

# **AB Kauno Tiekimas**

## **ANNUAL PROSPECTUS REPORT**

2006

## **I. GENERAL PROVISIONS**

**1. Accounting period for which the annual prospectus-report has been prepared:** year 2006.

### **2. Main data about the Issuer**

AB Kauno Tiekimas: authorised capital of LTL10,180,884; a limited liability company. AB Kauno Tiekimas is a legal person which has commercial, production and economic, financial, organisational, and legal independence. Address: Palemono g. 171, Kaunas, LT-3023. Administrator's telephone number: (8 37) 373550, General Director's telephone number: (8 37) 473744, telephone/fax: (8 37) 473744. e-mail: [tiekimas@kaunas.balt.net](mailto:tiekimas@kaunas.balt.net). Legal form: public limited liability company. AB Kauno Tiekimas was registered on 26 November 1992 under Decree No 2088 of the Board of the City of Kaunas, register No AB-1072, Company code: 133523653. The Issuer has no website.

**3. The nature of the issuer's principal activities:** commercial activities and services. Commercial activities: wholesale and retail. Services: customs and terminal services, rent of premises.

### **4. Information on the place and manner of the access to the report and the documents, which served as the basis for the report; the name of the means of mass media**

The report and other documents that were used to draft the Annual Prospectus-Report are available at the accounts department of AB Kauno Tiekimas, tel. (8 37) 373570, telephone/fax (8 37) 473744, and the Reading Room of the State Securities Commission during the office hours. Material information is published in the daily Lietuvos Rytas and submitted to the news agency BNS.

### **5. Persons responsible for the accuracy of information in the Report**

Persons responsible for the information provided in the Prospectus include:

Irena Keblerienė, General Director, tel./fax (8 37) 473744, and

Danutė Skučienė, Chief Financial Officer, tel. (8 37) 373570.

The management of the Company hereby declare that the information contained in the Report conforms to the facts and the Report contains no omissions that are likely to have an effect on the investors' decisions related to the purchase or sales of the Issuer's securities or on the market price and valuation of such securities.

**6. Declaration by the members of the Issuer's managing bodies, employees, the Head of the Administration, and the Issuer's consultants**

AB Kauno Tiekimas hereby declare that the information contained in the Report conforms to the facts and the Report contains no omissions that are likely to have a material effect on the investors' decisions.

General Director

Irena Keblerienė

Chief Financial Officer

Danutė Skučienė

Report signed in May 2007 in Kaunas.

**II. INFORMATION ON THE ISSUER'S AUTHORIZED CAPITAL AND SECURITIES ISSUED**

**7. Issuer's authorized capital**

7.1. The authorised capital of LTL10,180,884 is registered with the Register of Companies. The Company has issued 10,180,884 ordinary registered shares with the nominal value of LTL1 each; the total nominal value of the shares amounts to LTL10,180,884.

7.2. The authorised capital is not intended to be increased by converting or exchanging the issued debt securities or derivatives for shares.

**8. Shareholders**

Shareholders whose participation in the Issuer's authorised capital and the number of votes held thereby exceed 5% on the General Meeting record day (18-04-2007):

Shareholder	Company Register No	Seat address	No of shares		Participation in the authorised capital, %		Percentage of votes	
			Total	Under the property right	Total	Under the property right	Total	Under the property right
UAB Ūkio Banko Investicinė Grupė	3520109	K.Donelaičio g. 60, Kaunas	3597376	1827783	35.33	17.95	35.33	17.95
UAB FMĮ Finbaltus	2202046	Konstitucijos pr.23-660, Vilnius	3597376	1769593	35.33	17.38	35.33	17.38
AB Ūkio Bankas FMD	112020136	Maironio 25, Kaunas	2000000	2000000	19.64	19.64	19.64	19.64
InCompleks LLC	CP00193203	101 South Spring Street, Suite 2, Little Rock, Arkansas 72201, JAV	1502461	1502461	14.76	14.76	14.76	14.76
UAB Energolinija	135647258	Palemono 171, Kaunas	1232000	1232000	12.10	12.10	12.10	12.10

Group of related persons:

Company	Seat address	Company code	No of shares and votes
UAB Ūkio Banko Investicinė Grupė	K.Donelaičio 60, Kaunas	135201099	1 827 783
UAB FMĮ Finbaltus	Konstitucijos pr. 23 – 660, Vilnius	122020469	1 828 718

Total number of shareholders on the General Meeting record day (18-04-2007): 254.

**9. Main characteristics of the shares issued for public trading**

Securities registration No	Number of shares	Nominal value, LTL	Total nominal value, LTL
A01020314	6180884	1.00	6,180,884.00
A01030314	1000000	1.00	1,000,000.00
A01040314	3000000	1.00	3,000,000.00
Total:	10180884	x	10,180,884.00

All the shares issued by the Company are ordinary registered shares.

**10. Data about shares distributed through private placement**

N/A

**11. Information about depositary receipts representing shares**

N/A

**12. Main characteristics of debt securities issued for public trading**

N/A

**13. Data about the debt securities registered for private placement and distributed as such**

N/A

**14. Securities non-representing participation in the capital, the trading whereof is governed by the Law on Securities Market of the Republic of Lithuania, except debt securities**

N/A

**III. DATA ABOUT THE SECONDARY TRADING IN SECURITIES ISSUED BY THE ISSUER**

**15. Securities included into the trading lists of Stock Exchanges**

Since 31/03/2003, AB Kauno Tiekimas securities have been included to the Vilnius Stock Exchange Current List. After a new issue of LTL3,000,000 was registered under the decision of the meeting of the Securities Commission of 17-07-2003, the total number of securities included to the Vilnius Stock Exchange Current List is 10,180,884 with the total nominal value of LTL10,180,884.

**16. Dealing in the Issuer's securities on Stock Exchanges and other organized markets**

Reporting period		Central market								
		Price (LTL)			Turnover (LTL)			Last session date	Total turnover	
from	to	max.	min.	last session	max.	min.	last session		units	LTL
2005-01-01	2005-03-31	1.00	0.81	0.93	64,390	0.95	64 390	2005-03-31	395,187,	358,036
2005-04-01	2005-06-30	0.93	0.80	0.81	6,848	16	0	2005-06-30	34,268	20,241
2005-07-01	2005-09-30	2.00	0.81	1.84	1,210,000	16	0	2005-09-30	1,412,153	1,512,599
2005-10-01	2005-12-31	2.10	1.49	1.54	59,838	216	0	2005-12-31	153,255	274,056
2006-01-01	2006-03-31	1.54	1.18	1.25	36,784	39	0	2006-03-31	89,208	119,068
2006-04-01	2006-06-30	1.36	0.90	1.05	7,894	105	0	2006-06-30	24,000	28,127
2006-07-01	2006-09-30	1.14	0.94	1.11	15,475	110	0	2006-09-30	73,998	74,106
2006-10-01	2006-12-29	1.90	1.12	1.87	110,061	70	32 882	2006-12-29	330,736	531,287

## 17. Capitalization of securities

Reporting period		Capitalisation (LTL)
from	to	
2005-01-01	2005-03-31	9,468,222
2005-04-01	2005-06-30	8,246,516
2005-07-01	2005-09-30	18,732,827
2005-10-01	2005-12-31	15,678,561
2006-01-01	2006-03-31	12,726,105
2006-04-01	2006-06-30	10,698,928
2006-07-01	2006-09-30	11,300,781
2006-10-01	2006-12-31	19,038,253

## 18. Dealing in the Issuer's securities on the OTC market

Statistics of process and turnover of AB Kauno Tiekimas shares on the OTC market during the latest eight quarters

Date of ownership transfer execution	Payment in cash						Payment in non-pecuniary contributions		Total volume (units)
	Price (LTL)			Volume (units)	Amount (LTL)	Number of transactions	Volume (units)	Number of transactions	
	Max	Min	Average.						
2006.05.22							2,306	1	2,306
2006.01.04	0.70	0.70	0.70	2,000,000	1,400,000	1			2,000,000
2005.12.30	0.35	0.35	0.35	2,000,000	700,000	1			2,000,000
2005.02.28							12,052	1	12,052

## 19. Data on purchasing their own shares by the Issuer

N/A

## 20. Submission of a tender offer

N/A

## 21. Issuer's paying agents

N/A

## 22. Agreements with intermediaries of public trading in securities

The Company has entered into a service agreement with UAB FMĮ Finbaltus, Konstitucijos pr. 23-660, Vilnius LT -08105.

#### IV. DATA ABOUT THE ISSUER'S ACTIVITIES

##### 23. Legal basis of the Issuer's activities

In its activities, AB Kauno Tiekimas is governed by the Articles of Association of the Company, the Law on Companies and other laws of the Republic of Lithuania and the regulatory enactments of the Government of the Republic of Lithuania.

