"LIETUVOS JŪRŲ LAIVININKYSTĖ"
(JOINT STOCK COMPANY)

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENT

MOORE STEPHENS
VILNIUS

Trakų g. 3/2
LT – 01132 Vilnius
Lietuva

Tel. +370 (5) 268 5929
Faksas +370 (5) 268 5930
admin@moorestephens.lt
www.moorestephens.lt

Independent auditor's report to the shareholders of AB "Lietuvos jūrų laivininkystė"

We have audited the enclosed balance sheet of AB "LIETUVOS JŪRŲ LAIVININKYSTĖ" for the year ended 31 December 2006, related profit (loss) account, statement on changes in equity and cash flow statement, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements on the basis of our audit.

We conducted our audit in accordance with International Standards on Auditing approved by International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion

In our opinion the financial statements present fairly, in all material respects the financial position of AB "LIETUVOS JŪRŲ LAIVININKYSTĖ" as of 31 December 2006, its cash flows and results of its operations for 2006 and are prepared in accordance with the International Financial Reporting Standards as adopted by the EU.

UAB "Moore Stephens Vilnius"
(Audit Certificate No.001226)
Director Danguolė Pranckėnienė
(Auditor's License No.000345)

Auditor Birutė Traubergienė
(Auditor's License No. 000296)

15 February 2007
Vilnius

AB "Lietuvos jūrų laivininkystė"
(įmonės pavadinimas)
110865039, Malūnininkų g.3, LT-92264 Klaipėda
(įmonės kodas, adresas, kiti duomenys)

APPROVED
by General meeting of shareholders
Minutes No....
of .... 20..

BALANCE SHEET as of 31 December 2006
(date of formation of financial statements)

01.01.2006-31.12.2006
(reporting period)

LTL
(currency of financial statements)

	ASSETS	Note. No	31 December 2006	31 December 2005
A.	**NON-CURRENT ASSETS**		**257.258.660**	**246.163.160**
I.	**INTANGIBLE ASSETS**	**B.1.**	**10.838**	**13.138**
I.1.	Development work			
I.2.	Goodwill			
I.3.	Licenses and patents			
I.4.	Computer software	**B.1.**	10.838	13.138
I.5.	Other intagible assets			
II.	**TANGIBLE ASSETS**	**B.2.**	**252.031.734**	**240.425.563**
II.1.	Land			
II.2.	Buildings and construction		3.447.386	3.504.456
II.3.	Machinery		2.542.614	1.858.920
II.4.	Vehicles and other transport means		384.242	542.159
II.5.	Ships		240.042.755	224.886.514
II.6.	Repairs	**B.3.**	5.436.101	9.402.223
II.7.	Other tangible assets		178.636	231.291
III.	**FINANCIAL ASSETS**			
III.1.	Investments in subsidiaries and associates			
III.2.	Loans to subsidiaries and associates			
III.3.	Amounts receivable after one year			
III.4.	Other financial assets			
IV.	**ASSETS OF DEFERRED INCOME TAX**	**B.4.**	**5.216.088**	**5.724.459**
B.	**CURRENT ASSETS**		**16.008.690**	**11.716.055**
I.	**INVENTORIES, PREPAYMENTS AND CONTRACTS IN PROGRESS**	**B.5.**	**1.649.229**	**2.055.178**
I.1.	Inventories		813.198	462.710
I.1.1.	Raw materials and components		813.198	462.710
I.1.2.	Work in progress			
I.1.3.	Finished goods			
I.1.4.	Goods for resale			
I.2.	Prepayments		836.031	1.592.468
I.3.	Contracts in progress			
II.	**AMOUNTS RECEIVABLE WITHIN ONE YEAR**	**B.6.**	**745.204**	**425.327**
II.1.	Trade amounts receivable		545.201	219.421
II.2.	Receivable from subsidiaries and associates			
II.3.	Other amounts receivable		200.003	205.906
III.	**OTHER CURRENT ASSETS**	**B.7.**	**13.299.968**	**8.959.420**
III.1.	Current investments		350	700
III.2.	Time deposits		13.299.618	8.958.720
III.3.	Other current assets			
IV.	**CASH AND CASH EQUIVALENTS**	**B.8.**	**314.289**	**276.130**
	TOTAL ASSETS		**273.267.350**	**257.879.215**

	EQUITY AND LIABILITIES	Note. No	31 December 2006	31 December 2005
C.	**EQUITY**		**222.297.639**	**210.982.887**
I.	**CAPITAL**	**B.9.**	**200.901.296**	**200.901.296**
I.1.	Authorised (subscribed)		200.901.296	200.901.296
I.2.	Subscribed uncalled share capital (-)			
I.3.	Share premium			
I.4.	Own shares (-)			
II.	**REVALUATION RESERVE (RESULTS)**			
III.	**RESERVES**	**B.10.**	**10.081.591**	**26.457.313**
III.1.	Legal reserve		9.901.591	25.947.313
III.2.	Reserve for acquiring own shares			
III.3.	Other reserves		180.000	510.000
IV.	**RETAINED PROFIT (LOSSES)**	**B.11.**	**11.314.752**	**-16.375.722**
IV.1.	Profit (loss) of the reporting year		11.314.752	17.566.424
IV.2.	Profit (loss) of the previous year			-33.942.146
D.	**GRANTS AND SUBSIDIES**			
E.	**AMOUNTS PAYABLE AND LIABILITIES**		**50.969.711**	**46.896.328**
I.	**NON-CURRENT AMOUNTS PAYABLE AND LIABILITIES**		**33.603.164**	**30.449.901**
I.1.	Financial debts	**B.12.**	**30.020.006**	**25.866.049**
I.1.1.	Leases and similar obligations			
I.1.2.	To credit institutions		30.020.006	25.866.049
I.1.3.	Other financial debts			
I.2.	Trade amounts payable			
I.3.	Amounts received in advance			
I.4.	Provisions			
I.4.1.	For covering liabilities and demands			
I.4.2.	For pensions and similar obligations			
I.4.3.	Other provisions			
I.5.	Deferred taxes	**B.13.**	3.583.158	4.583.852
I.6.	Other amounts payable and non-current liabilities			
II.	**CURRENT AMOUNTS AND LIABILITIES**		**17.366.547**	**16.446.427**
II.1	Current portion of non-current debts			
II.2.	Financial debts	**B.12.**	9.494.232	8.139.891
II.2.1.	To credit institutions		9.494.232	8.139.891
II.2.2.	Other debts			
II.3.	Trade amounts payable		1.261.002	872.500
II.4.	Amounts received in advance		988.110	2.639.680
II.5.	Profit tax liabilities	**B.14.**	2.067.302	1.590.389
II.6.	Liabilities related to employment relations	**B.15.**	2.340.749	2.011.161
II.7.	Provisions	**B.16.**	755.109	347.000
II.8.	Other amounts payable and current liabilities		460.043	845.806
	TOTAL EQUITY AND LIABILITIES		**273.267.350**	**257.879.215**

Chief Executive Vytautas Vismantas

AB "Lietuvos jūrų laivininkystė"
(įmonės pavadinimas)
110865039, Malūnininkų g.3, LT-92264 Klaipėda
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PROFIT (LOSS) STATEMENT as of 31 December 2006
(date of formation of financial statements)
01.01.2006-31.12.2006
(reporting period)

LTL
(currency of financial statements)

Line No	Items	Note No	31 December 2006	31 December 2005
I.	**SALES REVENUE**	**P.17.**	102.129.181	96.417.514
II.	**COST OF SALES**	**P.20.**	88.410.404	79.251.129
III.	**GROSS PROFIT (LOSS)**		**13.718.777**	**17.166.385**
IV.	**OPERATING COSTS**	**P.21.**	**6.276.127**	**6.738.970**
IV.1.	Sales		31.918	39.539
IV.2.	General and administrative		6.244.209	6.699.431
V.	**OPERATING PROFIT (LOSS)**		**7.442.650**	**10.427.415**
VI.	**OTHER ACTIVITIES**		**7.839.665**	**13.685.199**
VI.1.	Income	**P.18.**	7.909.696	13.731.478
VI.2.	Expense	**P.22.**	70.031	46.279
VII.	**FINANCING AND INVESTING ACTIVITIES**		**-1.245.058**	**-2.917.822**
VII.1.	Income	**P.19.**	738.884	637.049
VII.2.	Expense	**P.22.**	1.983.942	3.554.871
VIII.	**PROFIT (LOSS) FROM ORDINARY ACTIVITIES**		**14.037.257**	**21.194.792**
IX.	**EXTRAORDINARY GAIN**			
X.	**EXTRAORDINARY LOSS**			
XI.	**PROFIT (LOSS) BEFORE TAXATION**		**14.037.257**	**21.194.792**
XII.	**PROFIT TAX**		2.722.505	3.628.368
XIII.	**NET PROFIT (LOSS)**		**11.314.752**	**17.566.424**
XIV.	**PROFIT PER SHARE (Lt)**	**P.23.**	**0,056**	**0,087**

Chief Executive Vytautas Vismantas

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(enterprise name)

110865039, Malūnininkų g.3, LT-92264 Klaipėda

(enterprise identification number, address, other information)

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STATEMENT OF CHANGES IN EQUITY as of 31 December 2006

(date of formation of financial statements)

01.01.2006-31.12.2006

(reporting period)

LTL

(currency of financial statements)

	Paid share capital	Reserves provided by law	Other reserves	Retained profit (loss)	Total
Balance as of 31 December 2004	**200.901.296**	**29.355.253**		**-35.715.038**	**194.541.511**
Net profit (Loss)				17.566.424	17.566.424
Dividends				-1.125.048	-1.125.048
Formed reserves			510.000	-510.000	
Used reserves		-3.407.940		3.407.940	
Balance as of 31 December 2005	**200.901.296**	**25.947.313**	**510.000**	**-16.375.722**	**210.982.887**
Net profit (Loss)				11.314.752	11.314.752
Dividends					
Formed reserves			180.000	-180.000	
Used reserves		-16.045.722	-510.000	16.555.722	
Balance as of 31 December 2006	**200.901.296**	**9.901.591**	**180.000**	**11.314.752**	**222.297.639**

Chief executive Vytautas Vismantas

AB "Lietuvos jūrų laivininkystė"
(enterprise name)

110865039, Malūnininkų g.3, LT-92264 Klaipėda
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CASH FLOW STATEMENT as of 31 December 2006
(date of formation of financial statements)

01.01.2006-31.12.2006
(reporting period)

LTL
(currency of financial statements)

No.		Note. No	31 December 2006	31 December 2005
I.	**Cash flows from operating activities**			
I.1.	Net profit (loss)		11.314.752	17.566.425
I.2.	Depreciation and amortisation expenses		25.200.334	20.496.105
I.3.	Decrease (increase) in amounts receivable after one year			
I.4.	Decrease (increase) in inventories		-350.488	148.616
I.5.	Decrease (increase) in advance payments received		756.437	-621.783
I.6.	Decrease (increase) in contracts in progress			
I.7.	Decrease (increase) in trade receivables		-325.780	364.264
I.8.	Decrease (increase) in amounts receivable from subsidiaries and associates			
I.9.	Decrease (increase) in other amounts receivable		5.903	32.642
I.10.	Decrease (increase) in other current assets			
I.11.	Increase (decrease) in non-current payables to suppliers and advance payments received			
I.12.	Increase (decrease) in current payables to suppliers and advance payments received		-1.263.068	794.242
I.13.	Increase (decrease) in payable profit tax		476.913	1.460.657
I.14.	Increase (decrease) in liabilities to employees		329.589	50.632
I.15.	Increase (decrease) in provisions		-84.214	1.284.779
I.16.	Increase (decrease) in other amounts payable and liabilities		-385.764	391.112
I.17.	Elimination of results of financing and investing activities		6.104	1.113.065
	Net cash flows from operating activities		**35.680.718**	**43.080.756**
II.	**Cash flows from investing activities**			
II.1.	Acquisition of non-current assets (excluding investments)		-44.855.569	-69.691.465
II.2.	Transfer of non-current assets (excluding investments)		8.051.363	4.964.573
II.3.	Acquisition of long-term investments			
II.4.	Transfer of long-term investments			
II.5.	Loans granted			
II.6.	Loans recovered			
II.7.	Dividends and interest received			
II.8.	Other increase in cash flows from investing activities			
II.9.	Other decrease in cash flows from investing activities			
	Net cash flows from investing activities		**-36.804.206**	**-64.726.892**
III.	**Cash flows from financing activities**			
III.1.	Cash flows related to the owners of enterprise:		-6.104	-1.113.065
III.1.1.	Issue of shares			
III.1.2.	Owners' contributions to cover losses			
III.1.3.	Purchase of own shares			
III.1.4.	Dividends paid		-6.104	-1.113.065
III.2.	Cash flows related to other financing sources		5.508.299	11.374.038
III.2.1.	Increase in financial debts		17.954.560	13.465.920

III.2.1.1.	Loans received		17.954.560	13.465.920
III.2.1.2.	Issue of bonds			
III.2.2.	Decrease in financial debts		-12.446.261	-2.091.882
III.2.2.1.	Loans received		-10.713.876	-2.091.882
III.2.2.2.	Issue of bonds		-1.732.385	
III.2.2.3.	Interest paid			
III.2.2.4.	Payments of lease (financial lease) liabilities			
III.2.3.	Increase in other enterprise liabilities			
III.2.4.	Decrease in other enterprise liabilities			
III.2.5.	Other increase in cash flows from financial activities			
III.2.6.	Other decrease in cash flows from financial activities		315.637	-3.965.452
	Net cash flows from extraordinary items		**5.817.832**	**6.295.521**
IV.	**Cash flows from extraordinary items**			
IV.1.	Increase in cash flows from extraordinary items			
IV.2.	Decrease in cash flows from extraordinary items			
V.	**The effects of changes in foreign exchange rates on the balance of cash and cash equivalents**		-315.637	2.435.491
VI.	**Net increase (decrease) in cash flows**		**4.378.707**	**-12.915.124**
VII.	**Cash and cash equivalents at the beginning of period**		**9.235.550**	**22.150.674**
VIII.	**Cash and cash equivalents at the end of period**		**13.614.257**	**9.235.550**

Chief Executive Vytautas Vismantas

AB "Lietuvos juru laivininkyste"
Financial statements for the year ended 31 December 2006

EXPLANATORY NOTES

1. Accounting policy

(a) Basis of Accounting

The Company's financial statements are prepared following 1 IAS and 1 IFRS regulations, which came into force on the 1st January 2006.

The financial statements are prepared following accrual and going - concern principles of accounting. According to the accrual principle effect of transactions and other events is recognized when it appears, is registered in accounting entries and presented in the financial statements of the related periods.

The financial statements are prepared assuming that the Company does not have any intentions or requirements to liquidate or reduce significantly the scope of its operations.

(b) Non current assets and depreciation

In the financial statements all economic resources that are at the disposal of the Company are recognized as assets if the Company expects to get a benefit from using the resources in future and if they have value which can be fairly evaluated.

In the financial statements non-current assets are stated at the actual acquisition value less accumulated depreciation. According to the Accounting Policy approved by the Board of Directors on the 18 of July 2001 all objects, the acquisition value of which is not less than 1 000 Lt and which are going to be used longer than one year, are attributed to non-current tangible assets. The liquidation value of the non-current tangible assets is 1 Lt, except ships "Akvilė", "Asta", "Audrė" and "Daina" (liquidation value 9-9,5%), "Alka" (10%), "Romuva" (2%), "Voruta", "Svilas", "Staris" (9,5%) and administrative building (6,3%).

Depreciation is calculated starting from the first day of the next month after the beginning of assets exploitation and finishing the month when the assets are written off or sold and when the whole value of the used non-current assets (less liquidation value) is transferred into the cost of production (work, services). Depreciation is calculated on a straight - line basis.

The value of repairs of non-current tangible assets which do not improve useful features of assets for a few years (and these costs of repair will not earn revenue in the future) is included into expenses of that reporting period in which they were implemented.

The values of the assets are reviewed at each balance sheet date in order to estimate their impairment. If there are indications of impairment a recoverable amount is calculated. A recoverable amount is the higher of the asset's expected net realizable value and its value in use. Loss from impairment of assets is registered when the book value of the asset is higher than the recoverable amount. All impairment losses are registered in profit (loss) statement.

The ships are repaired periodically according to requirements of the classificatory companies: the class of the ship is confirmed every 5 years (SS) after repair, when 3 years pass after SS repair the dock repair is exercised. The Company writes off to expenses the charges of repairs to confirm the class of the ship during 3 years and the charges of dock repairs during 2 years.

(c) Inventories

Stocks are recorded at their actual purchase cost or their production cost and stated in the financial statements at the lower of cost and net realisable value.

When buying inventories from other persons their purchase cost is determined by adding all taxes related to purchase (customs duties, etc.), transportation, preparation and other direct expenses related to stocks purchase to acquisition price and subtracting discounts and other price reductions. Non significant amounts (or if they are constant for a few periods) of above mentioned expenses can be recognized as expenses of the period when they are incurred.

