | 18 | 1 | 3 |
| UAB Achempak | 8 | - | - | - |
| UAB Agrochema | - | 1,269 | 109 | - |
| UAB Baltijos TV | 100 | - | - | - |
| UAB Budrus sakalas | 3,164 | 83 | 1 | 307 |
| Carsagrorent | 88 | - | - | 6 |
| UAB Energetinių Projektų Centras | 223 | - | - | - |
| UAB Europa | 861 | 467 | 36 | 20 |
| UADB Industrijos Garantas | 240 | 2 | 114 | 28 |
| UAB Inkontas | - | - | - | - |
| UAB Iremas | 6,276 | 757 | 22 | 357 |
| UAB Jontaura | - | 68 | - | - |
| UAB FMĮ Kapitalo Srautai | 74 | - | - | 12 |
| UAB Klaipėdos Keleivių Ir Krovinių Terminalas | 8 | 1 | 591 | - |
| AB Klaipėdos Laivų Remontas" | 6 | 3 | - | - |
| UAB Klasto Ekspedicija | 79 | 7,046 | 436 | 9 |
| UAB Krantas Forwarding | 219 | 55 | 7 | 20 |
| UAB Krovinių Terminalas | 16 | 4,283 | 22 | - |
| UAB Lietuvos Žinios | 569 | - | 1 | - |
| UAB Palangos Vėtra | 2 | - | - | - |
| UAB Sienojus | 4,229 | 120 | 8 | 262 |
| AB Spaustuvė Titnagas | 9 | - | - | - |
| UAB Transachema | - | 13 | 3 | - |
| | 27,729 | 46,956 | 2,839 | 1,181 |

## 28 Related party transactions (cont'd)

| **2005** | **Purchases** | **Sales** | **Receivables** | **Payables** |
|---|---|---|---|---|
| UAB Koncernas Achemos Grupė“ | 12,016 | 6,006 | 1 | 1,789 |
| AB Achema | 866 | 38,269 | 3,090 | 22,594 |
| UAB Achema Shipping | - | 6 | - | - |
| UAB Achemarida | 1,163 | 3 | - | 133 |
| UAB Achemos Mokymo Centras | 477 | 17 | 5 | 4 |
| UAB Agrochema | - | 462 | 193 | - |
| UAB Budrus Sakalas | 3,270 | 62 | 3 | 348 |
| Carsagrorent | - | - | - | 1 |
| UAB Energetinių Projektų Centras | - | - | 46 | - |
| UAB Euroga | 3,119 | - | - | 72 |
| UADB Industrijos Garantas | 464 | - | 1 | 249 |
| UAB Iremas | 7,219 | 769 | 4 | 424 |
| UAB FMĮ Kapitalo Srautai | 66 | - | - | 13 |
| UAB Klaipėdos Keleivių Ir Krovinių Terminalas | 8 | 10 | 610 | - |
| AB Klaipėdos Laivų Remontas | - | - | - | 1 |
| UAB Klasco Ekspedicija | 112 | 8,214 | 369 | 12 |
| UAB Krantas Forwarding | 193 | 55 | 2 | 20 |
| UAB Krovinių Terminalas | 21 | 2,865 | 109,080 | - |
| VšĮ Kūrybinės Programos | 200 | - | - | - |
| UAB Lietuvos Žinios | 53 | - | 80 | - |
| Liteximp Sp.z.o.o | 52 | - | - | - |
| UAB Palangos Vėtra | - | - | - | 1 |
| UAB Sienojus | 5,139 | 159 | 6 | 764 |
| AB Spaustuvė Titnagas | - | - | - | 1 |
| UAB Transachema | - | - | 1 | - |
| | 34,438 | 56,897 | 113,491 | 26,426 |

Outstanding non-current balances at the year-end should be secured by pledge of assets and are accounted at amortised value using effective interest rate (Notes 10). There have been no guarantees provided or received for any related party receivables or payables, except as disclosed in Note 15. For the years ended 31 December 2006 and 2005 the Company and the Group has not made any provisions for doubtful debts relating to amounts owed by related parties.

Remuneration of the management and other payments

The Company's management remuneration amounted to LTL 2,832 thousand in 2006 (LTL 1,718 thousand in 2005). In 2006 and 2005, the management of the Company did not receive any loans, guarantees; no other payments or property transfers were made or accrued.