##### 24. Membership in associated structures

N/A

##### 25. Brief description of the Issuer's background

AB Kauno Tiekimas was founded following the privatisation of a state commercial enterprise in Kaunas in 1992. The Company was registered on 26 November 1992 under Decree No 2088 of the Board of the City of Kaunas, register No AB-1072, Company code: 133523653. Since 1996, the Company operates open warehouses with the total are of 1383 sq.m. An import and export terminal with the total area of 3045 sq.m. has been operating on the territory of the Company.

In 2002, a branch of AB Kauno Tiekimas was set up. The business activities of the branch include wholesale trade in alumina and raw materials for its production. In its trade business, the branch of AB Kauno Tiekimas is successfully cooperating with CEE and Asian companies: bauxite miners, producers of hydrate of sodium, alumina, and aluminium.

The proactive business activities of the branch helped the Company to become one of the largest and fastest-growing companies in Lithuania.

##### 26. Characteristics of production (services)

The the table reflects the production structure of the Company over the last three years by main product types and the income gained from those products.

Year	Wholesale revenue		Retail revenue		Revenue from customs terminal services and rent of premises	
	thousand LTL	%	thousand LTL	%	thousand LTL	%
2004	311,822	99.49	36	0.01	1,286	0.5
2005	638,162	99.77	43	0.01	1,426	0.22
2006	646,418	99.77	19	0.00	1,553	0.23

	2006		2005		2004	
	thousand LTL	dynamics, %	thousand LTL	dynamics, %	thousand LTL	dynamics, %
Sales	647990	+1.31	639631	+104	313144	+936

Financial indices:

Index	2006		2005		2004	
	Value	Change	Value	Change	Value	Change
net profit margin	0.0007	-0.007	0.0077	0.0057	0.002	-0.0042
average return on assets	0.002	-0.0082	0.0102	0.0071	0.0031	0.0005
debt ratio	0.9288	-0.0381	0.9669	0.0209	0.946	0.0844
debt-equity ratio	13.0366	-16.1423	29.1789	11.6638	17.5151	11.291
current ratio	1.03	0.037	0.993	-0.0526	1.0456	-0.0814
assets turnover	2.807	1.4802	1.3268	-0.2054	1.5336	1.1162
book value per share	1.6154	0.0464	1.569	0.4848	1.0842	0.0485
net earnings per share	0.0464	-0.4384	0.4848	0.423	0.0618	0.0424

## 27. Sales markets

The wholesale and retail activities cover Lithuania, CEE, and Asian countries and they are based on short-term and long-term contracts, customers' orders, and occasional transactions. The wholesale and retail volumes in Lithuania and abroad amounted to:

In 2004: LTL313,144 thousand, including 99.6% foreign and 0.4% domestic trade.

In 2005: LTL639,631 thousand, including 99.8% foreign and 0.2% domestic trade.

In 2006: LTL647,990 thousand, including 99.8% foreign and 0.2% domestic trade.

## 28. Purchasing

The materials and raw materials required for the economic activities of the Company are purchased from Lithuanian enterprises.

Suppliers of energy resources:

Water supply: SPAB Kauno Vandenyys

Electricity supply: AB Lietuvos Energijos Kauno Elektros Tinklai

The main raw materials are purchased from suppliers in India, Bosnia, and Romania, 5%, 86% and 7% of the total purchase volumes respectively. The products are sold exclusively to foreign customers in CEE and Asian countries.

## 29. Real estate and other key facilities

The size of the land plot is 10.825 ha. Geographically the Company is located at the highway Kaunas - Vilnius, on the 12<sup>th</sup> kilometre from the centre of Kaunas.

The legal basis for using the land plot is Certificate on the Land Plot filed with the Register of Real Estate and the Rights to the Plot dated 30-01-2004, Entry No Nr. 19/20871.

Description of the main buildings and constructions:

The total area of all-purpose warehouses is 13,860m<sup>2</sup>. The warehouses consist of 7 individual warehouse buildings with railway access, loading docks, and railway and truck scales for weighing the loads at each of the 7 warehouses. There is a gantry crane with a lifting capacity of 10 tons. The company has a cement elevator with the capacity of 120 thousand tons per year. The cement is loaded from hoppers onto cement trucks. In 1997, the Company started cement bag packaging with increasing capacity of 7t per shift in 1997, 20t per shift in 1998, 25t per shift in 1999, and 25t per shift in 2000. Since 2000 the cement elevator has been leased out to UAB Kauno Tiekimo Prekybos Centras.



The loading and unloading works in the company are fully mechanised. Electrical and truck loaders (8 and 2 respectively) are used for this purpose.

Loose products are loaded with a 0.15m<sup>3</sup> wheel excavator.

The company has two shunting locomotives.

The whole territory of the Company has asphalt paving; it is fenced and guarded 24 hours.

Bonded free warehouses with the total area of 1,383m<sup>2</sup> have been operating in the Company since 1993.

An export-import terminal with the total area of 3,045 m<sup>2</sup> has been operating in the Company since 1996.

All the work places in the Company are computerised.

**Description of main buildings:**

No	Building	Carrying value, LTL, 31-12-2006	Age (years)	Condition
1.	Administration building (customs office)	88,972	85	good
2.	Administration building (canteen)	30,668	85	good
3.	Warehouses (8 buildings)	668,995	40	satisfactory
4.	Railway scales	1	9	satisfactory
5.	Locomotive garage	12,376	40	good
6.	Cement elevator	42,887	24	good
7.	Administration block	186,481	85	good
8.	Machine shop	31,415	40	good
9.	Slated warehouse	1	8	satisfactory
10.	Amenities	7,334	15	satisfactory
	<b>TOTAL:</b>	1,069,130		

**30. Risk factors related to the Issuer's activities**

**Economic:** The volumes of sales and services increase in summer and decrease in winter by 30 percent of the total business activities.

**Political:** The activities of the Company are dependable of the legislation adopted by the Republic of Lithuania and the customs policy.

**Social:** The salary levels in the Company are in line with the national average. The employees are not members of the trade union.

**Technical-technological:** The depreciation of the non-current assets amounts to 65.8 percent.

**Ecological:** N/A.

The Company is using a loan/credit line from AB Ūkio Bankas. The maturity date of the loan/credit line is 20-10-2007. The payments of interests to the bank are timely. Since the Company was granted the loan/credit line, the Company did not breach any contractual obligations. On 31-12-2006, the used portion of the loan/credit line amounted to LTL52,950,317.

**31. Termination or cutback of production that has or has had a significant impact on the Issuer's performance over the last two financial (business) years**

In 2005 and 2006 there have been no trade or service cutbacks.

**32. Patents, licenses, contracts**

N/A

**33. Court and arbitration proceedings**

N/A

**34. Staff**

The data on the numbers of staff by personnel groups on 1 January 2006 are provided in the Table below:

	2006			2005			2004		
	Number of employees	Change in the number of employees	Average salary/wages	Number of employees	Change in the number of employees	Average salary/wages	Number of employees	Change in the number of employees	Average salary/wages
Management	4	0	5,169	4	0	3,649	4	-1	3,026
Specialists	28	-6	3,751	34	+14	2,660	20	+3	1,251
Workers	27	0	1516	27	-4	908	31	+1	837
Total:	59	-6	x	65	+10	x	55	+3	x

Number of staff	Year		
	2006	2005	2004
University	25	36	24
College	8	8	6
Vocational college	5	5	5
Secondary school	12	12	11
Unfinished secondary school	9	9	9
TOTAL	59	65	55

**35. Investment policy**

1. UAB Ūkio Banko Investicinė Grupė, address K.Donelaičio g. 60, Kaunas. Types of business activities: investment management, intermediaries activities. Authorised capital: LTL150,000,000. The Issuer's share in the authorised capital is paid up in full. Net profit: LTL273,000.

net profit margin	0.0249
average return on assets	0.0009
debt ratio	0.4668
debt-equity ratio	0.8755
current ratio	1.1458
assets turnover	0.0369
book value per share	1.0559
net earnings per share	0.0018

The Issuer holds 12,503,094 ordinary registered shares, which carry 8.34 percent of total votes; the nominal value of the shares held by the Issuer amount to LTL12,503,094; the nominal value of one share is LTL1.00.

2.UAB Asocijuoto Turto Valdymas, address K.Donelaičio g. 60, Kaunas. Types of business activities: investment management, intermediaries activities. Authorised capital: LTL49,586,918. The Issuer's share in the authorised capital is paid up in full. Net profit: LTL136,076.

net profit margin	0.0015
average return on assets	0.0013
debt ratio	0.4698
debt-equity ratio	0.886
current ratio	2.1286
assets turnover	0.8572
book value per share	1.1552
net earnings per share	0.0027

The Issuer holds 5,061,468 ordinary registered shares, which carry 10.21 percent of total votes; the nominal value of the shares held by the Issuer amount to LTL5,061,46; the nominal value of one share is 1.00.