(d) Amounts receivable

When recognizing the amounts receivable they are stated at their fair value. Later short-term amounts receivable are stated evaluating their impairment and long-term amounts receivable are stated at discounted value minus impairment.

(e) Cash and cash equivalents

Cash includes cash on hand and in bank. Cash equivalents comprise short-term (up to three months) liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

In the Cash Flow Statement cash and cash equivalents include cash on hand, in bank and other short-term liquid investments.

(f) Liabilities

Loan charges are recognized as expenses when they are incurred. At the beginning the loans are recognized at the fair value of received funds after subtracting transaction costs. Consequently they are accounted for at amortized cost and the difference between the amount received and the amount that will be repaid during the period of the loan is included into profit or loss of the related period. The loans are presented as non current liabilities if the financial agreement valid at the date of confirmation of the financial statements confirms that at the balance sheet date the liability is non current by nature.

(g) Provisions

Provisions are recognized only if the Company has a legal obligation or irrevocable undertaking as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required for discharging a legal obligation or irrevocable undertaking, and a reliable estimate can be made of the amount of obligation. Provisions should be revised on each balance sheet date adjusting their value having regard to new events and circumstances. If the amount of provisions is materially affected by changes in the value of money, provisions should be discounted to their current value. When the discounting is used the increase of the provision is accounted as interest expenses.

(h) Income tax

Calculation of income tax is based on yearly profit and is estimated according to the Lithuanian tax law requirements. Deferred income tax is computed on the basis of temporary differences between the values of assets and liabilities in the financial statements and for tax purposes. The amount of deferred tax depends on the planned period of asset usage and liabilities' coverage as well as on future tax rate. Deferred tax assets and deferred tax liabilities are offset only to the extent that deferred income tax liability will be realized at the same time as deferred income tax assets. The standard rate of income tax applied in Lithuania is 15 % but in 2006 –

2007 social tax (4 % and 3 %) will be computed following the same rules as income tax, therefore it is treated as an increase of the income tax rate and this influences the calculation of additional deferred income tax assets or liabilities.

(i) Foreign currency

Transactions in foreign currency are registered in accounting in the national currency, litas, on the basis of the official rate of litas and the corresponding foreign currency announced by the Bank of Lithuania at the date of transaction, except for accrued income and expenses, which are registered at the official rate of litas and the corresponding foreign currency announced by the Bank of Lithuania at the last date of the accounting period.

Foreign currency entries of the balance sheet are stated on the basis of the official rate of litas and the corresponding foreign currency announced by the Bank of Lithuania at the date of the financial statements. Foreign currency entries include cash in foreign currency as well as all amounts receivable and payable in foreign currency.

Changes in currency entries, which are due to changes in the rate of litas and the corresponding foreign currency announced by the Bank of Lithuania and arise because of performed transactions in foreign currency or revaluation of previously registered foreign currency entries, are recognized as income or expenses of the accounting period to which they are related.

(j) Recognition of income

The moment of providing services is recognized as the moment of earning income. Services are considered to be rendered if a buyer pays for them at once or without significant additional conditions takes on the responsibility to pay later (when both parties of the transaction sign the appropriate document: invoice, waybill, etc.) Money received as advance payment for services in accounting records are shown as an increase in the Company's liabilities to the buyers. In such case income is recognized only after rendering the services.

Income from other activities includes income from profit of sold non-current assets and other income.

(k) Recognition of expenses

An indicator of cost of services provided is always related to services rendered in the accounting period. This indicator includes only those charges, which were made for providing services in the accounting period. In cases when it is impossible to relate charges of the reporting period to particular income and those charges will not earn income in the future, they are recognized as expenses of the period when they are incurred.

(l) Application of estimates in preparation of financial statements

In the course of preparation of the financial statements, the management must make some assumptions and estimates, which influence the presented values of assets, liabilities, income and expenses as well as disclosed contingencies. These significant areas, in which estimates are applied, include depreciation, evaluation of assets' impairment and provisions. Future events can alter assumptions applied in such evaluations. The result of changes in such estimates will be presented in the financial statements when they are reviewed.

(m) Contingencies

Contingent liabilities are not presented in the financial statements. They are disclosed in the financial statements except in those cases when the possibility to lose resources used to gain economic benefit is very low.

Contingent assets are not presented in the financial statements. They are disclosed in the financial statements when it is probable that income or economic benefits will be received

(n) Management of financial risks

The Companies transactions are made on international markets in euros and USA dollars, therefore significant risk related to changes in foreign currency rates exists. Credit risk or risk related to partners not fulfilling their liabilities is controlled by applying the control of credit terms and procedures. The Company is not exposed to significant credit risk with any of its partners or partner groups. The Company prevents liquidity risk by maintaining a sufficient flow of cash and cash equivalents or getting financing through credits and by planning cash flows in advance. The Company does not use any financial instruments to prevent the financial risk

(o) Events occuring after the balance sheet date

Events occurring after the balance sheet date which provide additional information about the financial position of the Company at the date of the balance sheet (adjustments) should be presented in the financial statements. Events occurring after the balance sheet date which do not effect financial position of the Company should be disclosed in the explanatory notes if they are significant.

2. Organizational structure and main activity

AB "Lietuvos jūrų laivininkystė" (LJL) is a joint stock company, founded after restructuring AB „Lietuvos jūrų laivininkystė“ (LISCO).

LJL was registered in the Company Register, the certificate No. 027245. The date of registration is 27 June 2001. The Company's code is 110865039. The address is Malūnininkų g. 3, Klaipėda.

The Company's management bodies are the general meeting of shareholders, the council of members, the board of directors and the general director.

The main Company's activity is shipping and lease of ships.

At the end of the reporting period 533 employees (64 on shore and 469 on board) were working in the Company. Previous year 55 employees were employed by the Company.

Balance sheet

B.1. Non-current intangible assets, thousand Lt

	Acquisition cost	Amortisation	Residual value
1 January 2006	288,2	275,1	13,1
Acquisition during 2006	11,2	-	-
Amortisation		13,5	
31 December 2006	299,4	288,6	10,8

The period of amortisation of non current intangible assets is 3 years.

B.2. Non-current tangible assets, thousand Lt

Items	Buildings and plant	Machinery	Ships	Other transport means	Repairs	Other tangible assets	Total
Carrying amount at the end of the previous financial year	**3.504**	**1.859**	**224.887**	**542**	**9.402**	**231**	**240.426**
Acquisition cost							
At the end of the previous financial year	3.737	4.632	346.327	726	9.402	580	**365.405**
Current year changes:							
- acquisition of assets		1.461	43.348	0	1.766	36	**46.611**
- sold and written off assets (-)		681	9.981	0	5.733	138	**16.533**
- transfer from one account to another +/(-)							
At the end of the current financial year	3.737	5.412	379.694	726	5.436	477	**395.483**
Depreciation	0	0	0	0		0	**0**
At the end of the previous financial year	233	2.773	84.554	184		348	**88.093**
Current year changes:	0	0	0	0		0	**0**
- current year depreciation	57	526	24.395	158		52	**25.187**
- depreciation of assets sold to third parties and written off (-)	0	430	6.183	0		102	**6.715**
At the end of the current financial year	290	2.869	102.765	342		299	**106.565**
Impairment							
At the end of the previous financial year			36.886				**36.886**
Current year changes:							
At the end of the current year			36.886				**36.886**
Carrying amount at the end of current financial year	**3.447**	**2.543**	**240.043**	**384**	**5.436**	**179**	**252.032**

Vessels

At the end of the financial year LJL's non-current tangible assets included 18 ships, administrative building, warehouse, transport means, machinery and equipment.

In March 2006 the ship „Voruta" was purchased for 43348 thousand Lt. In the first quarter were saled two ships: „Kap.Andžejauskas" and „Kap.Marcinkus".

Other non-current tangible assets

In 2006 financial year the purchases of other tangible assets amounted to 1460,8 thousand Lt, from them: ventilation system of the ship "Romuva" for 642,7 thousand Lt and fire extinguishing system CO2 for 275,4 thousand Lt. .

B.3. Repairs of vessels:

Repair charges that were recognized as assets – 5436,1 thousand Lt
The following amounts will be transferred to expenses:

Year 2007	-	3632,2
Year 2008	-	1546,6
Year 2009	-	257,3

B.4. Deferred income tax asset: thousand Lt

		2005.12.31	2006.12.31	Difference
1	Written-off interest	3 680,301	3 340,330	-339,971
2	Reduced value (ships)	33 759,554	30 633,216	-3 126,378
3	Provisions for invoices that were not received	300,000	300,000	-
4	Social insurance on accrued vacation	376,203	445, 574	+169,371
5	Other provisions (audit)	47,000	54,800	+7,800
6	Total temporary differences	38 163,058	34 773,920	-3 389,138
7	Total deferred income tax liabilities	5 724,459	5 216,088	-508,371
8	Total Deferred tax asset:	5 724,459	5 216,088	-508,371

Deferred tax assets are income tax amounts receivable in future accounting periods that arise due to deductible temporary differences and the carry forward of unused tax losses.

B.5. Inventories and prepayments, thousand Lt

Inventories are registered in accounting records applying FIFO method, i.e. the inventories which were purchased earlier are used at the earliest.

	2006-12-31	2005-12-31
Diesel	-	-
Fuel oil in ships	-	38,4
Spare parts	605,6	173,4
Food reserves in ships	207,6	250,9
Prepayments	836,0	1592,5
Total:	**1649,2**	**2055,2**

B.6. Amounts receivable, thousand Lt

	2006-12-31	2005-12-31
Debts of Lithuanian customers	60,5	24,0
Debts of foreign customers	478,8	195,4
Amounts receivable from the state budget	12,9	29,9
Advances for ships	161,7	161,7
Other amounts receivable	31,3	14,3
Total:	**745,2**	**425,3**

The increase of foreign customers' debts comprised of 342,3 thousand Lt when the ship „Skalva“ damaged the bulk. This accident is assured. The insurance companies are investigating the accident's circumstances and the amount of 342,3 thousand Lt should be returned to the Company.

B.7. Other current assets, thousand Lt

	2006-12-31	2005-12-31
Time deposits	13299,6	8958,7
Other current assets	0,4	0,7
Total:	**13300,00**	**8959,4**

B.8. Cash and cash equivalents, thousand Lt

	2006-12-31	2005-12-31
Cash in national currency	112,0	125,1
Cash in foreign currency in bank accounts	165,8	98,7
Cash in LJL's till in national currency	5,0	9,4
Cash in LJL's till in foreign currency	31,5	42,9
Total:	**314,3**	**278,1**

B.9. Capital, thousand Lt

	Authorized capital	Share premium	Total
01 Janyary 2006	200901,3	-	200901,3
Emission of new shares	-	-	-
Acquired own shares	-	-	-
31 December 2006	200901,3	-	200901,3

Authorized share capital as of 31 December 2006 consisted of 200 901 296 ordinary registered shares. Nominal value of one share is equal to 1 Lt.

B.10. Reserves, thousand Lt

	2006-12-31	2005-12-31
Legal reserves	9901,6	25947,3
Other reserves	180,0	510,0
Total:	**10 081,6**	**26 457,3**

In 2006 the legal reserve decreased by 16045,7 thousand Lt because on 31 December 2004 the values of "Asta" type vessels were reduced following the regulations of IAS 36. Due to the reason mentioned above the loss arose in 2005. In April 2006 the general meeting of shareholders decided to transfer the amount from legal reserve to cover this loss.

B.11. Retained profit (loss), thousand Lt

	2006-12-31	2005-12-31
Total retained profit (loss)	11314,7	(-16375,7)
This includes:	-	
- changes in accounting policy (ships' value reduction)	-	(35116,4)
- net profit	-	17566,4
- retained profit of previous periods	-	1174,3

Retained loss of 2005, which amounted to 16375,7 thousand Lt, incurred when the value reduction (36885,9 thousand Lt) and interest, that was previously added to the value of vessels "Asta", "Audrė", „Akvilė“, „Daina“, were eliminated.

B.12. Financial debts to credit institutions, thousand Lt

	2006-12-31	2005-12-31
Financial debts payable after one year	30020,0	25866,0
Financial debts payable within one year	9494,2	8139,9

Assets are pledged for all financial bank loans of LJL. Vessels "Asta", "Audre", "Daina", "Akvile" were pledged. During the year vessels "Staris" and "Svilas" were also pledged but in 2006 the credit was repaid before the term. On 31 December 2006 the balance of the credit in US dollars was 5086,3. In May 2006 the company repaid 1186 thousand US dollar credit loan before the term (the term was 31 December 2006). The rest of the credit balance should be repaid before 2010. On 31 December 2006 the balance of the credit was 7569.3 thousand EUR. This credit is for vessel "Romuva" which was purchased in November 2005 and "Voruta" which was purchased in March 2006. In 2006 the credit was received to purchase "Voruta" and should be returned before 2010. All credits mentioned above, according to the contracts, are obtained from AB SEB "Vilniaus bankas".

B.13. Deferred taxes, thousand Lt

	2006-12-31	2005-12-31
Deferred taxes	3583,2	4583,9

Deferred taxes declined 1000,7 thousand Lt. Liabilities of deferred income tax will amount to 815,4 thousand Lt evaluating accumulated repair expenses during 2007-2009. The amount of 2605,3 is the tax for the year 2007 and later years which arises from investment exemption applied to the vessel "Daina" in accordance with the Law of Income tax Article 21. Deferred social tax will amount to 162,5 thousand Lt, in this number vessel "Daina" – 53,5 thousand Lt, repair – 108,9 thousand Lt.

B.14. Income tax liabilities, thousand Lt

	2006-12-31	2005-12-31
Income tax liabilities	2067,3	1590,4

Income tax liabilities increased by 476,9 thousand Lt. Income tax for 2006 comprised from income tax 2686 thousand Lt and social tax 716,3 thousand Lt. In advance paid income tax for 2006 was 868,7 thousand Lt, social tax – 406,3 thousand Lt.

B.15. Liabilities, thousand Lt

	2006-12-31	2005-12-31
Liabilities related to employment relations	2340,7	2011,2

Liabilities related to employment relations: provisions for salaries – 1443,1 thousand Lt, provisions for Social Security fund – 447,1 thousand Lt, payable salaries – 5,2 thousand Lt, payable amount for Social Security fund – 440,6 thousand Lt, payable amount to the guarantee fund – 2,5 thousand Lt.

B.16. Provisions, thousand Lt

	2006-12-31	2005-12-31
Provisions	755,1	347,0

Provisions amount to 755,1 thousand Lt: 54,8 thousand Lt payments to the audit company, 700,3 thousand Lt to invoices which were not received during 2006.

<u>LJL liabilities not reflected in the balance sheet</u>

	Items	**Amount**
1.	Letter of indemnity on behalf of “North of England P&I”	25 000 JAV dol.

Letter of indemnity on behalf of “North of England P&I association” for the amount of 25 000 US dollars was turned in concerning cargo damage in Djendjen (Maroc) harbour (12-08-1999). When investigation about this claim will end LJL will pay part of this claim according to its fault. Maximum payable amount is provided in the letter of indemnity – 25 000 USD.

P.17. Income, thousand Lt

Sales	**2006-12-31**	**2005-12-31**	%
Time charter income	102129,2	92805,6	110,0
Other time charter income	-	278,2	-
Income from short term charter contracts	-	3333,7	-
Total:	**102129,2**	**96417,5**	**105,9**

The increase of time charter income mainly was caused by all new contracts with the higher rates for freight and more work days. In 2006 all ships were working only under time charter contracts.

P.18. Other activities, thousand Lt

	2006-12-31	**2005-12-31**	%
Income	7909,7	13731,5	57,6

The difference of other activities' income arose from profit received from sold ships. In 2005 vessels “Mūša” and “Vokė” were sold for the amount of 13569,9 thousand Lt. In 2006 vessels “Kap. Andžejauskas” and “Kap. Marcinkus” were sold and the amount of 7699,4 thousand Lt was earned.

P.19. Financing and investing activity, thousand Lt.

	2006-12-31	**2005-12-31**	%
Income	738,9	637,0	116,0

In 2006 income of financing and investing activity increased because of the positive influence of changes in currency exchange rates 315 thousand Lt.

P.20. Cost of sales, thousand Lt

	2006-12-31	2005-12-31	%
Depreciation	24811,2	20099,0	123,4
Salaries and social insurance	14513,4	14134,2	102,7
Day allowance and food for sailors	9963,4	10030,5	99,3
Repair expenses	10162,4	9684,5	104,9
Broker and address committee	2944,8	2963,4	99,4
Insurance	5022,2	4482,7	112,0
Various port charges and taxes	134,7	549,4	24,5
Spare parts and materials	8272,7	6901,6	86,2
Journeys (changing crew) and transport	1099,3	891,6	123,3
Supply	869,0	822,6	105,6
Diesel and fuel oil	308,2	865,0	35,6
Lubricants (various)	2598,1	1884,6	137,8
Other	7711,0	3242,0	2378
Total:	**88410,4**	**79251,1**	**111,6**

Depreciation increased in 2006 because more expensive ships "Romuva" (in November 2005) and "Voruta" (in March 2006) were bought. The insurance of the ships also increased for the reason mentioned above.