### **36. Competitors**

The main competitors in Lithuania are companies which provide services at bonded warehouses, export and import terminals and which are involved in customs intermediaries activities. In Kaunas, such companies include UAB Verbum, Lavysos Koncernas, AB Kauno Šaldytuvai. The main competitors in alumina trade are Chinese, Australian, and Russian companies which produce and sell alumina.

### **37. Dividends paid**

Year	Dividends calculated. LTL	Dividends paid after income tax, LTL	Dividends per one share, LTL
2002	-	-	-
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	-	-	-

**FINANCIAL CONDITIONS**

**38. Financial statements**

**Financial year balance sheet (statements is audit)**

Eil. Nr.	TURTAS	Pastabos Nr.	2006 12 31	2005 12 31	2004 12 31
<b>A.</b>	<b>NON-CURRENT ASSETS</b>		<b>10011932</b>	<b>19225971</b>	<b>2218349</b>
<b>I.</b>	<b>INTANGIBLE ASSETS</b>	3.1	<b>2270</b>	<b>4375</b>	<b>2148</b>
I.1.	Development works				
I.2.	Goodwill				
I.3.	Licences and patents				
I.4.	Computer software		2270	4375	2148
I.5.	Other intangible assets				
<b>II.</b>	<b>TANGIBLE ASSETS</b>	3.2	<b>1649203</b>	<b>1663942</b>	<b>2216201</b>
II.1.	Land				
II.2.	Buildings and constructions		1277569	1385521	1889691
II.3.	Plant and equipment		2	1521	3385
II.4.	Vehicles		276998	159822	199260
II.5.	Other property, plant and equipment		92474	117078	123865
II.6.	Construction in progress		2160		
II.7.	Other tangible assets				
<b>III.</b>	<b>FINANCIAL ASSETS</b>	4	<b>8360459</b>	<b>17557654</b>	<b>-</b>
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		8360459	17557654	
<b>B.</b>	<b>CURRENT ASSETS</b>		<b>220832159</b>	<b>462847348</b>	<b>202152208</b>
<b>I.</b>	<b>INVENTORIES, PREPAYMENTS AND</b>		<b>489798</b>	<b>232740396</b>	<b>127910980</b>
I.1.	Inventories	3.3	467567	3640943	11658501
I.1.1.	Raw materials and completing products		7476	3461	8486
I.1.2.	Work in progress				
I.1.3.	Finished products				
I.1.4.	Goods for resale		460091	3637482	11650015
I.2.	Prepayments	3.4	22231	229099453	116252479
I.3.	Contracts in progress				
<b>II.</b>	<b>AMOUNTS RECEIVABLE WITHIN ONE YEAR</b>	3.4	<b>200522165</b>	<b>229339445</b>	<b>63790588</b>
II.1.	Trade amounts receivable		149595072	123087557	51474129
II.2.	Receivables from subsidiaries and associates				
II.3.	Other amounts receivable		50927093	106251888	12316459
<b>III.</b>	<b>OTHER CURRENTS ASSETS</b>		<b>19123360</b>	<b>122050</b>	<b>10074007</b>
III.1.	Current investments		19123360	122050	10074007
III.2.	Time deposits				
III.3.	Other currents assets				3924
<b>IV.</b>	<b>CASH AND CASH EQUIVALENTS</b>		<b>696836</b>	<b>645457</b>	<b>376633</b>
	<b>TOTAL ASSETS:</b>		<b>230844091</b>	<b>482073319</b>	<b>204370557</b>

**AB Kauno tiekimas Prospectus – Report for 2006**

Eil. Nr	NUOSAVAS KAPITALAS IR ĮSIPAREIGOJIMAI	Pastabos Nr.	2006 12 31	2005 12 31	2004 12 31
<b>C.</b>	<b>EQUITY</b>		<b>16445918</b>	<b>15973852</b>	<b>11038047</b>
<b>I.</b>	<b>CAPITAL</b>		<b>10180884</b>	<b>10180884</b>	<b>10180884</b>
I.1.	Authorised (subscribed)	3,7	10180884	10180884	10180884
I.2.	Subscribed uncalled share capital (-)				
I.3.	Share premium				
I.4.	Own Shares (-)				
<b>II.</b>	<b>REVALUATION RESERVE (RESULTS)</b>				
<b>III.</b>	<b>RESERVES</b>	3,9	<b>721406</b>	<b>480879</b>	<b>201864</b>
III.1.	Legal reserve		346023	99233	66218
III.2.	Reserve for acquiring own shares				
III.3.	Other reserves		375383	381646	135646
<b>IV.</b>	<b>RETAINED EARNINGS (LOSSES)</b>	3,8	<b>5543628</b>	<b>5312089</b>	<b>655299</b>
IV.1.	Profit (loss) of the reporting year		472066	4935805	629083
IV.2.	Profit (loss) of the previous year		5071562	376284	26216
<b>D.</b>	<b>GRANTS AND SUBSIDIES</b>				
<b>E.</b>	<b>AMOUNTS PAYABLE AND LIABILITIES</b>		<b>214398173</b>	<b>466099467</b>	<b>193332510</b>
<b>I.</b>	<b>NON-CURRENT AMOUNTS PAYABLE AND LIABILITIES</b>				-
I.1.	Financial debts				-
I.1.1.	Leases and similar obligations				
I.1.2.	To credit institutions				
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				
I.6.	Other amounts payable and non-current liabilities				
<b>II.</b>	<b>CURRENT AMOUNTS PAYABLE AND</b>	3.11	<b>214398173</b>	<b>466099467</b>	<b>193332510</b>
II.1.	Current portion of non-current debts				1365
II.2.	Financial debts		52950317	20822844	13197802
II.2.1.	To credit institutions		52950317	20822844	13197802
II.2.2.	Other debts				
II.3.	Trade amounts payable		123327383	431702887	166966468
II.4.	Amounts received in advance		238674	263581	229382
II.5.	Profit tax liabilities		44897	119263	142684
II.6.	Liabilities related with labour relations		239608	217528	93009
II.7.	Provisions				
II.8.	Other amounts payable and current liabilities		37597294	12973364	12701800
	<b>TOTAL EQUITY AND LIABILITIES:</b>		<b>230844091</b>	<b>482073319</b>	<b>204370557</b>

**Profit (loss) statement, Lt** (statement is audit)

Eil.nr.	STRAIPSNIAI	Pastabos Nr.	2006 12 31	2005 12 31	2004 12 31
I.	SALES INCOME	3.15	647990246	639630864	313144867
II.	COST OF SALES		598732417	569407028	299149395
<b>III.</b>	<b>GROSS PROFIT (LOSS)</b>		<b>49257829</b>	<b>70223836</b>	<b>13995472</b>
IV.	OPERATING COSTS		66243594	55425579	12428016
IV.1	Sales	3.14	61074219	49239769	8736943
IV.2	General and administrative	3.16	5169375	6185810	3691073
<b>V.</b>	<b>OPERATING PROFIT (LOSS)</b>	3.15	<b>-16985765</b>	<b>14798257</b>	<b>1567456</b>
VI.	OTHER ACTIVITIES		399270	9268578	15897
VI.1.	Income		402321	9271980	19436
VI.2.	Expenses		3051	3402	3539
VII.	FINANCING AND INVESTING ACTIVITIES	3.12	<b>17330338</b>	-18937223	-785275
VII.1.	Income		23854690	7322636	1268019
VII.2.	Expenses		6524352	26259859	2053294
<b>VIII.</b>	<b>PROFIT (LOSS) FROM NORMAL ACTIVITIES</b>		743843	<b>5129612</b>	<b>798078</b>
IX.	GAIN				
X.	LOSSES				
<b>XI.</b>	<b>PROFIT (LOSS) BEFORE TAX</b>		<b>743843</b>	<b>5129612</b>	<b>798078</b>
XII.	PROFIT TAX	3.18	271777	193807	168995
<b>XIII.</b>	<b>NET PROFIT (LOSS)</b>		<b>472066</b>	<b>4935805</b>	<b>629083</b>

**STATEMENT OF CHANGES IN EQUITY**

	Paid up authorised capital	Share premium	Own shares(-)	Revaluation reserve (results)		Legal reserves		Other reserves		Retained earnings (losses))	Total
				Of noncurrent tangible assets	Of financial assets	compulsory	Acquisition of own shares				
<b>1. Balance at the beginning of previous financial year (31 12 2004)</b>	<b>10.180.884</b>					<b>66.218</b>		<b>50.868</b>	<b>84.778</b>	<b>655.299</b>	<b>11.038.047</b>
2. Results of change in accounting policies											0
3. Results of correcting essential errors											0
<b>4. Recalculated balance at the beginning of previous financial year</b>	<b>10.180.884</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>66.218</b>	<b>0</b>	<b>50.868</b>	<b>84.778</b>	<b>655.299</b>	<b>11.038.047</b>
5. Increase / decrease in non-current tangible assets value											0
6. Increase / decrease in financial assets value											0
7. Acquisition / sales of own shares											0
8. Profit / loss, excluded from Income Statement											0
9. Net profit / loss of the reporting period										4.935.805	4.935.805
10. Dividends											0
11. Other payments											0
12. Formed reserves						33.015			251.000	-284.015	0
13. Used reserves									-5.000	5.000	0