P.21. Operational expenses, thousand Lt

	2006-12-31	2005-12-31	%
Salaries and social insurance	4115,9	3812,8	107,9
Business trips expenses	468,7	635,9	73,7
Depreciation	389,1	397,1	98,0
Premise maintenance	70,1	53,0	132,3
Insurance	44,8	32,8	136,6
Transportation expenses	83,1	88,7	93,7
Business maintenance expenses	104,1	156,5	66,6
Repair	16,5	15,3	107,8
Connection	194,5	208,4	93,3
Advertising and selling expenses	31,9	39,5	80,7
Bank services	137,1	146,1	93,8
Taxes	58,6	347,6	16,8
Consultations, legal and audit services	100,4	387,1	25,9
Other	461,3	418,1	110,3
Total:	**6276,1**	**6738,9**	**93,1**

In 2006 taxes decreased because the road tax was reversed. This sum amounted to 278 thousand Lt in 2005. The consulting services also were lower in 2006 because legal services used by the Company decreased significantly.

P.22. Other activity, financing and investing activity expenses, thousand Lt

	2006-12-31	2005-12-31	%
Rent expenses	3,3	8,4	
Written off non current assets	46,4	1,6	
Interest	1983,9	1119,4	
Negative influence of currency exchange rates	-	2435,5	
Other	20,3	36,3	
Total:	**2053,9**	**3601,2**	

Interest is paid to the SEB Vilnius bank for credits for ships' acquisition. In 2006 interest expenses increased because the Company obtained more credits for the acquisition of new vessels in November 2005 and March 2006.

P.23. Profit per share, thousand Lt

Profit per share was calculated dividing the profit which belonged to the shareholders (11314,7 thousand Lt) by the amount of ordinary shares at the end of the period (200 901 296).

Shareholders and control

On 31 December 2006 65,35% of LJL shares belonged to the government: 56,56% was controlled by the Ministry of Transport and Communications and 8.79% belonged to the State Property Fund, which pays for unreturned land in shares, 5,68% of shares belonged to "DFDS Tor Line" A/S (Denmark), rest of shares were controlled by private shareholders.

Cash flow statement

On 31 December 2006 cash flows increased by 4378,7 thousand Lt comparing with 2005. This mainly happened because of positive influence of changes in currency exchange rates and income gained from purchased ships.

Statement of changes in equity

In the beginning of the current year the loss of 16375,7 thousand Lt in the statement of changes in equity occurred mainly because of the impairment of non current tangible assets – 36885,9 thousand Lt, when the values of the vessels were recalculated. In 2006 the loss from the recalculated vessels' value was covered from legal cumulative reserve. The profit received in 2006 amounted to 11314,7 thousand Lt, that is why the capital at the end of the year increased by this sum and amounted to 222297,7 thousand Lt.

Other issues

In 2006 LJL closed its subsidiary "Lithuan Shipping Corporation" which LJL owned after LISCO reorganization. "Lithuan Shipping Corporation" was located in Liberia, its shares were worthless, it did not have any assets and did not perform any economical and financial activity.

Events after the balance sheet date

In the first quarter of 2007 there were sold two old vessels "Kapitonas Panfilov" and "Kapitonas Šimkus". Also it is planned to purchase two freight vessels which dead-weight is 16.9 thousand tons.

Chief Executive Vytautas Vismantas

31 January 2007

"LIETUVOS JŪRŲ LAIVININKYSTĖ"
(JOINT STOCK COMPANY)

INDEPENDENT AUDITOR'S REPORT AND
ANNUAL REPORT OF THE COMPANY
FOR THE YEAR ENDED 31 DECEMBER 2006

MOORE STEPHENS
VILNIUS

Trakų g. 3/2
LT – 01132 Vilnius
Lietuva

Tel. +370 (5) 268 5929
Faksas +370 (5) 268 5930
admin@moorestephens.lt
www.moorestephens.lt

Auditor's report about AB "Lietuvos jūrų laivininkystė" annual report for the year 2006

We have reviewed enclosed annual report of AB "Lietuvos jūrų laivininkystė" for the financial year of 2006. The preparation of annual report for the financial year of 2006 is the responsibility of the Company's Management. Our responsibility is to express an opinion about the Company's annual report based on our review.

Our review of the annual report of the Company for the financial year of 2006 included application of analytical procedures and interview with the Company's employees. The scope of review is considerably smaller than audit, which purpose would be to express opinion about presented annual report; therefore we do not express our opinion on it.

In the annual report of the Company 2006 business plans and forecasts are presented. In the future the actual results can differ significantly from the Company's Management present estimations due to the fact that events and circumstances often do not correspond to forecasts.

Based on our review nothing has come to our attention that causes us to believe that the annual report of the Company does not correspond in all material respects to the requirements of 36 article of Companies Law of Republic of Lithuania and to yearly financial statements of the Company for the year of 2006.

In accordance with International Audit Standards we conducted an audit of AB "Lietuvos jūrų laivininkystė" financial statements for the year ended 31 December 2006 which were prepared following International Accounting Standards and expressed unconditional opinion in our report on 15 February 2007.

UAB "Moore Stephens Vilnius"
(Audit Certificate No.001226)
Direktorė D. Pranckėnienė
(Auditor's License No.000345)

Auditor Birutė Traubergienė
(Auditor's License No. 000296)

15 February 2007
Vilnius

AKCINĖ BENDROVĖ
„LIETUVOS JŪRŲ
LAIVININKYSTĖ"

PUBLIC COMPANY
"LITHUANIAN SHIPPING
COMPANY"

14 Feb 2007 No (01)-5-99
Klaipėda

In response to No

ANNUAL REPORT OF 2006

I. ABOUT THE COMPANY

The public company "Lithuanian Shipping Company" ("Lietuvos jūrų laivininkystė" in Lithuanian, LJL, enterprise code 110865039, address: Malūnininkų g. 3, Klaipėda, Lithuania) was established on 27 June 2001.

The securities of the Company were included into the current list of the National Stock Exchange on 9 July 2001:

- size of emission: 200,901,296 units;
- nominal value: LTL 1;
- total nominal value of emission: LTL 200,901,296.

On 8 December 2006, there were the following shareholders, having more than 5% of issuer's stock:

- State Enterprise "State Property Fund" (*VĮ Valstybės turto fondas*): 17,659,413 shares (8.79%);
- "DFDS Tor Line" A/S: 11,414,449 shares (5.68%);
- Ministry of Transport and Communications of the Republic of Lithuania (*Lietuvos Respublikos susisiekimo ministerija*):113,833,000 shares (56.66%);
- "Hansabank Clients": 16,744,988 shares (8.33%).

Small shareholders held 20.54% of the stock. The State Enterprise "State Property Fund" constantly transfers its shares to citizens of the Republic of Lithuania as a compensation for land and real estate – therefore, the part, held by the Fund, ought to pass into the hands of small shareholders with time.

In the year 2006, two shareholders' meetings took place: an ordinary meeting on 28 April 2006, and an extraordinary meeting on 8 December 2006, during which UAB "Moore Stephens Vilnius" was selected as the auditor of the Company's financial year of 31 December 2006 and of the Company's performance, and amendments were made in the Company's Statute. At the date of the latest shareholders' meeting, the Company had 1847 shareholders.

During 2006, there were five meetings of the Company's Board and two meetings of the Council of Observers.

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

II. PERFORMANCE OF SHIPS OF THE COMPANY IN 2006

Composition of the ship park in 2006

The company had the following ships during the reporting period:

1. Eight bulk cargo ships of "Kapitan Panfilov" type – of 14,632 DWT each (at the start of the year):

1.1. On 1 March 2006: motor ship "Kapitonas Andžejauskas" was sold;

1.2. On 9 March 2006: motor ship "Kapitonas Marcinkus" was sold.

2. Two universal ships ("Staris", "Svilas") – 9650 DWT each;

3. One general cargo ship ("Skalva") – 9498 DWT (since 3 June 2004);

4. Four universal ships of "Asta" type – 5820 DWT each;

5. Two universal ships of "Uglegorsk" type – 4500 DWT each;

6. One general cargo ship ("Alka") – 7346 DWT;

7. One general cargo ship ("Romuva") – 17504 DWT;

8. One general cargo ship ("Voruta") – 17504 DWT (since 21 March 2006).

Overview of the market of dry cargos

The world freight market has been reducing through the whole year 2006, though it stabilised to an extent in the markets of Handy and Panamax type ships. According to analysts, the freight amounts fell due to a number of reasons, the main ones being growing prices of energy resources and fast renewal of the ship park (6% per year, when the figure stood at 2% before 2006). In the past year, the freight level reached the level of autumn 2003. Howe Robinson, in his publication "Prepare for Tumble", forecast a very difficult year 2006 for ship owners, because "the comparison of the growth of ship tonnage and amount of cargo shows that the cargo increased by 75 million tonnes, while there appeared 324 ships of new construction – i.e., corresponding to approximately 175 million tonnes". The reduction of freight amounts was also influenced by growing fuel prices – this growth constituted 40% in the first half of 2006, compared to 2005.

As the transportation market in the European region slumped in 2006, influenced also by an aggressive competition from fluvial-maritime type ships in this region, LJL, in agreement with freighters, expanded its navigation region and started to transport cargos to Brazilian, Chilean, Argentine, African ports. The ships "Daina", "Akvilė" were used in the European forestry products transportation market. Three ships of "Kapitan Panfilov" type, earmarked for sale, were also active in the European region.

Summing up the performance of the Company's ship park

Persistent negotiations allowed to maintain charter tariffs of the ships "Skalva", "Staris", "Svilas" at USD 5650 per day. At the end of the year, the tariff was raised to USD 6000 per day.

The charter tariffs of the ships "Daina" (freighting tariff EUR 3950 per day, freighting company "Arctic Trading") and "Akvilė" (EUR 4100 per day, freighting company "Navalis Shipping"), transporting timber from the Gulf of Bothnia to Mediterranean ports, correspond to the tariff level for such type of ships, provided by "Hamburg shipbroker association".

Negotiations with the freighting company "UB Trading" allowed to prolong the agreements for the ships "Kapitonas Kaminskas" and "Kapitonas Šimkus" for 6 months without a reduction of charter tariff: "Kapitonas Šimkus" – USD 5150 per day, "Kapitonas Kaminskas" – USD 5350 per day.

With the sale of the ships "Kapitonas Andžejauskas" and "Kapitonas Marcinkus" and the termination of their charter agreements prior to deadline, the tariff was reduced as a compensation. The charter tariffs of the ships "Kapitonas Lučka" and "Kapitonas Stulpinas" – EUR 575 per day. In 2006, ships, older than 25 years, were especially hard hit by the reduction of freighting tariffs (such as "Kapitan Panfilov") – their time-charter tariff fell by 14%.

Time losses (off-hire), related to the exploitation of 18 ships due to technical reasons (breakdowns of cranes, main engines, insufficient speed, etc.) constituted 72.92 days. A fire in the hold of the ship "Skalva" in the Canadian port of Gaspe because of negligence of the port's welders, not only caused financial losses, but also had an influence on the image of LJL as a reliable shipping company, as a contract of timber transportation from Latvia to the USA had to be cancelled.

The shi part worked on the basis of long-term contracts with the companies "Arctic Trading" (Greece), "UB Trading" (Germany), "Navalis Shipping" (Germany), "Brodin Shipping" (Sweden), "Olof Brodin" (Sweden) and "Onego Shipping & Chartering" divisions in America, Estonia, the Netherlands and Russia.

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

III. PERFORMANCE RESULTS IN 2006

In 2006, LJL received LTL 14.037 million of pre-tax profit. In comparison with the planned budget, the pre-tax profit was LTL 4.121 million (or 42%) bigger.

The sale of shipping services brought LTL 102.129 million – that is, 92% of revenue. The sales revenue exceeded the planned amount by LTL 2.421 million – i.e., over 2%.

The sales in 2006 exceeded those of 2005 by LTL 5.712 million (6%), the ships worked by 202.14 days more (3.3%), the daily charter tariff was bigger by LTL 505 (or 3.4%).

All the ships of LJL worked according to time charter agreements. In 2006, the ships' daily revenue from charter was EUR 4.453 (that is, LTL 15.375). The charter tariff, compared to the period of the previous year, was bigger by EUR 146 (LTL 505) and, compared to the budget, larger by EUR 56 (LTL 192).

The main revenue streams to the Company come in euros and US dollars. The revenue in US dollars constituted 43% approximately (planned share was 37.6%). In 2006, one USD cost LTL 2.7513 on the average (LTL 2.6124 in December). The Company sold its services at the average price of USD, equal to LTL 2.75, while the USD price, planned in the budget, was LTL 2.80. Because the actual dollar price did not correspond to the planned level, the received revenue during the period was LTL 0.557 less. In 2006, the ship park worked 38.62 days less than planned – though the ship "Voruta" was acquired prior to schedule and worked 66.44 days more. Due to ship charter tariffs, which were higher than planned, the additional revenue was LTL 2.051 million. The general profit – or the profit from core activities – constituted LTL 13.719 million. The general profit, compared with the budget, is LTL 3.484 million smaller. The deviation of the general profit from the budget was caused by higher costs of provided services (the costs rose 7% compared to the budget, while the sales revenue rose by only 2.4%).

The cost price of provided services constitutes LTL 88.410 million – or 91.4% of the Company's costs. The cost price of provided services exceeds the planned figure by LTL 5.906 million, including the surplus due to repair costs – LTL 0.872, unplanned costs of spare parts – LTL 3.579 million, exploitation costs – LTL 1.478 million. The costs of crew sustenance exceeded the projected amounts by LTL 1.373 million. The costs of trips, which were not planned in the budget and had an impact on cost price, constituted LTL 0.667 million.

All the components of cost price of the provided services will not be covered here. The following is an overview of the most salient ones.

Crew sustenance costs constituted LTL 25.887 million. This is 29% of the Company's costs of services, or 85% of the Company's personnel cost, or 27% of the overall costs of the Company. The costs exceed the projected amount by LTL 1.373 million, the surplus includes salaries (including social insurance payments) – LTL 0.798 million, trips – LTL 0.347 million, per diem expenses – LTL 0.092 million, miscellaneous expenses – LTL 0.067 million, medical expenses – LTL 0.045 million, food expenses – LTL 0.023 million.

The depreciation of the ship park is LTL 24.811 million, which forms 28% of the services costs, or 98% of the Company's depreciation costs, or 26% of the Company's overall costs. These costs are LTL 2.997 million smaller than projected due to re-evaluation of the ships of "Asta" type (in 2005 after the formation of the budget).

Address: Malūnininkų g. 3 LT-92264 Klaipėda, Lithuania Tel. +370 46 393 105 Fax +370 46 393 119

Enterprise code 110865039 VAT payer's code LT108650314

Registered in the Register of Juridical Persons of the Republic of Lithuania

The costs of repairs, spare parts, exploitation, lubrication are included in the technical costs of the ships, which were LTL 25.635 million in 2006 – that is, 29% of the services cost price, or 26% of the overall costs of the Company.

The costs of repairs of the ships in 2006 were equal to LTL 10.162 million. According to the Company's Rules for the Accounting of Costs of Ships' Repair, the costs of dock repairs and of the repairs, needed to certify a ship class, have to be written off during the period until a next repair. 60% of requirements for spare parts is planned in the budget using the periods of repair months, while the remaining part is budgeted in equal parts through all the months. In 2006, the costs of spare parts constituted LTL 8.273 million – that is, LTL 3.579 million more than projected in the budget.

Exploitation costs were LTL 4.601 million. The running costs are budgeted in equal monthly parts, except for repair months, when expenditure for classification companies is earmarked. The expenses of the Company for the services of classification companies and certification in 2006 was LTL 1.524 million – that is, 40% of exploitation expenses. The costs of unplanned repair of ships in 2006 were LTL 0.954 million – or 21% of exploitation expenses.

The costs of ships' insurance was LTL 5.022 million. This forms 6% of the service costs, or 95% of the overall Company's insurance costs, or 5% of the overall costs of the Company. These costs were LTL 1.4 million smaller than projected in the budget.

Expenses for the ships of provision (with working clothes, laundry, laundering agents, utensils, etc.) were LTL 0.869 million, or 1% of the service costs. These costs were larger than planned.

The communication expenses of the ship park were LTL 0.201 million – that is, 0.2% of the service costs, or 0.2% of the overall costs of the Company.

The activity costs in 2006 were LTL 6.276 million, or 6% of service provision costs, or 6.5% of the overall costs of the company. These costs were LTL 0.114 million less than planned. The sales costs constitute 0.5% of activity costs.

IV. FINANCIAL ACTIVITIES

In 2006, "Lithuanian Shipping Company" had accounts in the following banks: "AB SEB Vilniaus bankas", Klaipėda branch of AB "DnB NORD", AB "Sampo bankas" and Bremen branch of "Deutsche Bank AG" in Germany. The main turnover of money took place in "AB SEB Vilniaus bankas".

The Company concentrates its financial means in the banks which provide more competitive and attractive services. Due to service tariffs of "Deutsche Bank", which are higher than those offered by banks registered in Lithuania, the services of this bank were used only to a minimal extent, and in the 1st quarter of 2006 the account there was closed. In order to minimise expenses and ensure quick transactions, the Company carries out its bank operations electronically. LJL constantly searches for ways to minimise its expenses for banking services and operations. The expenses for banking services, which stood at LTL 365 thousand in 2002, have been decreasing constantly, and were LTL 137.1 thousand in 2006 – that is, more than 62% lower.

The biggest streams of revenue of the Company are earned in US dollars and euros. The sales in US dollars (excluding sales of ships) constituted 43% on the average (projected amount 37.6%). In 2006, one USD cost LTL 2.7513 on the average (LTL 2.6124 in December). The Company sold its services at the average price of USD, equal to LTL 2.75. In order to perform payments in Lithuania, currency was being sold to the banks which offered more competitive and expedient rate of exchange. For payments in currency, which differs from the currency of revenues, LJL performs currency purchase, as the Company does not accumulate financial resources on which no interest accrues.

Payments to the personnel are made in accordance with the Collective Agreement of 30 March 2004 of "Lithuanian Shipping Company", the Rules of the Work Pay System for Shore Employees, and the order of payments for the work of the Director General, Directors and the Chief Accountant, approved by the decision of the Company's Board of 21 October 2005. The work pay of sailors, including holiday and leave reserves, constitutes 78% of the Company's costs of work pay, their business trips – 96% of overall business trips costs. In 2006, the average monthly gross wage constituted LTL 2304.3, which exceeded the figure of the year 2005 by 5.2%. This indicator is calculated, using the methodology of the statistical report DA-01K of the Department of Statistics, used to determine the average conditional number of employees. Cash and fixed-time deposits of LJL grew by LTL 4.4 million during 2006 – up to LTL 13.6 million. On 20 March 2006, the ship "Voruta" was acquired for LTL 43.3 million, which included 60% of the Company's resources. A bank credit was used to cover the remaining part of the price.

LJL keeps its free money, not required for payments, in fixed-term and/or overnight accounts. Free money is accumulated in order to purchase suitable ships, which the Company is seeking. In 2006, LJL received LTL 0.423 million from banks for the right to use the Company's free financial resources.

LJL inherited LTL 55.9 million of financial liabilities from the old LISCO for four ships of "Asta" type, the liabilities being expressed in US dollars with a variable rate of interest (LIBOR for a selectable period and a bank margin of 1.5% annual interest). This inherited loan had a complex structure, the Company incurred not only interest expenses, but additional expenditure as well (administrative, tonnage, registration, insurance, registration), related to the names of ships of four firms, registered in Cyprus. In order to diminish its expenditure and risk exposure, LJL swapped the existing scheme with a credit from "AB Vilniaus bankas" during 2003-2004. Though the ongoing process of the Company's privatisation made the negotiations not an easy task, LJL managed to agree on more favourable contract conditions (1.4% of bank margin, longer period, more favourable and cheaper credit return mechanism). In 2006, the remaining companies were totally liquidated and removed from the registers of the corresponding countries (from the register of Liberia – "Lithuanian Shipping Corporation", from the register of Cyprus – "Audrė Multipurpose Navigacion Ltd" and "Akvilė Multipurpose Shippping Ltd"). The other companies had been removed earlier – that is, prior to 2006.

During 2006, the Company repaid to "Vilniaus bankas" LTL 12.7 million of credit with interest (in 2005 – LTL 6.3 million). These included credits for four ships of "Asta" type and the credits, taken in order to acquire motor ship "Svilas" (in 2002), motor ship "Romuva" (in 2005), motor ship "Voruta" (in 2006). The Company repays the loans with accrued interest in accordance with agreed deadlines and amounts. LJL has not received any claims from banks since the date of the Company's establishment.

Financial liabilities to banks, equal to LTL 55.9 million, inherited from the old LISCO after reorganisation, including the loans taken by LJL for the purchase of the above-named ships, stood at LTL 39.514 million at the end of 2006 (LTL 34.0 million at the end of 2005). During 2006, LJL paid LTL 1.984 million of interest (that is, LTL 0.865 million more than during 2005) – because of the loan taken for the purchase of the motor ship "Voruta". In comparison to the projected budget, the interest payments were LTL 0.313 million smaller – due to the smaller amount of credit taken (one ship was acquired in 2006 instead of two, which had been planned). One has to note that LIBOR in US dollars, which was above 1% in the beginning of 2004, grew over 2006 and reached more than 5% at the end of the year (using fixed interest rate). However, LIBOR in US dollars grew slower than LIBOR in euros. (On 1 January 2007, the 6-month LIBOR in US dollars was 14% bigger in comparison with 29 December 2005, while LIBOR in euros for the corresponding dates had grown by 46%).

The Company pays considerable attention to its performance analysis, administration of its process of accounts preparation, improvement of accounting procedures. Effective management is impossible without analysis and the improvement of relevant reports, which receive constant attention from the Company.

The debts of freighters and the status of their settlements is under constant control. In 2006, the receivables from debtors decreased to LTL 0.153 million (excluding insurance amounts). The turnover period of the buyers' debts diminished to 0.5 days (excluding insurance amounts). (In 2005, the turnover period of the buyers' debts was 0.83 days.) LJL is reliable in relation to suppliers too. The turnover period of debts to suppliers in 2006 was up to 5 days.

The Company has possibilities to take on loans in order to renew its ship park.

During the 2006 reporting financial year, the Company neither acquired nor transferred its own shares.

V. TECHNICAL MAINTENANCE OF THE SHIP PARK

In 2006, repairs for the certification of ships' class were performed on motor ships "Asta" and "Algirdas", and dock repairs were performed on motor ships "Alka", "Daina", "Romuva".

The ship repair costs in 2006 constituted LTL 10.162 million.

The total sum spent was LTL 8,238,298; the sum provided in the budget was less by LTL 1,842,146.

In the budget of 2006, the costs for the repair of the motor ship "Alka" were not corrected, as the repair was postponed rescheduled from 2005 to 2006 (LTL 1,500,000).

After a long performance in the basin of the Caribbean Sea, many additional activities were required to take care of the hull of the motor ship "Asta".

For the motor ship "Algirdas", the sheathing at the location of pipes for the loading and ejection of ballast tanks had to be changed without prior planning. Moreover, the services of the classification company "Det Norskie Veritas" grew in price considerably.

For the motor ship "Romuva", a design was prepared and the CO_2 extinguishing system in the cargo holds, a smoke detector and the holds ventilation system were installed. As the EX type ventilators were not received in time, the ship still lacks a certificate for the transportation of hazardous cargos, which will expand the list of cargos transportable by motor ship "Romuva".

Radars were changed in five ships, new satellite stations, GPRS receivers, satellite buoys and other communication and navigation equipment were installed in eleven ships. A total of LTL 359,724 was spent for this.

In 2006, due preparations for the use of the equipment of the acquired ships "Romuva" and "Voruta" were made. Considerable work was carried out in preparing the maintenance and ISPS plans for the ships, as well as instructions and other documents.

All the crews of the ships are supplied with hydro-thermal suits, as required by Rule III/32.3 of SOLAS 74/96/04. The ships, docked after 19 May 2005, have the certificates of air pollution prevention. Instructions are prepared for all the ships concerning the use of fuel with low sulphur content in the special zone – the Baltic Sea. The fire fighting plans and life saving measure plans are renewed for all the ships according to the latest SOLAS requirements.

During 2006, a great deal of attention was accorded to the raising of the employees' qualification. Employees of the Technical Maintenance Division attended courses of English language, computer use, a seminar was organised jointly with the classification company "Lloyd's Register" about inspection of ships in various ports of the world. Professional literature for marine and shore employees is being purchased regularly, a lot of informational literature is being received from the manufacturers of ship equipment, the world wide web is being used actively.

In 2006, four ships, earmarked for acquisition, were inspected, information on the cargo transportation capabilities and technical specification of the ships was collected. Two projects of new ships, currently under construction in Indonesia, were analysed.

In 2006, the ships of LJL started to work in new regions – near Brazil, Argentina, Venezuela, Columbia, logistical issues of providing spare parts to the ships in those regions were tackled.

Port control inspectors detained four LJL ships during 2006: "Kapitonas A. Lučka", "Kapitonas Kaminskas", "Alka" and "Romuva". The reasons for the detention of the first two ships are technical, related to the wear of the ships' equipment. In the case of the latter two ships, the reason for detention was insufficient preparedness of the crews to act in emergency situations. In order to prevent detentions of ships, we partly changed personnel in the Technical Maintenance Division, introduced a position of the auditor of safety management system in the Service of Safe Navigation Management, we are constantly improving documents in the ships, raising the requirements, performing additional training of the crews.

The programme of ship park renewal, set out in the Strategic Plan of LJL, should help avoid further detentions of LJL ships.

The problems, hindering successful performance, were the following:

- Constantly late supplies of spare parts for ship repair and maintenance (including supplies from renowned and solid manufacturers from Germany, Norway, Great Britain, etc.).

- New IMO requirements concerning inspection of life-saving measures and increased costs of inspections; many organisational problems had to be tackled in remote countries.

- Low qualifacation and lack of good working motivation of some sailors.

VI. MANAGEMENT OF SAFE NAVIGATION

During 2006, the employees of the Service of Safe Navigation Management carried out the following major activities in the fields of safe navigation and management of juridical documents:

1. All the documents, required for the preparation of the obligatory *US Non Tank Vessel Response Plans* for two LJL vessels, were prepared and sent to the USA. Contracts with USA companies "Donjon-Smith LLC" and "National Response Corporation" were amended concerning the provision of services in emergency situations in USA internal waters and territorial sea. The ships "Algirdas" and "Voruta" were provided with the said plans in timely fashion. The plans were prepared by the American company "Hudson Marine Management Services".

2. The Ship "Voruta" was registered in the Maritime Register of the Republic of Lithuania and provided with necessary legal documents. Plans of waste management, water ballast cleaning, SOPEP, packages of ship and working instructions in working languages were prepared for the ships "Romuva" and "Voruta".

3. The auditors of the Company carried out checks of internal ship safety management systems in 17 ships and once at the shore divisions of the Company.

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

5. Ten navigators were approved for promotion into higher positions.

6. All the 18 ships were periodically supplied with IMO and national documents, regulating the safety and protection of the ships, safety management and environmental protection, sea charts and navigation manuals .

7. Organisational activities:

7.1. Contribution in the preparation of the computerised programme for the calculation of stability, carriage and hull tensions of the ship "Alka". The application itself is being created by the enterprise "Spro-Invest LLC".

7.2. Contribution in the preparation of the protection plan of the ship "Voruta" and certification of this ship according to the requirements of the ISPS Code and the ISM Code.

8. An overview of emergency cases of LJL ships during 2005 was prepared. The conclusions of the analysis of all the emergency cases of the year 2005 were sent to the ships of LJL.

9. An analysis of Port State Control (PSC) checks of the LJL ships in 2005 was carried out on the basis of signs of incompatibility. The information was supplied to the Company's administration.

10. The final corrections of the ship instruction packages for the ships of "Kapitan Panfilov" type were completed. All the job and ship operation instructions have were translated into Lithuanian. Six ships of this series were provided with updated instructions in Lithuanian and Russian languages, approved by relevant specialists of the Company.

11. In order to reduce the number of observations by inspectors of Port State Control concerning missing ship documentation, SVS auditor inspected the ships "Akvilė", "Romuva", "Alka", "Skalva", "Staris", collected the necessary primary information on site and prepared appropriate supplements of the ship documentation, updating it in line with the current requirements of SOLAS, ISM Code and Circular No 1205 of IMO.

    Manuals of usage of safety-boat systems were prepared in Lithuanian and Russian languages according to the requirements of the circular of 15 June 2006 of the IMO, MSC.1/Circ.1205, usage instructions of other specific life-saving and measures and fire-fighting equipment and measures were updated in working languages for the ships: 6 ships of "Kapitonas Stulpinas" series, 4 ships of "Asta" series; "Romuva", "Alka", "Skalva". The update of the technical maintenance plans and schedules for the life-saving measures has been started to put them in accordance with the new requirements of the circular of 15 June 2006 of the IMO, MSC.1/Circ.1205.

12. Taking into account the observations of inspectors of the Lithuanian Safe Shipping Administration (*Lietuvos saugios laivybos administracija (LSLA)*), official written procedures were prepared in accordance with the requirements of the ISM Code:

12.1. Order of introduction of sailor to the job duties, structural features of ships and technical measures.

12.2. Procedure of shift changes in ships.

Procedure for planning a ship's navigation.

The said procedures had been actually implemented earlier on the basis of requirements of various normative acts – they were not, however, precisely regulated in written form and approved by the Company's management.

Implementation of ISM Code, ISPS Code and environmental requirements in 2006

During 2006, representatives of the Russian Maritime Register and the Lithuanian Safe Shipping Administration checked and certified seven motor ships: "Romuva", "Mindaugas", "Algirdas", "Daina", "Akvilė", "Skalva", "Audrė", issuing primary and renewed certificates of safe management. After the performance of preparatory works, the newly-acquired motor ship "Voruta" was inspected and a temporary safe management certificated was issued for it. After 5 months, the motor ship "Voruta" was certified again, receiving a permanent certificate.

On the grounds of the ship's detention, at the request of the Lithuanian Safe Shipping Administration, an additional audit of the motor ship "Kapitonas Kaminskas" was carried out.

In 2006, the Lithuanian Safe Shipping Administration began to certify ships by itself in accordance with the ISM Code.

During 2006, representatives of the Lithuanian Safe Shipping Administration certified 3 ships of LJL, while the Russian Maritime Register certified 6 ships.

In May 2006, an annual Company audit was carried out by representatives of the Lithuanian Safe Shipping Administration.

Independently at the time of the audit, when performing renewal and primary certifications of the above-named ships, some incompatibilities were discovered, which were later removed.

In 2006, a renewal audit of the Company was carried out (for the first time performed by representatives of the Lithuanian Safe Shipping Administration), a new document of compliance was issued for the period of 5 years. 10 acts/observations of incompatibility were formulated – presently, all of these incompatibilities are being removed. During the audit, the Shipping Management Service, the Division of Personnel, the Technical Maintenance Division, the Ship Park Management Unit were checked.

In 2006, the necessary documentation was prepared for the certification of the newly-acquired ship "Voruta" in compliance with ISM Code and ISPS Code. The ship was successfully certified along the lines of the ISM and ISPS Codes.

At the end of 2006, an internal audit of the Company's coast units was carried out, performed by the Company's internal auditors.

In 2007, it is planned to perform renewal certifications of the motor ships "Kapitonas Domeika", "Kapitonas A. Lučka", "Kapitonas Stulpinas", "Asta", "Staris", "Svilas" in order to extend their ISM certificates, as well as an intermediary certification of the motor ship "Skalva". In case "Kapitonas Kaminskas" is not sold, a renewal certification will be required in this ship in 2007. also, an annual audit of the Company will be carried out in May 2007.

During 2006, an internal ISPS Code audit was carried out in nine ships. The most frequent incompatibilities: 1. Unused doors of zones with limited access being left unlocked while standing in harbour. 2. Not all zones with limited access marked with special signs of restricted access.

Also, in nine LJL ships external intermediary ISPS Code checks were carried out during 2006 in order to extend the ISPS certificates. These checks were carried out by representatives of the Lithuanian Safe Shipping Administration. It is planned to carry out intermediary ISPS Code checks in five ships during the year 2007.

According to the requirements of the ISPS Code, it is planned to conduct exercises during February-March 2007 in all the ships, imitating a violation of ship's protection. The preparedness of the ships to act in such circumstances, the familiarity with ship protection plans, co-ordination of activities, communication between ships, the Company and Klaipėda Co-ordination Saving Centre will be looked at during such exercises.

In 2006, a safety evaluation was carried out, a new protection plan was prepared for the motor ship "Voruta", and the ship was certified according to the requirements of the ISPS Code. Also, corrections of the existing ship protection plans were made, taking into account the installation of new alarm protection system in the ships. In some protection plans, the instructions of using the ships' alarm system and AIS had to be updated.

Address: Malūnininkų g. 3 LT-92264 Klaipėda, Lithuania Tel. +370 46 393 105 Fax +370 46 393 119

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During 2006, as many parties, included in the SOPEP plan, changed contact addresses to be used in case of pollution with oil products, the addresses were changed four times with subsequent sending of the corrected documents to the ships.

The documents of the continuous logging journal of all the ships were updated.