14. Increase / reduction of authorised capital												0
<b>15. Balance at the end of previous financial year (31 12 2005)</b>	<b>10.180.884</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>99.233</b>	<b>0</b>	<b>50.868</b>	<b>330.778</b>	<b>5.312.089</b>	<b>15.973.852</b>	
16. Increase / decrease in non-current tangible assets value												0
17. Increase / decrease in financial assets value												0
18. Acquisition of own shares												0
19. Profit / loss, excluded from Income Statement												0
20. Net profit / loss of the reporting period										472.066	472.066	
21. Dividends												0
22. Other payments												0
23. Formed reserves						246.790			125.000	-371.790		0
24. Used reserves									-131.263	131.263		0
25. Increase / reduction of authorised capital												0
<b>26. Balance at the end of reporting period (31 12 2006)</b>												0
	<b>10.180.884</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>346.023</b>	<b>0</b>	<b>50.868</b>	<b>324.515</b>	<b>5.543.628</b>	<b>16.445.918</b>	



**CASH FLOW STATEMENT**

Eil. Nr.	Straipsniai	Pastabos Nr.	2006 12 31	2005 12 31	2004 12 31
<b>I.</b>	<b>Cash flows from operating activities</b>				
I.1.	Net profit (loss)		472.066	4.935.805	629.083
I.2.	Depreciation and amortization costs		212.321	200.787	173.371
I.3.	Decrease (increase) in amounts receivable after one year				
I.4.	Decrease (increase) in inventory		3.173.376	8.017.558	-4.029.236
I.5.	Decrease (increase) in advances received		229.077.222	-112.846.974	-67.721.664
I.6.	Decrease (increase) in contracts in progress				
I.7.	Decrease (increase) in trade receivables		-26.507.515	-71.613.428	-41.852.095
I.8.	Decrease (increase) in amounts receivable from subsidiaries and associates				
I.9.	Decrease (increase) in other amounts receivable		42.821.701	-40.584.201	-12.308.896
I.10.	Decrease (increase) in other current assets			3.924	-5.070.114
I.11.	Increase (decrease) in non-current payables to suppliers and advances received				-1.365
I.12.	Increase (decrease) in current payables to suppliers and advances received		-308.400.411	264.770.618	128.527.368
I.13.	Increase (decrease) in profit tax liability		-74.366	-23.421	125.935
I.14.	Increase (decrease) in liabilities connected with labour relations		22.080	124.519	93.009
I.15.	Increase (decrease) in provisions				
I.16.	Increase (decrease) in other amounts payable and liabilities		24.623.930	<b>-6.903.287</b>	<b>11.465.935</b>
I.17.	Elimination of financing and investing activity results		-20658849	-2 231416	698410
	<b><u>Net cash flows from operating activities</u></b>		<b>-55 238 445</b>	<b>43 850 484</b>	<b>10 729 741</b>
<b>II.</b>	<b>Cash flows from investing activities</b>				
II.1.	Acquisition of non-current assets (excluding investments)		-206.066	-168.995	-202.273
II.2.	Transfer of non-current assets (excluding investments)		11.345	1.641	95.732
II.3.	Acquisition of long-term investments		-1.270.500	-3.150.485	
II.4.	Transfer of long-term investments		15.820.945		
II.5.	Loans granted			-66.860.327	
II.6.	Loans recovered		12.503.094	13.509.099	
II.7.	Dividends and interest received		2.464.815	2.829.408	
II.8.	Other increase in cash flows from investing activities		8.329.124		
II.9.	Other decrease in cash flows from investing activities		-8.135.523		
	<b><u>Net cash flows from investing activities</u></b>		<b>29.517.234</b>	<b>-53.839.659</b>	<b>-106.541</b>

<b>III.</b>	<b>Cash flows from financing activities</b>			<b>0</b>	
III.1.	Cash flows related to enterprise owners:				
III.1.1.	Emission of shares				
III.1.2.	Owners' contributions against losses				
III.1.3.	Purchase of own shares				
III.1.4.	Dividends paid				
III.2.	Cash flows arising from other financing sources		25.779.322	10.257.999	-13.258.132
III.2.1.	Increase in financial debts		285.429.393	105.299.832	70.865.764
III.2.1.1.	Loans received		285.429.393	105.299.832	70.865.764
III.2.1.2.	Issue of bonds				
III.2.2.	Decrease in financial debts		-258.914.326	-93.849.872	-85.273.622
III.2.2.1.	Loans repaid		-253.301.920	-90.501.305	-83.346.532
III.2.2.2.	Purchase of bonds				
III.2.2.3.	Interest paid		-5.612.406	-3.348.567	-1.927.090
III.2.2.4.	Payments of lease (finance 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		176.201		1.268.019
III.2.6.	Other decrease in cash flows from financial items		-911.946	-1.191.961	-118.293
	<b>Net cash flows from financing activities</b>		<b>25.779.322</b>	<b>10.257.999</b>	<b>-13.258.132</b>
<b>IV.</b>	<b>Cash flows from extraordinary items</b>				<b>0</b>
IV.1.	Increase in cash flows from extraordinary items				
IV.2.	Decrease in cash flows from extraordinary items				
<b>V.</b>	<b>The effects of changes in foreign exchange rates on cash and cash equivalents balance</b>		<b>-6.732</b>		<b>-7.911</b>
<b>VI.</b>	<b>Net increase (decrease) in cash flows</b>		<b>51.379</b>	<b>268.824</b>	<b>-2.642.843</b>
<b>VII.</b>	<b>Cash and cash equivalents at the beginning of period</b>		<b>645.457</b>	<b>376.633</b>	<b>3.019.476</b>
<b>VIII.</b>	<b>Cash and cash equivalents at the end of period</b>		<b>696.836</b>	<b>645.457</b>	<b>376.633</b>

**AB Kauno Tiekimas**

Company code: 133523653; address: Palemono g.171, Kaunas

EXPLANATORY NOTES  
TO FINANCIAL STATEMENTS 2006

**1. GENERAL PROVISION**

**1. Registration date**

The company is a limited liability company. AB Kauno Tiekimas is a legal person which has commercial, production and economic, financial, organisational, and legal independence. Address: Palemono g.171, Kaunas, LT-52501. Administrator's telephone number: (8 37) 37 35 50, General Director's telephone number: (8 37) 47 37 44, telephone/fax: (8 37) 47 37 44. e-mail: [tiekimas@kaunas.balt.net](mailto:tiekimas@kaunas.balt.net). Legal form: public limited company. AB Kauno Tiekimas was registered on 26 November 1992, register No 92-1072 Company code: 133523653. The Company has no website.

**2. Financial year**

The financial year of the company starts on 1 January and ends on 31 December.

**3. Information on branches and representative offices of the company**

The company has one branch. The branch was registered on 8 November 2002. The code of the branch is 235944730. The branch is a structural unit of the company which is not a legal person. The activities of the branch are regulated by its Statute. The Director shall organize the work of the branch, direct the economic activities of the branch, manage the property of the branch, issues orders, and approve/sign the documents. AB Kauno Tiekimas branch specialises in the selling of alumina and other aluminium industry products and sells the products produced by Birač factory operating in Bosnia and Herzegovina.

**4. Information on subsidiaries of the company**

The company has no subsidiaries.

**5. Information on associates**

The company has no associates.

**6. Activities of the company**

The main activities include commercial activities and services. Commercial activities: wholesale and retail. Services: customs and terminal services, rent of premises. The wholesale is performed outside Lithuania. The branch of the company is engaged in alumina wholesale. The retail and services are provided in Lithuania. Apart from ordinary activities, the company is involved in financial and investment activities. Successful investment into securities and the revenue earned from their sales lead to the profitable result of the company in 2006.

**7. Material conditions under which the company is operating and which are likely to influence the development of the company**

A customs post, warehouses, and an IE terminal are located on the territory of the company. The company has been granted the status of a customs guarantor. Wholesale trade of materials for alumina production is likely to be expanded.

### **7.1. Strategic products**

The branch of the company is supplying hydrate of sodium and bauxites for the alumina factory in Bosnia and sells alumina produced in the said factory.

### **7.2. Economic environment**

Since 2002, the company has been successfully trading in alumina, which is the main raw material in aluminium production, and the main materials required for alumina production. In 2006, the alumina price on the international markets fell 2.2 times which had a negative effect on the results of the company. In the first half of 2007, the alumina market prices are expected to stabilise and the global demand for alumina is expected to grow, therefore the business volumes and results of AB Kauno Tiekimas should increase.

### **7.3. Social environment**

During the reporting year the natural person income tax was reduced and it increased the wages of the company employees. The wages at the company include a fixed and variable portion. The variable portion depends on the business results of the company, efficiency of the employee, performance of urgent and complicated tasks, disciplinary punishments, qualification, and other factors.

There is no pension funding in the company.

### **7.4. Technical and technological factors**

The long—term real estate owned by the company was constructed long ago; thus it needs to be repaired in order to preserve its condition that would bring about economic benefits.

### **7.5. Environmental factors**

The company is renting out the cement elevator owned thereby, where wholesale trade and packaging of cement is taking place. Due to this operation, the company is paying the environmental tax for pollution from stationary pollution sources. The company also pays the environmental tax for pollution from mobile pollution sources, i.e. the cars, tractors, and railway vehicles owned by the company.

## **8. Changes in the authorised capital**

There have been no changes in the authorised capital over the reporting year.

## **9. Number of employees**

At the beginning and the end of the reporting year the company employed 55 and 59 persons, respectively.

## **2. SHARES AND ACCOUNTING FOR SHARES**

The authorised capital of LTL10,180,884 is registered with the Register of Companies. The Company has issued 10,180,884 ordinary registered shares with the nominal value of LTL1 each; the total nominal value of the shares amounts to LTL10,180,884. All the shares are paid up in full. The authorised capital is not intended to be increased by converting or exchanging the issued debt securities or derivatives for shares.

Shareholders whose participation in AB Kauno Tiekimas authorised capital and the number of votes held thereby exceed 5% as of 31-12-2006.

Shareholder	Company Register No	Seat address	No of shares		Participation in the authorised capital, %	
			Total	Under the property right		
UAB Ūkio Banko Investicinė Grupė	135201099	K.Donelaičio g. 60, Kaunas	3597376	1827783	35.33	17.95
UAB FMĮ Finbaltus	122020469	Konstitucijos pr. 23-660, Vilnius	3597376	1769593	35.33	17.38
AB Ūkio bankas FMD	112020136	Maironio g. 25, Kaunas	2000000	2000000	19.64	19.64
InCompleks LLC	CP00193203	101 South Spring Street, Suite 220 Little Rock, Arkansasas 72201, JAV	1502461	1502461	14.76	14.76

Group of related persons:

Company	Seat address of the company	Company code	No of shares and votes
UAB Ūkio Banko Investicinė Grupė	K.Donelaičio g.60, Kaunas	135201099	1 827 783
UAB FMĮ Finbaltus	Konstitucijos pr.23-660, Vilnius	122020469	1 769 593

Since 31/03/2003, AB Kauno Tiekimas securities have been included to the Vilnius Stock Exchange Current List. Securities code: LT0000104879.

Reporting period		Central market and block trading					
from	to	Price (LTL)			Last session date	Total turnover	
		Max	Min.	Units		Vnt.	Lt.
2006-01-01	2006-03-01	1.54	1.18	1.25	2006-03-10	89 208	119,068
2006-04-01	2006-06-30	1.36	0.90	1.05	2006-06-29	24 000	28,126
2006-07-01	2006-09-30	1.14	0.93	1.11	2006-09-22	73 998	74,105
2006-10-01	2006-12-31	1.92	1.12	1.87	2006-12-29	330 736	531,286

The Company has entered into a contract for managing securities accounts with UAB FMĮ Finbaltus, Konstitucijos pr.23-660, Vi.

### 3. MEMBERS OF MANAGING BODIES

The Supervisory Board is not formed.

Board members:

Chairman of the Board Igor Gončaruk holds 65,994 shares or 0.65% of AB Kauno Tiekimas authorised capital, 8,600 UAB Agrobiznis shares (100%), 95 UAB Optimalus Turto Valdymas shares (9.5%), and 64,200 UAB Businessline shares (5.53%). Igor Gončaruk does not have any positions in other companies.

Board member Irena Keblerienė has no shareholdings in the Company. Irena Keblerienė does not have any positions in other companies or any shareholdings of other companies exceeding 5 percent.

Board member Nijolė Varanavičienė UAB Energolinija Board member, does not have any position in the Company or shares of the Company. Nijolė Varanavičienė does not have any shareholdings of other companies exceeding 5 percent.

The term of the Board members' office started on from 9 April 2003 and it will continue until April 2007.

Administration:

Irena Keblerienė, General Director, has no shareholdings in the Company.

Igor Gončaruk, CEO, holds 65,994 shares of the Company or 0.65% of the authorised capital.

Danutė Skučienė, Chief Financial Officer has no shareholdings in the Company, does not have any positions in other companies or any shareholdings of other companies exceeding 5 percent.

Gediminas Antanas Baranauskas, AB Kauno Tiekimas Branch Director has no shareholdings in the Company, does not have any positions in other companies, holds 8 UAB Pilega shares representing 13.33 percent of the authorised capital.

Nadežda Belozerskich, Branch Accountant has no shareholdings in the Company, holds 320,000 UAB Korelita shares representing 9.78 percent of the authorised capital.

## II. ACCOUNTING POLICY

### 1. Legal framework used as basis for preparing the financial accountability

The company maintains the accounting and prepares the financial statements in pursuance of the following legal acts governing the financial accountability:

- international accounting standards;
- the Accounting Law of the Republic of Lithuania;
- the Law on Financial Statement of Entities of the Republic of Lithuania;
- other legislation of the Republic of Lithuania.
- 

### 2. Asset and equity item valuation methods applied for the purpose of preparing financial statements:

In AB Kauno Tiekimas Balance Sheet of 31 December 2006, the assets are evaluated as follows:

- intangible assets: at the acquisition cost less accumulated amortization;
- non-current tangible assets: at the acquisition (production) cost less accumulated depreciation;
- other financial assets: at the fair value on 30-12-2006
- other inventories: at the acquisition value;

- goods for resale: at the acquisition value or net realisable value, whichever is smaller;
- amounts receivable: at the fair value less bad debts;
- other items on the Balance Sheet are valued at the acquisition cost.

### 3. Tangible and intangible non-current assets

#### 3.1. Intangible assets

In the Balance Sheet, the intangible assets are stated at their residual value (the accumulated amortization and the impairment value are deducted from the acquisition cost).

Non-pecuniary identifiable assets without a material form that are held in the company's disposition and that are used by the company in anticipation to get direct and indirect economic benefits are classified in the category of Intangible Assets.

The directly proportional (linear) method is used to calculate amortization. The quick sale value is LTL1.

The amortization costs are classified as the operating costs of the company. The running costs of intangible assets as well as other subsequent costs are attributed to the costs of the reporting period when they were incurred.

Software is accounted in Intangible Assets. Its period of amortization is 3 years.

After the transfer of intangible assets, the Profit and Loss Account, under Other Operations, reflects the result of the transaction: profit or loss.

#### 3.2. Tangible assets

Assets are classified as tangible, if: they are held and controlled by the company, the company expects them to bring economic benefits in the future periods, they will be used for a period longer than one year, their acquisition (production) cost can be reasonably established, and their value is larger than the minimum value established for that group. The minimum value established for all groups of non-current tangible assets is LTL1,000.

The directly proportional (linear) method is used to calculate the depreciation of non-current tangible assets. The quick sale value is LTL1. The depreciation costs are classified in the category of the operating costs of the company.

The following average life has been established for assets groups:

No	Non-current tangible asset group	Useful life (years)
1	Buildings and constructions	6 - 85
2	Plant and equipment	15
3	Vehicles	3 - 11
4	Other property, plant and equipment	3 - 18

At the moment of acquisition the non-current tangible assets are recognized in the accounting at the acquisition (production) cost. In the Balance Sheet, the tangible assets are stated at the acquisition cost less accumulated depreciation.

Useful life is extended and the serviceability is improved	The asset acquisition cost is increased by the value of works and the useful life period is revised
Serviceability is improved	The asset acquisition cost is increased by the value of works
Useful life is extended	The asset acquisition cost is increased by the value of works and the useful life period is revised
Serviceability is not improved nor useful life is extended; just the relevant operation condition is maintained	The cost of works is recognized as the operating costs of the reporting period

### **3.3. Non-current asset depreciation accounting**

The non-current asset depreciation accounting methods have not been applied in the company.

### **4. Financial asset accounting**

When the company first recognizes financial assets, their value is set at the acquisition cost, i.e. the value of the consideration paid. The value of the paid consideration is determined with respect of the total amount paid for the financial assets or the value of other transferred assets. The value of consideration is usually determined based on the transaction price. The following non-current and current assets are attributed to the financial assets of the company: securities of other companies. The assets the value whereof is set at the initial stage at the acquisition cost, is subject to re-valuation at a later stage in order to obtain more precise information. The revaluation result is reflected in the Profit and Loss Account. The quoted price in an active market on 29 December 2006 represents a proof of the fair value.