For the ships "Voruta" and "Romuva", acquired in 2006, new SOPEP plans, waste management plans, water ballast cleaning plans were prepared. In 2006, the water ballast cleaning plans for the ships of "Kapitan Panfilov" and "Asta" types were updated. All of the mentioned plans were approved by the Lithuanian Safe Shipping Administration.

VII. SAFETY AND HEALTH STATUS OF THE EMPLOYEES, FIRE PREVENTION AND CIVIL PROTECTION

During 2006, five light accidents and one incident took place.

During 2006, 286 were ill for a combined time of 4757 days, including 171 lost days at work due to accidents at work.

During 2006, 69 introductory trainings were conducted for newly-hired employees of LJL.

During 2006, LTL 100,931 was spent for the medicaments of ships' medical boxes and sailors' treatment, LTL 50,825 was spent for individual protection measures.

Before the sailors' departure to ships, 31 safety trainings were carried out with the participation of 361 sailors.

In 2006, the issues of fire prevention and civil protection were tackled in accordance with the current requirements of the Lithuanian legal acts. The measures of the fire prevention and civil protection plans and instructions of the orders of Director General of LJL were implemented.

The plan of preparedness of civil protection for extreme situations was reviewed. The positive decision to use halon gases in the fire extinguishing systems of the ships was approved.

In 2006, the state of fire fighting and civil protection was satisfactory, officials sectors did not establish discrepancies in these fields during inspections.

Members of ship crews, employees of coast divisions receive constant methodological assistance, information and consultations. All the members of the crews, prior to their departure for foreign ports, receive additional training, are introduced to new normative documents. During 2006, ten welders were trained according to the technical minimum programme, 69 newly hired employees passed initial training. New fire protection schemes were prepared for two ships, three ships had such schemes renewed in accordance with IMO requirements. According to the plan of the LJL working committee of works and fire protection, inspections were carried out in ships and coast divisions. The results of inspections were discussed with ship captains, heads of divisions, measures were envisaged in order to improve fire protection.

During 2006, one fire event was recorded – in the ship "Skalva".

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VIII. ACTIVITIES IN OTHER COAST DIVISIONS

INSURANCE AND CLAIMS

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

I. Concerning Transportation of Cargos

On 1 January 2006, there were 14 claims and 5 reports about claims. Of these, 6 claims for a total value of USD 223,122.00 were examined and rejected. One claim was discontinued due to deadlines, one claim was covered. During 2006, two claims were received (USD 2,181.00), both of which were rejected. 6 reports about claims were received. On 1 January 2007, there were remaining 11 claims for a total sum of USD 1,438.60 and 6 reports about claims. Of the remaining claims, three are of considerable size:

1. Motor ship "Algirdas", port of Djendjen, 12 August 1999, bank guarantee of insurance club "NEPIA", worth USD 400.00.00.
2. Motor ship "Kapitonas Lučka", 4 August 2003, sum of claim – USD 413,621.58.
3. Motor ship "Kapitonas Lučka", port of Moerdijk, 30 October 2004, sum of claim – EUR 225,000.00.

II. Other Claims

On 1 January 2006, there were 27 claims. On 31 December, there remained 22 claims. The following claims for considerable sums of money were rejected during the reporting period:

1. Motor ship "Kapitonas Stulpinas", fine because of violation of Canadian customs rules, contravened by the 3rd Assistance Captain A. Adomkevičius. Sum of claim – CAD 3,200.00.
2. Motor ship "Daina", caused inconveniences to the tanker "Tricolore" in the port of Amsterdam on 19 July 2005, sum of claim – EUR 12,271.60.

4 claims were rejected or discontinued due to negative prescription or inconsiderable sums. In 2006, new claims were received dealing with considerable sums:

1. Motor ship "Skalva", port of Gaspe, 4 January 2006, damaged cargo because of a fire in the hold, sum of claim – USD 1,052.00.
2. Motor ship "Skalva", port of Gaspe, 4 January 2006, general accident, sum of claim – USD 120,000.00.

The liability of the ships of AB "Lietuvos jūrų laivininkystė" for the cargos and other claims is insured in insurance companies and mutual insurance clubs.

III. Claims in the Coastal Divisions:

1. On 18 May 2006, a case was initiated on a claim by Tatjana Žgunova, requiring an immediate

restoration to her working position, adjudgement of compensation for all the forced period without job, restoration of working experience period, adjudgement of severance pay, restoration of annual and unpaid holiday periods, transfer of the date of dismissal from job, adjudgement of pay premium for annual holiday, adjudgement of compensation for additional performed work, compensation for material and immaterial damages. The case is ongoing.

2. On 19 July 2006, the Court of Vilnius District examined the civil case No 2-1231-28/2006 concerning the spreading of information, not corresponding to the truth, hurting business reputation of a juridical person, the denial of such information and compensation of damages caused by such information (sum of claim EUR 7,500,000.00 (LTL 25,896,000.00) on the basis of a claim by "Trident Marine Aps". The claim was rejected and LTL 31,605.33 of litigation costs was adjudged from the claimant "Trident Marine Aps". The decision of the court was appealed against at the Court of Appeal of Lithuania. The case is ongoing.

3. On 27 December 2006, a request was submitted to the Lithuanian Court of Appeal concerning the application of temporary protective measures in the case No 2a-452/06 in order to seize 87,719 shares of AB "Lietuvos jūrų laivininkystė", owned by the claimant "Trident Marine Aps", managed by the broker UAB "Suprema". By decision of the Lithuanian Court of Appeal, shares worth LTL 31,605.33 were seized.

4. On 16 November 2006, a case was initiated concerning the acknowledgement of property rights to the scrap metal, stored in the LJL warehouse since 8 May 1992.

5. Claims in relation to the AB "Jūrų prekyba" were discontinued, since the company went bankrupt and, at the creditors' meeting of 15 December 2006, it was decided to remove the bankrupt company AB "Jūrų prekyba" from the Register of Juridical Persons.

Activities of the Division of Information Technology

1. Expenses:

1.1. LTL 80,735 was spent for software maintenance. This sum is less by LTL 55,116, compared to 2005 – that is, by 40.6%. Such a significant difference formed due to the fact that group licences of applications "InfoPath", "WinRAR" and PROMT for ships and coastal divisions were bought in 2005.

1.2. Maintenance of hardware and networks – LTL 13.450. Compared to 2005, this sum is LTL 2.495 (22.8%) bigger. The expenditure rose due to increased amounts of printing works, which necessitated an unplanned repair of the copying machine.

2. Investment:

2.1. Modernisation of hardware and software of office computer network – LTL 26,637.63.

2.2. Modernisation of hardware and software of ships' computers – LTL 31,719.9.

The total sum of investment – LTL 58,357.5. The sum projected in the budget was LTL 82,200. Of the sum, earmarked in the budget, a new server was not acquired, as planned.

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3. Programming tasks:

3.1. Design, programming and installation activities, related to the "Work Accounting Tables", were carried out for 7 ships. The task was carried out so that it corresponds to the requirements of Resolution No 180 of IMO concerning the necessity of timetables of seafarers at ships and individual work tables for seafarers.

3.2. New versions of e-NOAD messaging were installed in the ships, entering USA ports.

3.3. Electronic versions of the "Port state control inspections in the USA", "BIMCO Reporting Form" and "Checklist and Stowaway questionnaire" were created for all the ships and specialists of coastal divisions.

4. Modernisation of computer network and systems. The network modernisation was carried out: all the servers and several workstations with the heaviest load connected to the broadband channels, other users connected to channels of 100 Mbs. Obsolete network equipment of 10 Mbs is no longer in use.

Activities of the Business Support Division

In 2006, the contracts of lease of uninhabitable premises were signed:

- On 16 May 2006 (until 30 September 2006) – for the lease of administrative premises with an area of 26.09 m^2 on the second floor.

- On 17 July 17 – for the lease of administrative premises with an area of 24.28 m^2 on the second floor.

- On 2 October 2006 – for the lease of administrative premises with an area of 26.09 m^2 on the second floor.

- On 12 May 2006 (until 31 October 2006) – for the lease of a warehouse with an area of 204.45 m^2 in Melnragė.

LTL 82,363 (including VAT) was received for the lease of uninhabitable premises.

Used long-termed assets and inventory of the canteen was sold to UAB "Vaterlinija", receiving LTL 25,000 (including VAT).

LTL 500 was paid to UAB "IF draudimas" for the insurance of the immovable property (administrative premises, office equipment and warehouse); LTL 3,507 was paid for the general insurance of civil liability.

The tax on immovable property to the state budget during 2006 constituted LTL 7,994.

Expenses of maintenance of administrative premises in 2006:

- For the lease of state-owned land (0.1618 ha) to the Municipality of Klaipėda City – LTL 2,957.76.

- For the management of rain waste water to AB "Klaipėdos vanduo" – LTL 201.60 (excluding VAT).

- For the consumed cold water and management of waste water to AB "Klaipėdos vanduo" – LTL 2,023.84 (excluding VAT).

- For the heating of premises and preparation of hot water to AB "Klaipėdos energija" – LTL 22,473.52 (excluding VAT).

- For the consumed electricity to branch "Klaipėdos elektros tinklai" (*Klaipėda Electrical Networks*) of AB "Vakarų skirstomieji tinklai" (*JSC Western Distribution Networks*) – LTL 23,312.07 (excluding VAT).

- For the disposal of waste to UAB "Švaros diena" – LTL 660.10 (excluding VAT).

- For the protection services (reaction to alarm button) to R.Jonaičio IĮ "Argus" – LTL 600 (excluding VAT).

- For the services of telephone communications, the following sums were paid:

  - to AB "Lietuvos telekomas" – LTL 43,144.60 Lt (excluding VAT);

  - to UAB "Telekomunikacijų grupė" – 326.49 Lt (excluding VAT);

  - to UAB "Linkotelus" – 4,736.21 Lt (excluding VAT);

  - to UAB "Bitė GSM" – 49,764.10 Lt (excluding VAT).

For the preparation to the 2006-2007 heating season, LTL 5,449.11 (excluding VAT) was spent.

In June 2006, LTL 3,150.09 (excluding VAT) was spent for repair works after a water supply accident at the second floor.

On June 2006, LTL 10,235.43 (excluding VAT) was spent for internal repair works of administrative premises.

The expenses of maintenance of the warehouse at Melnragė in 2006:

- paid land tax to the Direction of the Klaipėda State Sea Port – LTL 10,446;

- for consumed electricity to AB "Klaipėdos jūrų krovinių kompanija" – LTL 3,822.92 (excluding VAT);

- for telephone services to UAB "Bitė GSM" – LTL 263.38 (excluding VAT);

- for waste disposal to "Švaros diena" – LTL 368.03 Lt (excluding VAT).

In 2006, 1,475 kg of copying paper was bought from UAB "Map Lietuva" for a total sum of LTL 3,968.08 (excluding VAT).

During 2006, the following long-term assets were acquired:

- June 2006 – a document box for LTL 1,436.05;
- August 2006 – photo camera "Sony DSCN" 1 for LTL 1,506.77 (excluding VAT).

The road tax to the state budget in 2006 – LTL 2,500.

The insurance fees of transport vehicles to UAB "IF draudimas" in 2006 – LTL 26,600.

Travel insurance fees to UAB "IF draudimas" in 2006 – LTL 6,218.

ECA insurance fees UAB "IF draudimas" in 2006 – LTL 6,637.

In 2006, when changing 36 crews of ships, the bus "Iveco Irisbus Midys" (state plate number ARJ 535) was used, a total of 58,536 km was driven in Lithuania and abroad.

In 2006, the Company's transport (the buses "Iveco Irisbus Midys", goods vehicle "Peugeot Boxer", vehicles "VW Passat" and "Peugeot 406"), while driving in Lithuania and abroad, consumed fuel from UAB "Lietuva Statoil" for a total sum of LTL 60,340.92 (excluding VAT).

PERSONNEL MANAGEMENT

On 1 January 2006, there were 555 employees working for AB "Lietuvos jūrų laivininkystė", including 64 coastal employees and 491 sailors.

On 1 January 2006 there were 533 employees working for AB "Lietuvos jūrų laivininkystė", including 64 coastal employees and 469 sailors.

The number of employees is constantly declining. At the end of 2006, it is less by 22 persons, compared with 2005, less by 24 compared with 2004, less by 33 compared with 2003. The average number of employees is going down, at the same time the average work pay is also changing. Compared to 2003, the average number of employees fell by 6.42%, while the average pay for one employee grew by 18.08%.

During 2006, job contracts of 91 persons were terminated, including 8 first assistants of captain, 5 senior assistants of captain, 4 senior mechanical engineers, 6 electrical engineers, 24 AB sailors, 4 captains, 6 motorists-turners, 6 motorists.

The termination of job contracts took place on the following grounds:

Article 125 of the Work Code (mutual agreement of the parties) – 20 persons; Article 126 (termination of the contract) – 39 persons; Article 127 (at the initiative of the employee) – 20 persons; Article 129 (at the initiative of the employers) – 1 person. At the end of probation period – 11 persons.

During 2006, 69 people were admitted to job.

In 2006, LTL 174,195 was spent for obligatory training courses of the sailors according to the requirements of IMO.

In 2006, the personnel travel expenses, related to shift changes, etc., amounted to LTL 1,099,318, including LTL 36,686 of visa expenditure, LTL 858,669 of transport expenditure (land, air, sea), LTL 19,459 for hotels, per diem expenses, food.

LTL 8,978 was spent for the maintenance of the ships' medicament boxes and replenishing of medicaments, LTL 68,654 was spent for treatment of sailors.

Disciplinary punishments during 2006: a "Remark" was accorded to 5 employees, a "Reprimand" – to 3 employees.

IX. PLANS AND FORECASTS OF ACTIVITIES

RENEWAL OF THE SHIP PARK

The major task, facing the Company in the nearest future, is the renewal of the ship park. At the start of 2007, LJL has six vessels of bulk cargo (14,632 DWT each), aged 26-30 years. These ships earn half of the Company's profits, but they are physically worn and have to be replaced with newer ships. In December 2006, a competition of selling the motor ship "Kapitonas Šimkus" (built in 1976) was announced. The competition was not concluded, as no buyers submitted their proposals. The possibilities of disposing the ship to metal scrap was started to be considered. On 24 January 2007, a repeated competition was announced with the reduced initial bidding price. The competition was carried out successfully, the ship was for the price of USD 2,050,000 and should be transferred to the new owner by 4 March 2007.

The following selling queue of the ships under consideration has been projected:

- "Kapitonas Kaminskas" (1978) – 3rd quarter of 2007;
- "Kapitonas" Domeika" (1979) – 1st quarter of 2008;
- "Kapitonas A. Lučka" (1978) – 1st quarter of 2009;
- "Kapitonas Serafinas" (1980) – 1st quarter of 2010;
- "Kapitonas Stulpinas" (1981) – 1st quarter of 2010.

When performing annual inspections of these ships, as well as during their day-to-day exploitation, more and more cases of the wear of structural elements (corrosion) are discovered. One of the examples is the motor ship "Kapitonas A. Lučka" which might be sold. The materials have been prepared for the Board's meeting to consider the sale of this ship in the 2nd quarter of 2007.

When solving the issue of renewal of the ship park, the Company aims to acquire ships with larger carrying capacity. This goal is being gradually implemented since 2002. Since the establishment of the Company on 27 June 2001, when the main goal was mere survival, thoughts were already present about the increased efficiency, which could be offered by newer ships of larger tonnage. By 1 January 2007, LJL has sold 7 old ships and acquired 6 newer ships of larger carrying capacity. With the renewal of the ships, the Company is aiming at one more task: to have at least two ships of each type. There is a larger demand for services of such minimum groups of ships in the market.

The following sources of financing are used for the renewal of the ship park: completely used depreciation reserve write-offs, money from sale of ships, credit finance. In line with the accepted world practice, a company, taking on a loan for a purchase of a ship, must have 30% of its own finance. In case a bank has good knowledge of a company's situation and possibilities, deviations from the said sum are possible, but this requires mortgaging more property.

In the 1st quarter of 2007, the Company will acquire two ships of 16,909 DWT each, paying USD 12,075,000 for each. The two ships are built in Poland, one in October 1994, the other in January 1995. A loan of LTL 18.5 million is being taken from AB "Vilniaus bankas". After the sale of the mentioned ships "Kapitonas Šimkus" and "Kapitonas Kaminskas", the sum to be paid to "Vilniaus bankas" will be USD 2.5 million, reducing the sum of credit to USD 16 million.

In the process of renewing its ship park, the Company has plans to stop using ships of "Uglegorsk" type ("Algirdas" and "Mindaugas, built in 1991-1992 in Turkey, with 4,470 DWT each), characterised by low efficiency and unreliable equipment. Possibilities of improving their performance in the future are currently under consideration. In case of high sale prices of ships, a possibility of selling these ships would be seriously considered. Materials for the Board consideration are being prepared in this field.

Forecasts of main streams of expenditure and revenue in 2007

In 2007, six ships will have to be repaired. The projected amount for this is LTL 11.76. During 2006, four ships were repaired, hence the repair costs are lower than in 2007. Furthermore, when repairing the ships with the higher daily revenue yields, this prevents from earning bigger revenue sums. The repair costs of such ships are also higher. The price, however, depends upon the type of repair (class-certification repair or dock repair works).

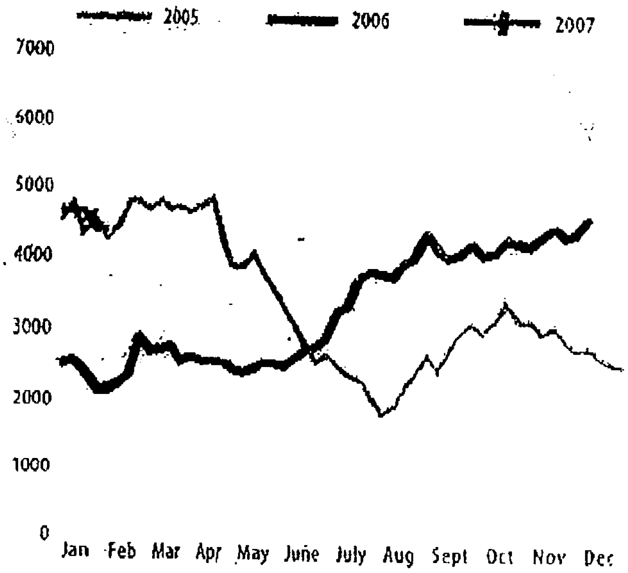
In 2007, the prices of lubricating oils grew considerably, the prices of fuel remain high as well. The average price of fuel oil (IFO-180), which is burned in the main engines of the ships, in 2006 was USD 308 per tonne (in 2005 – USD 254 per tonne, in 2004 – USD 168 per tonne). The average price of diesel fuel, used in diesel generators of the ships, in 2006 was USD 585 per tonne (in 2005 – USD 504 per tonne, in 2004 – USD 335 per tonne).

At the end of 2006, the Lithuanian Sailors' Union initiated a review of the collective agreement, signed on 30 March 2004. In the new collective agreement, the Company commits to raise the pay of simple sailors. The main source of funding should be the savings accruing from the introduction of the tonnage tax instead of the former profit tax. The rise of wages will have influence on the employment of simple sailors of younger age at the Company.

Here we present a short overview of market trends. The situation of the market for the services of small ships, such as owned by LJL, is not provided by specialised publications. The worldwide shipping indexes are calculated, starting with the ships of Handymax type (35,000 – 50,000 DWT). The booms and slumps in the market of large ships also influence the market of small ships. For the analysis of the latter, one might use the Baltic Dry Index (BDI), which aggregates the information about the sectors, where the ships of the sizes Capesize, Panamax and Handymax are active. The alternation of BDI in the period 2004-2006 can be seen in the graph below – but this does not allow to forecast market trends in 2007.

Baltic Dry Index

The index bounced back as Capesize rates started to strengthen. Panamax markets in both hemispheres have not yet followed suit, however, and Supramax and Handymax sectors were under pressure. Falls have largely been arrested now. Commentators suggest a period of upward pressure.



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The shipping markets fluctuate along a sine curve. In order to ensure the most reliable indicators for future projections, the Company, like most of the shipping companies, employs the ships on the basis of long-term charter contracts.

One has to note that, in some years, there are differences between the growth of revenue and expenditure. In case of a market slump, the revenue can fall substantially, with the expenditure remaining the same or climbing – due to the fact that even in the slumping conditions, one needs to repair ships and cannot reduce sailors' working pay. It is hoped that there will be no drastic changes in the year 2007.

Member of the Board

AB "Lietuvos jūrų laivininkystė"

Director General Vytautas Vismantas

Disclosure form concerning the compliance with the Governance Code for Public Company "Lithuanian Shipping Company", 2006, listed on the regulated market

The public company ***„Lithuanian Shipping Company"***, following Article 21 paragraph 3 of the Law on Securities of the Republic of Lithuania and item 20.5 of the Trading Rules of the Vilnius Stock Exchange, discloses its compliance with the Governance Code, approved by the VSE for the companies listed on the regulated market, and its specific provisions. In the event of non-compliance with the Code or with certain provisions thereof, it must be specified which provisions are not complied with and the reasons of non-compliance.

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

2.1. Besides obligatory bodies provided for in the Law on Companies of the Republic of Lithuania – a general shareholders' meeting and the chief executive officer, it is recommended that a company should set up both a collegial supervisory body and a collegial management body. The setting up of collegial bodies for supervision and management facilitates clear separation of management and supervisory functions in the company, accountability and control on the part of the chief executive officer, which, in its turn, facilitate a more efficient and transparent management process.	Yes	Company complies with this recommendation. Management bodies of the company are the general shareholders' meeting, supervisory board, board, as well as manager of the company.
2.2. A collegial management body is responsible for the strategic management of the company and performs other key functions of corporate governance. A collegial supervisory body is responsible for the effective supervision of the company's management bodies.	Yes	Supervisory board is a collegial body, performing the supervision of the activities of the company. Board is a collegial management body of the company.
2.3. Where a company chooses to form only one collegial body, it is recommended that it should be a supervisory body, i.e. the supervisory board. In such a case, the supervisory board is responsible for the effective monitoring of the functions performed by the company's chief executive officer.	Not applicable	Both the supervisory board and the board is formed in the company.
2.4. The collegial supervisory body to be elected by the general shareholders' meeting should be set up and should act in the manner defined in Principles III and IV. Where a company should decide not to set up a collegial supervisory body but rather a collegial management body, i.e. the board, Principles III and IV should apply to the board as long as that does not contradict the essence and purpose of this body.[1]	Yes	
2.5. Company's management and supervisory bodies should comprise such number of board (executive directors) and supervisory (non-executive directors) board members that no individual or small group of individuals can dominate decision-making on the part of these bodies.[2]	Yes	Supervisory board consists of 5 members, the board – 5 members.

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

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

2.6. Non-executive directors or members of the supervisory board should be appointed for specified terms subject to individual re-election, at maximum intervals provided for in the Lithuanian legislation with a view to ensuring necessary development of professional experience and sufficiently frequent reconfirmation of their status. A possibility to remove them should also be stipulated however this procedure should not be easier than the removal procedure for an executive director or a member of the management board.	Yes	Supervisory board of the company is elected for the period of 4 years. Term of office of the member of the supervisory board is not limited. Members of the board for the period of four years are elected by the supervisory board. Term of office of the members of the board and the chairman of the board is not limited.
2.7. Chairman of the collegial body elected by the general shareholders' meeting may be a person whose current or past office constitutes no obstacle to conduct independent and impartial supervision. Where a company should decide not to set up a supervisory board but rather the board, it is recommended that the chairman of the board and chief executive officer of the company should be a different person. Former company's chief executive officer should not be immediately nominated as the chairman of the collegial body elected by the general shareholders' meeting. When a company chooses to departure from these recommendations, it should furnish information on the measures it has taken to ensure impartiality of the supervision.	Yes	Company complies with this recommendation by implementing the provisions thereof in practice – the chairman of the supervisory board, formed in the company, has not been the manager of the company.

Principle III: The order of the formation of a collegial body to be elected by a general shareholders' meeting

The order of the formation a collegial body to be elected by a general shareholders' meeting should ensure representation of minority shareholders, accountability of this body to the shareholders and objective monitoring of the company's operation and its management bodies.[3]

3.1. The mechanism of the formation of a collegial body to be elected by a general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure objective and fair monitoring of the company's management bodies as well as representation of minority shareholders.	Yes	

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

3.2. Names and surnames of the candidates to become members of a collegial body, information about their education, qualification, professional background, positions taken and potential conflicts of interest should be disclosed early enough before the general shareholders' meeting so that the shareholders would have sufficient time to make an informed voting decision. All factors affecting the candidate's independence, the sample list of which is set out in Recommendation 3.7. should be also disclosed. The collegial body should also be informed on any subsequent changes in the provided information. The collegial body should, on yearly basis, collect data provided in this item on its members and disclose this in the company's annual report.	Yes	
3.3. Should a person be nominated for members of a collegial body, such nomination should be followed by the disclosure of information on candidate's particular competences relevant to his/her service on the collegial body. In order shareholders and investors are able to ascertain whether member's competence is further relevant, the collegial body should, in its annual report, disclose the information on its composition and particular competences of individual members which are relevant to their service on the collegial body.	Yes	
3.4. In order to maintain a proper balance in terms of the current qualifications possessed by its members, the collegial body should determine its desired composition with regard to the company's structure and activities, and have this periodically evaluated. The collegial body should ensure that it is composed of members who, as a whole, have the required diversity of knowledge, judgment and experience to complete their tasks properly. The members of the audit committee, collectively, should have a recent knowledge and relevant experience in the fields of finance, accounting and/or audit for the stock exchange listed companies.	Yes	
3.5. All new members of the collegial body should be offered a tailored program focused on introducing a member with his/her duties, corporate organization and activities. The collegial body should conduct an annual review to identify fields where its members need to update their skills and knowledge.	Yes	

3.6. In order to ensure that all material conflicts of interest related with a member of the collegial body are resolved properly, the collegial body should comprise a sufficient[4] number of independent[5] members.	Yes	
3.7. A member of the collegial body should be considered to be independent only if he is free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair his judgment. Since all cases when member of the collegial body is likely to become dependant are impossible to list, moreover, relationships and circumstances associated with the determination of independence may vary amongst companies and the best practices of solving this problem are yet to evolve in the course of time, assessment of independence of a member of the collegial body should be based on the contents of the relationship and circumstances rather than their form. The key criteria for identifying whether a member of the collegial body can be considered to be independent are the following: 1) He/she is not an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) of the company or any associated company and has not been such during the last five years; 2) He/she is not an employee of the company or some any company and has not been such during the last three years, except for cases when a member of the collegial body does not belong to the senior management and was elected to the collegial body as a representative of the employees; 3) He/she is not receiving or has been not receiving significant additional remuneration from the company or associated company other than remuneration for the office in the collegial body. Such additional remuneration includes participation in share options or some other performance based pay systems; it does not include compensation payments for the previous office in the company (provided that such payment is no way related with later position) as per pension plans (inclusive of deferred compensations);	Yes	Portfolio of the company is owned by the state, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority of the board.

[4] The Code does not provide for a concrete number of independent members to comprise a collegial body. Many codes in foreign countries fix a concrete number of independent members (e.g. at least 1/3 or 1/2 of the members of the collegial body) to comprise the collegial body. However, having regard to the novelty of the institution of independent members in Lithuania and potential problems in finding and electing a concrete number of independent members, the Code provides for a more flexible wording and allows the companies themselves to decide what number of independent members is sufficient. Of course, a larger number of independent members in a collegial body is encouraged and will constitute an example of more suitable corporate governance.

[5] It is notable that in some companies all members of the collegial body may, due to a very small number of minority shareholders, be elected by the votes of the majority shareholder or a few major shareholders. But even a member of the collegial body elected by the majority shareholders may be considered independent if he/she meets the independence criteria set out in the Code.

4) He/she is not a controlling shareholder or representative of such shareholder (control as defined in the Council Directive 83/349/EEC Article 1 Part 1): 5) He/she does not have and did not have any material business relations with the company or associated company within the past year directly or as a partner. shareholder. director or superior employee of the subject having such relationship. A subject is considered to have business relations when it is a major supplier or service provider (inclusive of financial. legal. counseling and consulting services). major client or organization receiving significant payments from the company or its group: 6) He/she is not and has not been. during the last three years. partner or employee of the current or former external audit company of the company or associated company: 7) He/she is not an executive director or member of the board in some other company where executive director of the company or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) is non-executive director or member of the supervisory board. he/she may not also have any other material relationships with executive directors of the company that arise from their participation in activities of other companies or bodies: 8) He/she has not been in the position of a member of the collegial body for over than 12 years: 9) He/she is not a close relative to an executive director or member of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) or to any person listed in above items 1 to 8. Close relative is considered to be a spouse (common-law spouse). children and parents.		
3.8. The determination of what constitutes independence is fundamentally an issue for the collegial body itself to determine. The collegial body may decide that. despite a particular member meets all the criteria of independence laid down in this Code. he cannot be considered independent due to special personal or company-related circumstances.	Yes	

3.9. Necessary information on conclusions the collegial body has come to in its determination of whether a particular member of the body should be considered to be independent should be disclosed. When a person is nominated to become a member of the collegial body, the company should disclose whether it considers the person to be independent. When a particular member of the collegial body does not meet one or more criteria of independence set out in this Code, the company should disclose its reasons for nevertheless considering the member to be independent. In addition, the company should annually disclose which members of the collegial body it considers to be independent.	Yes	
3.10. When one or more criteria of independence set out in this Code has not been met throughout the year, the company should disclose its reasons for considering a particular member of the collegial body to be independent. To ensure accuracy of the information disclosed in relation with the independence of the members of the collegial body, the company should require independent members to have their independence periodically re-confirmed.	Yes	Portfolio of the company is owned by the state, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority of the board.
3.11. In order to remunerate members of a collegial body for their work and participation in the meetings of the collegial body, they may be remunerated from the company's funds.[6]. The general shareholders' meeting should approve the amount of such remuneration.	Yes	General shareholders' meeting of the company has not approved such remuneration yet.
Principle IV: The duties and liabilities of a collegial body elected by the general shareholders' meeting **The corporate governance framework should ensure proper and effective functioning of the collegial body elected by the general shareholders' meeting, and the powers granted to the collegial body should ensure effective monitoring[7] of the company's management bodies and protection of interests of all the company's shareholders.**		
4.1. The collegial body elected by the general shareholders' meeting (hereinafter in this Principle referred to as the 'collegial body') should ensure integrity and transparency of the company's financial statements and the control system. The collegial body should issue recommendations to the company's management bodies and monitor and control the company's management performance.[8]	Yes	

[6] It is notable that currently it is not yet completely clear, in what form members of the supervisory board or the board may be remunerated for their work in these bodies. The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) provides that members of the supervisory board or the board may be remunerated for their work in the supervisory board or the board by payment of annual bonuses (tantiems) in the manner prescribed by Article 59 of this Law, i.e. from the company's profit. The current wording, contrary to the wording effective before 1 January 2004, eliminates the exclusive requirement that annual bonuses (tantiems) should be the *only* form of the company's compensation to members of the supervisory board or the board. So it seems that the Law contains no prohibition to remunerate members of the supervisory board or the board for their work in other forms, besides bonuses, although this possibility is not expressly stated either.

[7] See Footnote 3.

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

4.2. Members of the collegial body should act in good faith, with care and responsibility for the benefit and in the interests of the company and its shareholders with due regard to the interests of employees and public welfare. Independent members of the collegial body should (a) under all circumstances maintain independence of their analysis, decision-making and actions (b) do not seek and accept any unjustified privileges that might compromise their independence, and (c) clearly express their objections should a member consider that decision of the collegial body is against the interests of the company. Should a collegial body have passed decisions independent member has serious doubts about, the member should make adequate conclusions. Should an independent member resign from his office, he should explain the reasons in a letter addressed to the collegial body or audit committee and, if necessary, respective company-not-pertaining body (institution).	Yes	According to the data, available for the company, all members of the supervisory board and the board act in goodwill in respect of the company, follow the interests of the company, and not own interests or interests of the third persons, trying to keep their independence in decision-making.
4.3. Each member should devote sufficient time and attention to perform his duties as a member of the collegial body. Each member of the collegial body should limit other professional obligations of his (in particular any directorships held in other companies) in such a manner they do not interfere with proper performance of duties of a member of the collegial body. In the event a member of the collegial body should be present in less than a half[9] of the meetings of the collegial body throughout the financial year of the company, shareholders of the company should be notified.	Yes	Portfolio of the company is owned by the state, represented by the Ministry of Communication of the Republic of Lithuania, the employees of which form the supervisory board as well as the majority (4/5) of the board. Other data is not available for the company.
4.4. Where decisions of a collegial body may have a different effect on the company's shareholders, the collegial body should treat all shareholders impartially and fairly. It should ensure that shareholders are properly informed on the company's affairs, strategies, risk management and resolution of conflicts of interest. The company should have a clearly established role of members of the collegial body when communicating with and committing to shareholders.	Yes	

[9] It is notable that companies can make this requirement more stringent and provide that shareholders should be informed about failure to participate at the meetings of the collegial body if, for instance, a member of the collegial body participated at less than 2/3 or 3/4 of the meetings. Such measures, which ensure active participation in the meetings of the collegial body, are encouraged and will constitute an example of more suitable corporate governance.