### **5. Inventories accounting policy**

Current assets of the company that are consumed for generating revenue within one year are classified as Inventories. In the accounting and financial statements, inventories are grouped into:

- raw materials and completion goods;
- goods purchased for resale.

In the financial statements, the inventories are stated with respect of the acquisition (production) costs or the net realisable value, whichever is less.

FIFO method is used to assign the acquisition cost of inventories.

The acquisition cost of the goods purchased for resale, raw materials, and completion goods includes the purchase price less discounts on the purchase, purchase related taxes and levies (except for those that will be recovered at a later stage), significant delivery costs, and the costs of preparing the inventories for use.

The cost of goods purchased in foreign currency is calculated at the official exchange rate of the currency of the Republic of Lithuania on the purchase date irrespective of the payment date. The purchase date is defined according to the contract terms in pursuance of INCOTERMS.

The net realisable value of inventories is calculated in accordance with the quantified inventories sales price on the financial statement date less the quantified inventories sales costs. At the end of the reporting year, the value of goods stored in the warehouse of the company in Lithuania is set at the realizable value. The balance value of these goods is LTL546,718. The impairment value of the goods amounts to LTL112,818.

### **6. Receivables**

When the receivables are registered in the accounting, they are stated at the value of the receivable consideration. When the annual financial statements are being prepared, the receivables are stated at the net value, i.e. after the doubtful debts are deducted. The doubtful debt expense is carried at the Profit and Loss Account for the reporting period.

### **7. Revenue and expense recognition methods**

The sales revenue is recognised on accumulation basis, i.e. it is registered in the accounting when it is earned irrespective of the receipt of revenue. Only the increase of the economic benefits of the company is considered income. The value added tax is not recognised as revenue. The revenue size is agreed by the company and the customer. That represents the fair value of the goods and services considering the offered and prospective discounts, the return of sold goods, and price-off.

The goods are considered sold when the following conditions are met: the company transfers the risk, which is related to the sold goods, to the customer; the company no longer possesses or controls the



sold goods; the economic benefits related to the sales transaction are likely to be received and its size can be reliably quantified; the expenses related to the sales transaction can be reliably quantified.

In 2006, no AB Kauno Tiekimas merchandises were sold by extending a trade credit longer than one year.

The revenue from the company's financial and investment activities include: received dividends, positive influence of exchange rate differences, interest and late charges, revenue from financial assets revaluation.

The expense is recognised on the accumulation and comparison basis in the reporting period when the revenue related thereto is earned irrespective of the time when the money is spent.

Sales, general and administrative expenses are classified in the category of Operating Costs.

The result of the transfer of the used non-current tangible and intangible assets is classified as Other Activities excluding financial and investment activities.

The financial and investment activities include: interests, fines, late charges, result of exchange rate differences, and other revenue and expense of the financial and investment activities.

Fines and late charges are recognised on accumulation basis.

## **7. Methods of accounting for borrowing and other similar expenses**

Interests charged on received loans and on property acquired on lease (financial lease) terms as well as other borrowing related expenses are recognised as expense in the periods when they emerge.

The company is using a credit line and factoring. In 2006, the interest and commission fees for using the credit line and factoring amounted to LTL5,612,406. The variable tax rate of the credit lines depends on the VILIBOR (Vilnius Inter Bank Offering Rate) and LIBOR (London Inter Bank Offering Rate) fluctuations. An increase in the credit source price would have a negative impact on the company business result.

## **8. Description of accounting methods applied to taxes, foreign currency transactions, and offsetting**

### **8.1. Taxes**

The major taxes paid by the company include the property tax, the tax on land rent, the VAT, the profits tax, the social tax, and the pollution tax. The company withholds the income tax of individuals from the employees' salaries/wages and pays the same into the state budget. The company also pays the social insurance contributions.

### **8.2 Foreign currency transactions**

At initial recognition, a foreign currency transaction is stated in the currency of the financial statement at the exchange rate on the transaction day. The Balance Sheet currency items are stated in the currency of the financial statement at the exchange rate on the Balance Sheet date.

Business trip related expenses in foreign currency are reflected in the currency of the financial statement at the exchange rate on the day of leaving on business.

The Balance Sheet currency items are stated in the currency of the financial statement at the exchange rate on the Balance Sheet date.

The differences that emerge when the amounts stated in the currency items are paid at an exchange rate which is different from that at initial recognition or on the last day of the financial accounting (where the currency items have been recognised in the previous financial year) are recognized as revenue and expense of the reporting period.

The Profit and Loss Account, under Financial and Investment Activities, carries only the result of the currency rate differences. The currency used for payments with business partners in Europe is EUR (Euro), in Asia and other continents it is USD (USA dollar). The fluctuations in the USD exchange rate may affect the result of the company.

### **8.3. Circumstances when only the net result of a business transaction is reflected in the financial statements**

The financial statements show only the net result of a business transaction upon the transfer of non-current assets and the receipt of insurance refund for incurred losses.

### **9. Definition of cash and cash equivalents**

The Cash and Cash Equivalents item reflects cash at bank and in hand. The company holds no current highly liquid debt securities.

### **10. Definition of business and geographical segments**

AB Kauno Tiekimas is developing two major business segment groups: sales of goods and rendering services.

The sales of goods include the sales of alumina, hydrate of sodium, etc. The services include the lease of the property owned by the company and other services to the lessees, e.g. loading services, etc.

The company is supplying hydrate of sodium and bauxites for the alumina factory in Bosnia and sells alumina produced in the said factory. In 2006, the foreign sales of the company amounted to LTL646,417,348. The trade of alumina is performed outside Lithuania and its geography is very broad, including European and Asian countries, Australia, and the USA.

### **11. Provision formation principles**

No provisions are formed in AB Kauno Tiekimas annual financial statements for 2006. The reserve of vacation pay and the related social insurance contribution for the next year are attributed to the current liabilities of the company and are stated on the Balance Sheet under Employment Related Liabilities.

### **12. Company policies and programmes in the fields of environmental protection, energy saving, use of ecological materials and waste utilisation, water pollution and reduction of emissions**

The environmental policy of the company aims at reducing the atmospheric air, surface, and ground water pollution. For this purpose, an action plan for 2004-2006 on the reduction of atmospheric pollution has been drafted. Since continuous flows of cargo trucks are going on the territory of the company, the company keeps cleaning and maintaining the territory to prevent the pollution of the surface and ground water. To monitor the pollution, water analysis is performed every three months.

### **13. Accounting error correction policy**

Errors in the Revenue and Expense items exceeding 0.5% of the revenue stated in the financial statements are considered material errors.

The following methods of correcting the accounting errors for the previous periods are used by the company:

Material mistakes are corrected retrospectively by adjusting the data for the previous financial years/periods that have been distorted due to the error. When the effect of the material error on the financial accounting of the previous periods can not be accurately assessed, the error is corrected prospectively by adjusting only the data of the reporting period.

Immaterial errors are corrected prospectively, i.e. they are corrected in the financial statements of the reporting period.

### III. COMMENTS PRESENTED IN THE EXPLANATORY NOTES

The comments to AB Kauno Tiekimas Explanatory Notes comprise tables explaining material items of financial statements. The textual part provides concise further information.

#### 3.1. Non-current intangible assets

Information on the changes in non-current intangible assets over the reporting year is provided in

**Table 3.1-1. Non-current intangible assets**

Indices	Software, LTL
Residual value at the end of the previous financial year	4,375
a) Non-current intangible assets at acquisition cost	
At the end of the previous financial year	6,920
Changes of the financial year:	
- purchase of assets	
At the end of the financial year	6,920
b) Amortization	
At the end of the previous financial year	2,545
Changes of the financial year:	
- amortization of the financial year	2,105
At the end of the financial year	4,650
d) Residual value at the end of the financial year (a) – (b) – (c)	2,270

**Table 3.1-2 Useful life of intangible assets**

Groups of intangible assets	Average useful life (in years)
Development works	
Goodwill	
Patents, licences, etc.	
Software	Three
Other intangible assets	

#### 3.2 Non-current tangible assets

Revaluation methods have not been applied for AB Kauno Tiekimas non-current assets. The company has pledged its assets to a credit institution as a security for using the credit line. Information on the movement of the non-current tangible assets in the reporting year is given in Table

**Table 3.2-1 Non-current tangible assets**

Indices	Buildings and structures	Plant and equipment	Vehicles	Other property	Construction in progress	Total
1	2	3	4	5	6	7
Residual value at the end of the previous financial year	1,385,521	1,521	159,822	117,078		1,663,942
a) Purchasing cost						
At the end of the previous financial year	3,893,451	59,501	264,505	398,178		4,615,635
Changes of the financial year:						
- purchase of assets			179,028	24,879	2,160	206,067
- assets assigned and written down (-)			-56,199			-56,199