4.5. It is recommended that transactions (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions), concluded between the company and its shareholders, members of the supervisory or managing bodies or other natural or legal persons that exert or may exert influence on the company's management should be subject to approval of the collegial body. The decision concerning approval of such transactions should be deemed adopted only provided the majority of the independent members of the collegial body voted for such a decision.	Maybe	This is provided in the Articles of Association of the company.
4.6. The collegial body should be independent in passing decisions that are significant for the company's operations and strategy. Taken separately, the collegial body should be independent of the company's management bodies[10]. Members of the collegial body should act and pass decisions without an outside influence from the persons who have elected it. Companies should ensure that the collegial body and its committees are provided with sufficient administrative and financial resources to discharge their duties, including the right to obtain, in particular from employees of the company, all the necessary information or to seek independent legal, accounting or any other advice on issues pertaining to the competence of the collegial body and its committees.	Yes	

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

4.7. Activities of the collegial body should be organized in a manner that independent members of the collegial body could have major influence in relevant areas where chances of occurrence of conflicts of interest are very high. Such areas to be considered as highly relevant are issues of nomination of company's directors, determination of directors' remuneration and control and assessment of company's audit. Therefore when the mentioned issues are attributable to the competence of the collegial body, it is recommended that the collegial body should establish nomination, remuneration, and audit committees. Companies should ensure that the functions attributable to the nomination, remuneration, and audit committees are carried out. However they may decide to merge these functions and set up less than three committees. In such case a company should explain in detail reasons behind the selection of alternative approach and how the selected approach complies with the objectives set forth for the three different committees. Should the collegial body of the company comprise small number of members, the functions assigned to the three committees may be performed by the collegial body itself, provided that it meets composition requirements advocated for the committees and that adequate information is provided in this respect. In such case provisions of this Code relating to the committees of the collegial body (in particular with respect to their role, operation, and transparency) should apply, where relevant, to the collegial body as a whole.	Yes	Board of the company elects and revokes as well as discharges the Director General – a sole management body of the company, moreover, determine his remuneration, approve his job description, promote him, as well as impose penalties. Board discusses and approves the management structure of the company and job descriptions of the employees, as well as job descriptions, where the employees are employed by competition. Director General organizes the everyday activities of the company, issues procures and proxies, employs and discharges the employees, enters into and terminates the employment contracts with them, promotes and imposes penalties to them. He is also responsible for the organization of the activities of the company as well as express implementation thereof. Company operates by the Articles of Association of the company as well as the work regulations of the supervisory board and the board.
4.8. The key objective of the committees is to increase efficiency of the activities of the collegial body by ensuring that decisions are based on due consideration, and to help organize its work with a view to ensuring that the decisions it takes are free of material conflicts of interest. Committees should present the collegial body with recommendations concerning the decisions of the collegial body. Nevertheless the final decision shall be adopted by the collegial body. The recommendation on creation of committees is not intended, in principle, to constrict the competence of the collegial body or to remove the matters considered from the purview of the collegial body itself, which remains fully responsible for the decisions taken in its field of competence.		Committees are not formed in the company. Such functions are implemented by the collegial body.
4.9. Committees established by the collegial body should normally be composed of at least three members. In companies with small number of members of the collegial body, they could exceptionally be composed of two members. Majority of the members of each committee should be constituted from independent members of the collegial body. In cases when the company chooses not to set up a supervisory board, remuneration and audit committees should be entirely comprised of non-executive directors. Chairmanship and membership of the committees should be decided with due regard to the need to ensure that		Committees are not formed in the company. So far there have not been any requirements concerning the establishment of the committees in the Law on Companies.

committee membership is refreshed and that undue reliance is not placed on particular individuals.		
4.10. Authority of each of the committees should be determined by the collegial body. Committees should perform their duties in line with authority delegated to them and inform the collegial body on their activities and performance on regular basis. Authority of every committee stipulating the role and rights and duties of the committee should be made public at least once a year (as part of the information disclosed by the company annually on its corporate governance structures and practices). Companies should also make public annually a statement by existing committees on their composition, number of meetings and attendance over the year, and their main activities. Audit committee should confirm that it is satisfied with the independence of the audit process and describe briefly the actions it has taken to reach this conclusion.		See items 4.8 and 4.9.
4.11. In order to ensure independence and impartiality of the committees, members of the collegial body that are not members of the committee should commonly have a right to participate in the meetings of the committee only if invited by the committee. A committee may invite or demand participation in the meeting of particular officers or experts. Chairman of each of the committees should have a possibility to maintain direct communication with the shareholders. Events when such are to be performed should be specified in the regulations for committee activities.		See items 4.8 and 4.9.

4.12. Nomination Committee. 4.12.1. Key functions of the nomination committee should be the following: • Identify and recommend, for the approval of the collegial body, candidates to fill board vacancies. The nomination committee should evaluate the balance of skills, knowledge and experience on the management body, prepare a description of the roles and capabilities required to assume a particular office, and assess the time commitment expected. Nomination committee can also consider candidates to members of the collegial body delegated by the shareholders of the company; • Assess on regular basis the structure, size, composition and performance of the supervisory and management bodies, and make recommendations to the collegial body regarding the means of achieving necessary changes; • Assess on regular basis the skills, knowledge and experience of individual directors and report on this to the collegial body; • Properly consider issues related to succession planning; • Review the policy of the management bodies for selection and appointment of senior management. 4.12.2. Nomination committee should consider proposals by other parties, including management and shareholders. When dealing with issues related to executive directors or members of the board (if a collegial body elected by the general shareholders' meeting is the supervisory board) and senior management, chief executive officer of the company should be consulted by, and entitled to submit proposals to the nomination committee.		See items 4.8 and 4.9.
4.13. Remuneration Committee. 4.13.1. Key functions of the remuneration committee should be the following: • Make proposals, for the approval of the collegial body, on the remuneration policy for members of management bodies and executive directors. Such policy should address all forms of compensation, including the fixed remuneration, performance-based remuneration schemes, pension arrangements, and termination payments. Proposals considering performance-based remuneration schemes should be accompanied with recommendations on the related objectives and evaluation criteria, with a view to properly aligning the pay of executive director and members of the management bodies with the long-term interests of the shareholders and the objectives set by the collegial body; • Make proposals to the collegial body on the individual remuneration for executive directors and member of management bodies in order their remunerations are consistent with company's remuneration policy and the evaluation of the performance of these persons concerned. In doing so, the committee should be properly informed on the total compensation obtained by executive directors and members of the management bodies from the affiliated companies; • Make proposals to the collegial body on suitable forms of contracts for executive directors and members of the management bodies; • Assist the collegial body in overseeing how the company complies with applicable provisions regarding the remuneration-related information disclosure (in particular the remuneration policy applied and individual remuneration of directors); • Make general recommendations to the executive directors		Remuneration as well as other payouts are paid to the employees in the company following the Collective Agreement as of March 30, 2004, Regulation on the wages system for the onshore personnel of the public company "Lithuanian Shipping Company", declaration of the remuneration procedure of the Director General, directors, and accountant-general, which are approved by the board.

and members of the management bodies on the level and structure of remuneration for senior management (as defined by the collegial body) with regard to the respective information provided by the executive directors and members of the management bodies. 4.13.2. With respect to stock options and other share-based incentives which may be granted to directors or other employees, the committee should: • Consider general policy regarding the granting of the above mentioned schemes, in particular stock options, and make any related proposals to the collegial body; • Examine the related information that is given in the company's annual report and documents intended for the use during the shareholders meeting; • Make proposals to the collegial body regarding the choice between granting options to subscribe shares or granting options to purchase shares, specifying the reasons for its choice as well as the consequences that this choice has. 4.13.3. Upon resolution of the issues attributable to the competence of the remuneration committee, the committee should at least address the chairman of the collegial body and/or chief executive officer of the company for their opinion on the remuneration of other executive directors or members of the management bodies.		
4.14. Audit Committee. 4.14.1. Key functions of the audit committee should be the following: • Observe the integrity of the financial information provided by the company, in particular by reviewing the relevance and consistency of the accounting methods used by the company and its group (including the criteria for the consolidation of the accounts of companies in the group); • At least once a year review the systems of internal control and risk management to ensure that the key risks (inclusive of the risks in relation with compliance with existing laws and regulations) are properly identified, managed and reflected in the information provided; • Ensure the efficiency of the internal audit function, among other things, by making recommendations on the selection, appointment, reappointment and removal of the head of the internal audit department and on the budget of the department, and by monitoring the responsiveness of the management to its findings and recommendations. Should there be no internal audit authority in the company, the need for one should be reviewed at least annually; • Make recommendations to the collegial body related with selection, appointment, reappointment and removal of the external auditor (to be done by the general shareholders' meeting) and with the terms and conditions of his engagement. The committee should investigate situations that lead to a resignation of the audit company or auditor and make recommendations on required actions in such situations; • Monitor independence and impartiality of the external auditor, in particular by reviewing the audit company's compliance with applicable guidance relating to the rotation of audit partners, the level of fees paid by the company, and similar issues. In order to prevent occurrence of material conflicts of interest, the committee, based on the auditor's disclosed inter alia data on all remunerations paid by the company to the auditor and network, should at all times monitor nature and extent of the non-audit services. Having regard to the principals and guidelines established in the 16 May 2002 Commission Recommendation 2002/590/EC, the committee should determine and apply a formal policy		See items 4.8 and 4.9. Procedure for the selection of the audit enterprise is approved in the company.

establishing types of non-audit services that are (a) excluded. (b) permissible only after review by the committee. and (c) permissible without referral to the committee: • Review efficiency of the external audit process and responsiveness of management to recommendations made in the external auditor's management letter.		
4.14.2. All members of the committee should be furnished with complete information on particulars of accounting. financial and other operations of the company. Company's management should inform the audit committee of the methods used to account for significant and unusual transactions where the accounting treatment may be open to different approaches. In such case a special consideration should be given to company's operations in offshore centers and/or activities carried out through special purpose vehicles (organizations) and justification of such operations.		
4.14.3. The audit committee should decide whether participation of the chairman of the collegial body. chief executive officer of the company. chief financial officer (or superior employees in charge of finances. treasury and accounting). or internal and external auditors in the meetings of the committee is required (if required. when). The committee should be entitled. when needed. to meet with any relevant person without executive directors and members of the management bodies present.		
4.14.4. Internal and external auditors should be secured with not only effective working relationship with management. but also with free access to the collegial body. For this purpose the audit committee should act as the principal contact person for the internal and external auditors.		
4.14.5. The audit committee should be informed of the internal auditor's work program. and should be furnished with internal audit's reports or periodic summaries. The audit committee should also be informed of the work program of the external auditor and should be furnished with report disclosing all relationships between the independent auditor and the company and its group. The committee should be timely furnished information on all issues arising from the audit.		
4.14.6. The audit committee should examine whether the company is following applicable provisions regarding the possibility for employees to report alleged significant irregularities in the company. by way of complaints or through anonymous submissions (normally to an independent member of the collegial body). and should ensure that there is a procedure established for proportionate and independent investigation of these issues and for appropriate follow-up action.		
4.14.7. The audit committee should report on its activities to the collegial body at least once in every six months. at the time the yearly and half-yearly statements are approved.		

4.15. Every year the collegial body should conduct the assessment of its activities. The assessment should include evaluation of collegial body's structure, work organization and ability to act as a group, evaluation of each of the collegial body member's and committee's competence and work efficiency and assessment whether the collegial body has achieved its objectives. The collegial body should, at least once a year, make public (as part of the information the company annually discloses on its management structures and practices) respective information on its internal organization and working procedures, and specify what material changes were made as a result of the assessment of the collegial body of its own activities.		
Principle V: The working procedure of the company's collegial bodies **The working procedure of supervisory and management bodies established in the company should ensure efficient operation of these bodies and decision-making and encourage active co-operation between the company's bodies.**		
5.1. The company's supervisory and management bodies (hereinafter in this Principle the concept 'collegial bodies' covers both the collegial bodies of supervision and the collegial bodies of management) should be chaired by chairpersons of these bodies. The chairperson of a collegial body is responsible for proper convocation of the collegial body meetings. The chairperson should ensure that information about the meeting being convened and its agenda are communicated to all members of the body. The chairperson of a collegial body should ensure appropriate conducting of the meetings of the collegial body. The chairperson should ensure order and working atmosphere during the meeting.	Yes	
5.2. It is recommended that meetings of the company's collegial bodies should be carried out according to the schedule approved in advance at certain intervals of time. Each company is free to decide how often to convene meetings of the collegial bodies, but it is recommended that these meetings should be convened at such intervals, which would guarantee an interrupted resolution of the essential corporate governance issues. Meetings of the company's supervisory board should be convened at least once in a quarter, and the company's board should meet at least once a month[11].	Yes	Company discusses all the matters, which are subject to the collegial bodies. This is provided in the work regulation of the collegial bodies.

[11] The frequency of meetings of the collegial body provided for in the recommendation must be applied in those cases when both additional collegial bodies are formed at the company, the board and the supervisory board. In the event only one additional collegial body is formed in the company, the frequency of its meetings may be as established for the supervisory board, i.e. at least once in a quarter.

5.3. Members of a collegial body should be notified about the meeting being convened in advance in order to allow sufficient time for proper preparation for the issues on the agenda of the meeting and to ensure fruitful discussion and adoption of appropriate decisions. Alongside with the notice about the meeting being convened, all the documents relevant to the issues on the agenda of the meeting should be submitted to the members of the collegial body. The agenda of the meeting should not be changed or supplemented during the meeting, unless all members of the collegial body are present or certain issues of great importance to the company require immediate resolution.	Yes	
5.4. In order to co-ordinate operation of the company's collegial bodies and ensure effective decision-making process, chairpersons of the company's collegial bodies of supervision and management should closely co-operate by co-coordinating dates of the meetings, their agendas and resolving other issues of corporate governance. Members of the company's board should be free to attend meetings of the company's supervisory board, especially where issues concerning removal of the board members, their liability or remuneration are discussed.	Yes	

Principle VI: The equitable treatment of shareholders and shareholder rights

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. The corporate governance framework should protect the rights of the shareholders.

6.1. It is recommended that the company's capital should consist only of the shares that grant the same rights to voting, ownership, dividend and other rights to all their holders.	Yes	Authorized capital of the company amounts to 200 901 296 Litas. Authorized capital of the company is divided into 200 901 296 ordinary registered shares of the part value of 1 Litas. Shares of the company are of one class – ordinary registered.
6.2. It is recommended that investors should have access to the information concerning the rights attached to the shares of the new issue or those issued earlier in advance, i.e. before they purchase shares.	Yes	This is provided in both the Law on Companies as well as Articles of Association of the company. Only the general shareholders' meeting has a prerogative right to establish the class, number, par value, and minimum issue price of the shares, issued by the company.
6.3. Transactions that are important to the company and its shareholders, such as transfer, investment, and pledge of the company's assets or any other type of encumbrance should be subject to approval of the general shareholders' meeting.[12] All shareholders should be furnished with equal opportunity to familiarize with and participate in the decision-making process when significant corporate issues, including approval of transactions referred to above, are	Yes	It is provided in the Articles of Association of the company that the board makes the decisions regarding the investment, transfer, lease, mortgage, and hypothec of the capital asset with the book value higher than 1/20 of the authorized capital of the company. This provision is not against the Law on Companies as well as it has been adopted seeking not to encumber the activities of the company, the number of shareholders of which, according to the last data of the

[12] The Law on Companies of the Republic of Lithuania (*Official Gazette*, 2003, No 123-5574) no longer assigns resolutions concerning the investment, transfer, lease, mortgage or acquisition of the long-terms assets accounting for more than 1/20 of the company's authorized capital to the competence of the general shareholders' meeting. However, transactions that are important and material for the company's activity should be considered and approved by the general shareholders' meeting. The Law on Companies contains no prohibition to this effect either. Yet, in order not to encumber the company's activity and escape an unreasonably frequent consideration of transactions at the meetings, companies are free to establish their own criteria of material transactions, which are subject to the approval of the meeting. While establishing these criteria of material transactions, companies may follow the criteria set out in items 3, 4, 5 and 6 of paragraph 4 of Article 34 of the Law on Companies or derogate from them in view of the specific nature of their operation and their attempt to ensure uninterrupted, efficient functioning of the company.

discussed.		company, is 1848.
6.4. Procedures of convening and conducting a general shareholders' meeting should ensure equal opportunities for the shareholders to effectively participate at the meetings and should not prejudice the rights and interests of the shareholders. The venue, date, and time of the shareholders' meeting should not hinder wide attendance of the shareholders. Prior to the shareholders' meeting, the company's supervisory and management bodies should enable the shareholders to lodge questions on issues on the agenda of the general shareholders' meeting and receive answers to them.	Yes	
6.5. It is recommended that documents on the course of the general shareholders' meeting, including draft resolutions of the meeting, should be placed on the publicly accessible website of the company in advance[13]. It is recommended that the minutes of the general shareholders' meeting after signing them and/or adopted resolutions should be also placed on the publicly accessible website of the company. Seeking to ensure the right of foreigners to familiarize with the information, whenever feasible, documents referred to in this recommendation should be published in English and/or other foreign languages. Documents referred to in this recommendation may be published on the publicly accessible website of the company to the extent that publishing of these documents is not detrimental to the company or the company's commercial secrets are not revealed.	Yes	Procedure of convocation of the general shareholders' meeting of the company, decision-making, as well as organization is established in the Law on Companies of the Republic of Lithuania as well as Articles of Association of the company, followed by the company. Substantial events, covering the agenda, decisions, as well as projects of the shareholders' meeting, are published on the website of Vilnius Stock Exchange. Company does not have the possibility to translate all the documents into foreign language, as well as they think that this way the public interest might be violated. Company prefers the content to the form. Under the necessity of distributing the information in other than the state language, we offer to do so in a centralized way, moreover, maybe by even unifying the form of presentation of information.
6.6. Shareholders should be furnished with the opportunity to vote in the general shareholders' meeting in person and in absentia. Shareholders should not be prevented from voting in writing in advance by completing the general voting ballot.	Yes	This is provided by the Articles of Association of the company.
6.7. With a view to increasing the shareholders' opportunities to participate effectively at shareholders' meetings, the companies are recommended to expand use of modern technologies in voting processes by allowing the shareholders to vote in general meetings via terminal equipment of telecommunications. In such cases security of telecommunication equipment, text protection and a possibility to identify the signature of the voting person should be guaranteed. Moreover, companies could furnish its shareholders, especially foreigners, with the opportunity to watch shareholder meetings by means of modern technologies.	Yes	Company is planning to use modern technologies for voting at the shareholders' meeting without increasing the expenses and (or) costs significantly, which might violate the interests of the same shareholders.