At the end of the financial year	3,893,451	59,501	387,334	423,057	2,160	4,765,503
b) Revaluation At the end of the previous financial year						
Changes of the financial year:						
- value increase (impairment) +/(-)						
- assets assigned to other persons and written down (-)						
At the end of the financial year						
c) Depreciation At the end of the previous financial year	2,507,930	57,980	104,683	281,100		2,951,693
Changes of the financial year	107,952	1,519	51,263	49,483		210,217
- depreciation of the financial year			-45610			-45,610
- depreciation of assets assigned to other persons and written down (-)						
At the end of the financial year	2,615,882	59,499	110,336	330,583		3,116,300
d) Impairment value At the end of the previous financial year						
Changes of the financial year:						
- impairment value of the financial year						
- of assets assigned to other persons and written down (-)						
At the end of the financial year						
e) Residual value at the end of the financial year (a) + (b) - (c) - (d)	1,277,569	2	276,998	92,474	2,160	1,649,203

**Table 3.2.-2 Pledged non-current tangible assets**

No	Pledged asset and its address	Residual balance value on 31-12-2006, LTL	Land (plot area, value, ownership)
1	2	4	5
1.	Administrative:- Customs Office No 1B2p-746.75 m <sup>2</sup> Year of construction: 1964 Heated area: 618.25 m <sup>2</sup>	88972	10,885 ha LTL1,678,308; Rent for 99 years
2.	Administrative: Canteen Inv. No 2B2p-728.09 m <sup>2</sup> Year of construction: 1964 Heated area: 501.76 m <sup>2</sup>	30,668	
3.	Warehouse Inv. No 3F1p – 1268.56 m <sup>2</sup> Year of construction: 1964 Heated area: 48.49 m <sup>2</sup>	24,880	
4.	Warehouse Inv. No 4F1p-1254.97 m <sup>2</sup> Year of construction: 1964 Heated area: 24.05 m <sup>2</sup>	24,871	
5.	Warehouse Inv. No 5F1p-1583.69 m <sup>2</sup> Year of construction: 1964 Heated area: 42.16 m <sup>2</sup>	194,725	
6.	Warehouse Inv. No 6F2p – 1806.61 m <sup>2</sup> Year of construction: 1964 Heated area: 1806,61 m <sup>2</sup>	42,834	
7.	Warehouse Inv. No 7F1p – 1583.5 m <sup>2</sup> Year of construction: 1964 Heated area: 39.98 m <sup>2</sup>	24,904	
8.	Warehouse Inv. No 8F1p – 1593.76 m <sup>2</sup> Year of construction: 1964 Heated area: 48.66 m <sup>2</sup>	25,562	
9.	Warehouse Inv. No 11F1g – 935.24 m <sup>2</sup> Year of construction: 1981 Unheated	1.0	
10.	Vehicle scales Inv. No 12H1p – 93.01 m <sup>2</sup> Year of construction: 1964		
11.	Wagon scales Inv. No 13H1p – 15.02 m <sup>2</sup> Year of construction: 1964	1.0	
12.	Warehouse Inv. No 14F1g – 2605.74 m <sup>2</sup> Year of construction: 1981 Heated area: 39.36 m <sup>2</sup>	331,218	
13.	Mechanical workshops including: Warehouse Inv. No 15F1g – 409.03 m <sup>2</sup> Year of construction: 1984 Unheated	31,415	
	Water metering unit Inv. No 34H1p – 22.70 m <sup>2</sup> Year of construction: 1990		
	Battery charging facilities Inv. No 35G1p - 21 m <sup>2</sup>		

	Year of construction: 1982		
	Boiler house Inv. No 36H1p – 39.86 m <sup>2</sup> Year of construction: 1976		
	Electric lift truck charging station Inv. No 37G1p – 126.18 m <sup>2</sup> Year of construction: 1982		
	Electric fork lift repair shop Inv. No 38G1p – 93.89 m <sup>2</sup> Year of construction: 1984 Heated area: 78.79 m <sup>2</sup>		
	Warehouse Inv. No 40F1p – 34.22 m <sup>2</sup> Year of construction: 1974 Unheated		
	Garage Inv. No 41G1p – 24.92 m <sup>2</sup> Year of construction: 1982 Unheated		
14.	Cement elevator including:	42,887	
	Pump house Inv. No 19H1p – 16.73 m <sup>2</sup> Year of construction: 1967		
	Compressor room Inv. No 20H1p – 70.73 m <sup>2</sup> Year of construction: 1966		
	Cement elevator Inv. No 21H1p – 181.72 m <sup>2</sup> Year of construction: 1966		
15	Administration building Inv. No 22B4bp – 1392.81 m <sup>2</sup> Year of construction: 1990 Heated area: 1384.17 m <sup>2</sup>	186,481	
16,	Transformer house Inv. No 23H1p - 35,72 m <sup>2</sup> Year of construction: 1966	1.0	
17.	Locomotive depot Inv. No 39G1p – 89.5 m <sup>2</sup> Year of construction: 1974 Unheated	12,376	
18.	Bomb shelter 4210b; built-up area 144m <sup>2</sup> ; volume 461m <sup>3</sup> ; construction completed in 1975		
19.	Fax machine B160 Bubble fax/copy	1	
20.	Computer Intel Cel 2.4GHz(79569)	550	
21.	Computer Intel Celeron	583	
22.	Computer INTEL-CELERON 2.4 GHz	1,734	
23.	Computer PC 031212/1	1	
24.	Computer Vector SK-AK03 C1700/20	1,622	
25.	Computer Vector SK-AK03 C1700/25	1	
26.	Computer VECTOR SK-AK04	294	
27.	Metal filing cabinet Sbm 212	501	
28.	Metal cabinet DS P-04	770	
29.	Metal cabinet DS-2	230	
30.	Metal cabinet DS-2	230	
31.	Metal cabinet Sbm 213	575	
32.	Mobile telephone Nokia 6610	1	

33.	Monitor 755 DFX17	1	
34.	Monitor 755 DFX17“85 KHz 0.25m	43	
35.	Monitor 755 DFX17/2	1	
36.	Monitor Samsung SM755 DFx17	1	
37.	Monitor SM172x17“SLIM design	597	
38.	Notebook computer S200N P-M 1GHz	775	
39.	Notebook computer S200N P-M 1GHz	1	
40.	Notebook computer ThinkPad	1	
41.	Notebook computer OMNIBOOK XE4400	1	
42.	Notebook computer AMILO M7405	1,352	
43.	Notebook computer HP COMPAQ	1	
44.	Notebook computer HP NX8220	1,960	
45.	Notebook computer IBM R40E	972	
46.	Notebook computer mVector	298	
47.	Scanner ScanMaker 48 bit	70	
48.	Printer HP LJ1300 18 ppm	1,215	
49.	Steel-plated safe DS-B1	645	
50.	Telephone Nokia 6100	74	
51.	Monitor SM172x17“SLIM design	1,091	
52.	Monitor SM172x17“SLIM design	1,121	
53.	Monitor SM172x17“SLIM design	1,121	
	Total:	1,080,230	

**Table 3.2-3 Useful life of tangible assets**

Groups of non-current tangible assets	Average useful life (in years)
<i>Buildings and structures</i>	6 – 85
Plant and equipment	15
Vehicles	3 – 11
Other plant, equipment, tools, and fixtures	2 – 18
Other tangible assets	

**Table 3.2-4 Depreciated non-current tangible assets still in use**

Asset group	Acquisition cost (LTL)
Buildings and structures	957,752
Vehicles	10,508
Other equipment and tools	200,771
Machines and equipment	59,501
Total:	1,228,532

### 3.3. Non—current financial assets

At the beginning of 2006, the company had non-current financial assets in the amount of LTL17,557,654. Over the year the company sold non-current financial assets for the amount of LTL15,820,9465. The acquisition value of the sold non-current financial assets accounts for LTL10,467,695. The profit from the transfer of the non-current financial assets amounts to LTL5,353,250. The movement of non-current financial assets is reflected in table 3.3.1.

**Table 3.3.1 Financial assets**

Indices	Subsidiaries	Amounts receivable after one year	Interests to subsidiaries	Other financial assets	Total
Balance at the beginning of the financial year				17,557,654	17,557,654
a) acquisitions				1,270,500	1,270,500
b) sales				-10,467,695	-10,467,695
c) Balance at the end of the financial year				8,360,459	8,360,459

**3.4. Inventories**

The total inventories value, balance value, and the write-down to net realisable value are shown in table 3.4 – 1 *Inventories*.

**Table 3.4 – 1 Inventories**

Indices	Raw materials and completion goods	Goods purchased for resale	Total
a) Inventories acquisition cost			
At the end of the previous financial year	3,461	3,770,529	3,773,990
At the end of the financial year	7,476	572,909	580,385
b) Write-down to net realisable value (reversal)			
At the end of the previous financial year		133,047	133,047
At the end of the financial year		112,818	112,818
c) Net realisable value at the end of the financial year (a) - (b)	7,476	460,091	467,567
Differences in cost methods where LIFO formula was applied			0
Value of pledged inventories			0
Inventories held by third persons			0

The amount of write down to the net realisable value at the end of the financial year declined by LTL20,229. The goods impairment costs were reversed. The decrease resulted from the retail sales of goods over the reporting period.