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

Principle VII: The avoidance of conflicts of interest and their disclosure **The corporate governance framework should encourage members of the corporate bodies to avoid conflicts of interest and assure transparent and effective mechanism of disclosure of conflicts of interest regarding members of the corporate bodies.**		
7.1. Any member of the company's supervisory and management body should avoid a situation, in which his/her personal interests are in conflict or may be in conflict with the company's interests. In case such a situation did occur, a member of the company's supervisory and management body should, within reasonable time, inform other members of the same collegial body or the company's body that has elected him/her, or to the company's shareholders about a situation of a conflict of interest, indicate the nature of the conflict and value, where possible.	Yes	Members of the supervisory and management bodies of the company are ware of that.
7.2. Any member of the company's supervisory and management body may not mix the company's assets, the use of which has not been mutually agreed upon, with his/her personal assets or use them or the information which he/she learns by virtue of his/her position as a member of a corporate body for his/her personal benefit or for the benefit of any third person without a prior agreement of the general shareholders' meeting or any other corporate body authorized by the meeting.	Yes	
7.3. Any member of the company's supervisory and management body may conclude a transaction with the company, a member of a corporate body of which he/she is. Such a transaction (except insignificant ones due to their low value or concluded when carrying out routine operations in the company under usual conditions) must be immediately reported in writing or orally, by recording this in the minutes of the meeting, to other members of the same corporate body or to the corporate body that has elected him/her or to the company's shareholders. Transactions specified in this recommendation are also subject to recommendation 4.5.		Members of the supervisory and management bodies of the company have not had any transactions with the company. They are aware of that.
7.4. Any member of the company's supervisory and management body should abstain from voting when decisions concerning transactions or other issues of personal or business interest are voted on.	Yes	
Principle VIII: Company's remuneration policy **Remuneration policy and procedure for approval, revision and disclosure of directors' remuneration established in the company should prevent potential conflicts of interest and abuse in determining remuneration of directors, in addition it should ensure publicity and transparency both of company's remuneration policy and remuneration of directors.**		
8.1. A company should make a public statement of the company's remuneration policy (hereinafter the remuneration statement). This statement should be part of the company's annual accounts. Remuneration statement should also be posted on the company's website.	Yes	Now the company declares the average number of employees as well as the monthly wages following the procedure, established by the Lithuanian Securities Commission, in the prospectus of the year of the company – report for the year ended. This information about the company is available at the company, Lithuanian Securities Commission (Konstitucijos pr.

		23, Vilnius), Listing Department of Vilnius Stock Exchange (Konstitucijos pr. 7, 15th floor, Vilnius), as well as websites of the last-mentioned companies, where the information is public and available for everyone.
8.2. Remuneration statement should mainly focus on directors' remuneration policy for the following year and, if appropriate, the subsequent years. The statement should contain a summary of the implementation of the remuneration policy in the previous financial year. Special attention should be given to any significant changes in company's remuneration policy as compared to the previous financial year.	No	Not prepared, as it is not provided by either the legal acts or the Articles of Association of the company. As compared with the last financial year, no fundamental changes have taken place in the remuneration policy.
8.3. Remuneration statement should leastwise include the following information: • Explanation of the relative importance of the variable and non-variable components of directors' remuneration; • Sufficient information on performance criteria that entitles directors to share options, shares or variable components of remuneration; • Sufficient information on the linkage between the remuneration and performance; • The main parameters and rationale for any annual bonus scheme and any other non-cash benefits; • A description of the main characteristics of supplementary pension or early retirement schemes for directors.	No	Annual bonus system is not available, such bonus is not awarded, the same as extra pensions, early superannuation plan is not available either, therefore, the main characteristics thereof are not described. Payouts are paid to the employees following the above documents and the same has been indicated in the reports on the activities.
8.4. Remuneration statement should also summarize and explain company's policy regarding the terms of the contracts executed with executive directors and members of the management bodies. It should include, inter alia, information on the duration of contracts with executive directors and members of the management bodies, the applicable notice periods and details of provisions for termination payments linked to early termination under contracts for executive directors and members of the management bodies.	No	So far the company has not practiced such policy, as there is no and there has not been any legal grounds and (or) legal base for that.
8.5. The information on preparatory and decision-making processes, during which a policy of remuneration of directors is being established, should also be disclosed. Information should include data, if applicable, on authorities and composition of the remuneration committee, names and surnames of external consultants whose services have been used in determination of the remuneration policy as well as the role of shareholders' annual general meeting.		See an explanation to item 4.13.

8.6. Without prejudice to the role and organization of the relevant bodies responsible for setting directors' remunerations, the remuneration policy or any other significant change in remuneration policy should be included into the agenda of the shareholders' annual general meeting. Remuneration statement should be put for voting in shareholders' annual general meeting. The vote may be either mandatory or advisory.		So far has not taken place, as this is not covered by the laws and other legal acts.
8.7. Remuneration statement should also contain detailed information on the entire amount of remuneration, inclusive of other benefits, that was paid to individual directors over the relevant financial year. This document should list at least the information set out in items 8.7.1 to 8.7.4 for each person who has served as a director of the company at any time during the relevant financial year. 8.7.1. The following remuneration and/or emoluments-related information should be disclosed: • The total amount of remuneration paid or due to the director for services performed during the relevant financial year, inclusive of, where relevant, attendance fees fixed by the annual general shareholders meeting; • The remuneration and advantages received from any undertaking belonging to the same group; • The remuneration paid in the form of profit sharing and/or bonus payments and the reasons why such bonus payments and/or profit sharing were granted; • If permissible by the law, any significant additional remuneration paid to directors for special services outside the scope of the usual functions of a director; • Compensation receivable or paid to each former executive director or member of the management body as a result of his resignation from the office during the previous financial year; • Total estimated value of non-cash benefits considered as remuneration, other than the items covered in the above points. 8.7.2. As regards shares and/or rights to acquire share options and/or all other share-incentive schemes, the following information should be disclosed: • The number of share options offered or shares granted by the company during the relevant financial year and their conditions of application; • The number of shares options exercised during the relevant financial year and, for each of them, the number of shares involved and the exercise price or the value of the interest in the share incentive scheme at the end of the financial year; • The number of share options unexercised at the end of the financial year; their exercise price, the exercise date and the main conditions for the exercise of the rights; • All changes in the terms and conditions of existing share options occurring during the financial year. 8.7.3. The following supplementary pension schemes-related information should be disclosed: • When the pension scheme is a defined-benefit scheme, changes in the directors' accrued benefits under that scheme during the relevant financial year; • When the pension scheme is defined-contribution scheme, detailed information on contributions paid or payable by the company in respect of that director during the relevant financial year. 8.7.4. The statement should also state amounts that the company or any subsidiary company or entity included in the consolidated annual financial statements of the company	Not applicable	Remuneration account is not formed and there are no legal grounds for that. Also see the explanation to item 4.13.

has paid to each person who has served as a director in the company at any time during the relevant financial year in the form of loans, advance payments or guarantees, including the amount outstanding and the interest rate.		
8.8. Schemes anticipating remuneration of directors in shares, share options or any other right to purchase shares or be remunerated on the basis of share price movements should be subject to the prior approval of shareholders' annual general meeting by way of a resolution prior to their adoption. The approval of scheme should be related with the scheme itself and not to the grant of such share-based benefits under that scheme to individual directors. All significant changes in scheme provisions should also be subject to shareholders' approval prior to their adoption; the approval decision should be made in shareholders' annual general meeting. In such case shareholders should be notified on all terms of suggested changes and get an explanation on the impact of the suggested changes.	Not applicable	This is not practiced in the company.
8.9. The following issues should be subject to approval by the shareholders' annual general meeting: • Grant of share-based schemes, including share options, to directors; • Determination of maximum number of shares and main conditions of share granting; • The term within which options can be exercised; • The conditions for any subsequent change in the exercise of the options, if permissible by law; • All other long-term incentive schemes for which directors are eligible and which are not available to other employees of the company under similar terms. Annual general meeting should also set the deadline within which the body responsible for remuneration of directors may award compensations listed in this article to individual directors.	Yes	
8.10. Should national law or company's Articles of Association allow, any discounted option arrangement under which any rights are granted to subscribe to shares at a price lower than the market value of the share prevailing on the day of the price determination, or the average of the market values over a number of days preceding the date when the exercise price is determined, should also be subject to the shareholders' approval.	Not applicable	Articles of Association of the company do not cover that.

8.11. Provisions of Articles 8.8 and 8.9 should not be applicable to schemes allowing for participation under similar conditions to company's employees or employees of any subsidiary company whose employees are eligible to participate in the scheme and which has been approved in the shareholders' annual general meeting.	Yes	Articles of Association of the company do not cover that.
8.12. Prior to the annual general meeting that is intended to consider decision stipulated in Article 8.8. the shareholders must be provided an opportunity to familiarize with draft resolution and project-related notice (the documents should be posted on the company's website). The notice should contain the full text of the share-based remuneration schemes or a description of their key terms. as well as full names of the participants in the schemes. Notice should also specify the relationship of the schemes and the overall remuneration policy of the directors. Draft resolution must have a clear reference to the scheme itself or to the summary of its key terms. Shareholders must also be presented with information on how the company intends to provide for the shares required to meet its obligations under incentive schemes. It should be clearly stated whether the company intends to buy shares in the market. hold the shares in reserve or issue new ones. There should also be a summary on scheme-related expenses the company will suffer due to the anticipated application of the scheme. All information given in this article must be posted on the company's website.		Introduction to the draft decisions is provided both in the Law on Companies as well as Articles of Association of the company.

Principle IX: The role of stakeholders in corporate governance

The corporate governance framework should recognize the rights of stakeholders as established by law and encourage active co-operation between companies and stakeholders in creating the company value, jobs and financial sustainability. For the purposes of this Principle, the concept "stakeholders" includes investors, employees, creditors, suppliers, clients, local community and other persons having certain interest in the company concerned.

9.1. The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.	Yes	For the noncompliance with them. respective penalties are provided in the laws. Company seeks to avoid the clash of interests.
9.2. The corporate governance framework should create conditions for the stakeholders to participate in corporate governance in the manner prescribed by law. Examples of mechanisms of stakeholder participation in corporate governance include: employee participation in adoption of certain key decisions for the company: consulting the employees on corporate governance and other important issues: employee participation in the company's share capital: creditor involvement in governance in the context of the company's insolvency. etc.	Yes	Company operates as provided in the Law on Companies and Articles of Association of the company.
9.3. Where stakeholders participate in the corporate governance process. they should have access to relevant information.	Yes	In other case. there is no participation in the management process of the company.

Principle X: Information disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material information regarding the company, including the financial situation, performance and governance of the company.		
10.1. The company should disclose information on: • The financial and operating results of the company; • Company objectives; • Persons holding by the right of ownership or in control of a block of shares in the company; • Members of the company's supervisory and management bodies, chief executive officer of the company and their remuneration; • Material foreseeable risk factors; • Transactions between the company and connected persons, as well as transactions concluded outside the course of the company's regular operations; • Material issues regarding employees and other stakeholders; • Governance structures and strategy. This list should be deemed as a minimum recommendation, while the companies are encouraged not to limit themselves to disclosure of the information specified in this list.	Yes	This has been disclosed so far in the activities reports of the company, and since 2007 – in the annual report. This has been disclosed in the prospectus-reports of the company (annual, six months) following the procedure and terms, established by the Lithuanian Securities Commission and Vilnius Stock Exchange. Information on the compliance with individual items of this list is disclosed following the procedure, established by the laws as well as other standard acts, procedure as well as practice, applicable in the company. Public interest of the shareholders is governed by the Law on Companies, other standard acts, which must be observed by the company and which are actually observed.
10.2. It is recommended that consolidated results of the whole group to which the company belongs should be disclosed when information specified in item 1 of Recommendation 10.1 is under disclosure. 10.3. It is recommended that information on the professional background, qualifications of the members of supervisory and management bodies, chief executive officer of the company should be disclosed as well as potential conflicts of interest that may have an effect on their decisions when information specified in item 4 of Recommendation 10.1 about the members of the company's supervisory and management bodies is under disclosure. It is also recommended that information about the amount of remuneration received from the company and other income should be disclosed with regard to members of the company's supervisory and management bodies and chief executive officer as per Principle VIII.	Yes	Group is not available.
10.4. It is recommended that information about the links between the company and its stakeholders, including employees, creditors, suppliers, local community, as well as the company's policy with regard to human resources, employee participation schemes in the company's share capital, etc. should be disclosed when information specified in item 7 of Recommendation 10.1 is under disclosure.		The existence of these relations is governed by the legal base, Articles of Association of the company, as well as assumed contractual undertakings. They are assumed in pursuance of avoiding the clash of interests, providing the interest holders with the option.

10.5. Information should be disclosed in such a way that neither shareholders nor investors are discriminated with regard to the manner or scope of access to information. Information should be disclosed to all simultaneously. It is recommended that notices about material events should be announced before or after a trading session on the Vilnius Stock Exchange, so that all the company's shareholders and investors should have equal access to the information and make informed investing decisions.	Yes	However, first of all, the interests of the shareholders and the main shareholder shall not be violated against the interests of the future investor.
10.6. Channels for disseminating information should provide for fair, timely and cost-efficient access to relevant information by users. It is recommended that information technologies should be employed for wider dissemination of information, for instance, by placing the information on the company's website. It is recommended that information should be published and placed on the company's website not only in Lithuanian, but also in English, and, whenever possible and necessary, in other languages as well.	Yes	Company is planning to publish the information on the website of the company.
10.7. It is recommended that the company's annual reports and other periodical accounts prepared by the company should be placed on the company's website. It is recommended that the company should announce information about material events and changes in the price of the company's shares on the Stock Exchange on the company's website too.	Yes	We think that these means protect the rights of the shareholders less, than placement of information on special websites, which are specially intended and meeting their expectations, such as the websites of Vilnius Stock Exchange, Lithuanian Securities Commission, or similar.
Principle XI: The selection of the company's auditor **The mechanism of the selection of the company's auditor should ensure independence of the firm of auditor's conclusion and opinion.**		
11.1. An annual audit of the company's financial statements and report should be conducted by an independent firm of auditors in order to provide an external and objective opinion on the company's financial statements.	Yes	Independent audit enterprise carries out the audit of the annual financial statement of the company and used to carry out so far the audit of the activities report in accordance with the provisions of the Law on Companies. Since 2007, an independent audit enterprise checks, if the information, given in the annual report, conforms to the data, given in the financial statement, as well as carries out the audit of the financial statement in accordance with the provisions of the laws.
11.2. It is recommended that the company's supervisory board and, where it is not set up, the company's board should propose a candidate firm of auditors to the general shareholders' meeting.	Yes	Candidacy of the audit enterprise is selected following the terms, approved by the board of the company for the selection of the auditor. Board presents the winner of the tender to the general shareholders' meeting for the election as the auditor of the company.

11.3. It is recommended that the company should disclose to its shareholders the level of fees paid to the firm of auditors for non-audit services rendered to the company. This information should be also known to the company's supervisory board and, where it is not formed, the company's board upon their consideration which firm of auditors to propose for the general shareholders' meeting.	Yes	Following the resolution of the Lithuanian Securities Commission No. 9 as of 14/04/2005 "Regarding the establishment of further requirements for the audit enterprises and auditors", the candidacies of the audit enterprise and auditor prior to presentation to the general shareholders' meeting are coordinated with the Lithuanian Securities Commission following the determinate order, respective appendixes are filled in, as well as respective information is given in them.

Director General /*signature*/ Vytautas Vismantas

14/02/2007

Financial Director /*signature*/ Sigutė Noreikaitė