**3.5. Receivables**

The debts of the suppliers to the company that are related to the operations of the company and the trade debts incurred for the sold goods and provided services are reflected.

The information is provided in Table 3.5- 1 *Receivables*

**Table 3.5-1 Receivables**

Groups of major receivables	Balance value (LTL)
Trade debtors	149,595,072
Other amounts receivable	50,927,093

Over the reporting year, the company was paid back loans in the amount of LTL12,503,094. The interest generated on the granted loans was LTL2,408,725.



### 3.6. Other current assets

This part of the Balance Sheet reflects the current financial assets. At the beginning of the financial year the company owned current financial assets in the amount of LTL122,050. In 2006, the acquired current financial assets amounted to LTL20,638,617; the acquisition cost of the sold current financial assets came up to LTL5388,791. The profit from the sales of the current assets amounted to LTL2,940,333.

Indices	Short term investments
Balance at the beginning of the financial year	122,050
a) acquisition	20,638,617
b) transfer	5,388,791
c) revaluation	3,751,484
Balance at the end of the financial year	19,123,3602

### 3.7. Capital

The structure of the authorised capital is shown in Table 3.7-1 *Structure of authorised capital*

**Table 3.7-1 Structure of authorised capital**

Indices	Number of shares	Amount (LTL)
Share capital structure at the end of the financial year		
1. By types of shares		
1.1. Ordinary shares	10,180,884	10,180,884
1.2. Preference shares		
1.3. Employee shares		
1.4. Special shares		
1.5. Other shares		
TOTAL:	10,180,884	10,180,884
2. State or municipal capital		
Own shares held by the enterprise itself		
Shares held by subsidiaries		

### 3.8. Draft Distribution of Profit

AB Kauno Tiekimas profit is distributed in the manner prescribed by the Law on Companies. The financial statements are accompanied by the draft distribution of profit for 2006. The general meeting approves the annual financial statements of the company and the draft distribution of profit.

**Table 3.8-1 Draft Distribution of Profit**

Items	Amount (LTL)
1. Undistributed result – profit (loss) of the previous financing year at the beginning of the reporting financial year	5,071,562
2. Net result of the reporting financial year – profit (loss)	472,066
Including unrealized gain	3,751,484
3. The profit (loss) of the reporting financial year non-recognised in the Profit and Loss Account	
4. Transfers from reserves	90,922
including bonuses, benefits	40,054
undistributable result	50,868
5. Shareholders' contributions for covering losses	
6. Total distributable profit (loss):	5,634,550
Including unrealized gain	3,751,484

7. Profit share distributed to statutory reserves	23,603
8. Profit share distributed to reserve for the acquisition of owns shares	
9. Profit share distributed to other reserves	400,000
including the planed warehouse renovation	400,000
10. Profit share for paying out dividends	
11. Profit share for annual bonuses for the board members, employee bonuses and other purposes	94,000
12. Undistributed profit (loss) at the end of the reporting financial year brought forward to the following financial year	5,116,947

### 3.9. Reserve formation purposes and restrictions of their use

The annual deductions to the legal reserve are established by the general meeting. The deductions to the legal reserve may not be less than 1/20 of the net profit and they shall be made until the legal reserve amounts to 1/10 of the authorised capital. Other reserves are formed and cancelled under the resolution of AB Kauno Tiekimas general meeting in the manner prescribed by the law.

### 3.10. Description of the principles of accounting for grants (subsidies) and assets received gratis

In 2006, the company received no grants or gratis assets.

### 3.11. Debts due, liabilities

Total liabilities of the company come up to LTL214,398,173, including debts to suppliers in the amount of LTL123,327,383. Information on the financial debts of the company is provided in Table 3.10 – 1 *Condition of company liabilities*.

**Table 3.11-1 Condition of company liabilities**

Indices	Due debts or parts thereof		
	Within one financial year	Classification of amounts due by type	Within one financial year
Classification of amounts due by type			
Financial debts: (Including debts to subsidiaries and associates)			
1. Lease (financial lease) or similar liabilities			
2. To credit institutions			
3. Other financial debts	52,950,317		
Other debts	161,447,856		
Including debts to suppliers	123,327,383		
profits tax liabilities	44,897		
liabilities linked with employment relations	239,608		
other debts	37,835,968		
TOTAL	214,398,173		

In 2006, the company was making payments in cash (bank transfers) as well as by way of offsetting: in its financial accounting the company was registering the settled commensurate counterclaims. The company has evidences that in the future it will not have to settle the liabilities by using its economic resources or loans (written agreements signed by the heads of the companies). In 2006, the total value of offsets amounted to LTL12,645,260.

### 3.12. Financial and investing activities revenue and expenses by material amounts

The financial and investing activities revenue and expenses by material amounts are shown in Table 3.12 – 1.

**Table 3.12 - 1 Results of financial and investing activities**

Indices	Financial year	Previous financial year
a) REVENUE FROM FINANCIAL AND INVESTING ACTIVITIES	23,854,690	7,322,636
Description of material amounts:		
Positive influence of exchange rate differences	9,168,606	
Other financial revenue	14,686,084	7,322,636
Including received dividends	50,740	42,500
profit from share transfer	8,293,584	
investment revaluation revenue	3,751,484	4,493,228
interests	2,414,075	2,070,091
late charges	174,937	716,817
other	1,264	
b) EXPENSES FOR FINANCIAL AND INVESTING ACTIVITIES	6,524,352	26,259,859
Negative influence of exchange rate differences		21,719,331
Interests	5,612,406	3,348,567
Other financial expenses	635,563	1,191,961
Penalties	276,383	
c) FINANSINĖS IR INVESTICINĖS VEIKLOS REZULTATAS (a – b)	17,330,338	-18,937,223

### 3.13. Amounts of revenue from exchange of goods or services

In 2006, the company did not execute any exchange of non-current tangible or financial assets, goods or services.

### 3.14. Sales expenses

In the reporting financial year as compared to 2005, the sales expenses increased by LTL11,834,450 or 24.03 percent. This increase mainly resulted from higher product (alumina) transportation costs, and especially sea freightage and port handling costs.

### 3.15. Information on business and geographic segments

AB Kauno Tiekimas renders services and carries out retail business in Lithuania, whereas the wholesale business is done outside Lithuania, in Bosnia. A customs post, warehouses, and an IE terminal are located on the territory of the company. The services rendered in Lithuania include the lease of the property owned by the company and the related services. The wholesale trade is taken up by the branch of the company, which supplies hydrate of sodium and bauxites for the alumina factory in Bosnia and sells alumina produced in the said factory.

In the reporting year the ordinary activities of the company generated a loss which accounted for LTL16,985,765, whereas in 2005 the result from ordinary activities was a profit of LTL14,798,257. The decrease in the profit indices for 2006 was directly influenced by the results of the main operating activities of the company, i.e. the wholesale trade in alumina, which were affected by the fall in the price of alumina, the main raw material in the production of aluminium. Compared to 2005, the price in the international markets shrank 2.2 times. A significant impact was also made by the constant growth of the energy prices in international markets.

Although the company was facing great difficulties in the international business market, we managed to achieve profitable annual results, to maintain our positions in the global market, and to continue our business in this field.

The information on the business and geographical segments is disclosed in Tables 3.15-1 and 3.15–2

**Table 3.15 – 1 Information on business segments**

Indices	Segments (types of products, goods activities)				All enterprises	
	Services		Trade			
	2006	2005	2006	2005	2006	2005
Revenue	1,553,468	1,425,717	646,436,778	638,205,147	647,990,246	639,630,864
Expense	1,629,016	1,480,827	663,346,995	623,351,780	664,976,011	624,832,607
Operating profit	-75,548	-55,110	-16,910,217	14,853,367	-16,985,765	14,798,257

In the reporting year, there were slight changes in the customer geography. Compares to 2005, the sales to Polish buyers increased 6.2 times. In 2006, the sales to Romanian customers were 1.93 higher than in 2005. The company has new customers from India, Australia, Slovenia, and Germany. The sales to the Bosnian, Czech, and Chinese customers slightly declined (0.71, 0.66, and 0.61 times respectively).

The sales and purchase geography expanded as a result of the company employees' participation at various international seminars and conferences which provide a possibility of meeting longstanding business partners and establishing relations with new raw material suppliers and customers from all over the world. This makes a significant impact on the results, image, and competitiveness of the company.

**Table 3.15 – 2 Information on geographical segments  
Year 2006**

Indices	Segments (regions)													All enterprises
	Lithuania	Poland	Romania	Bosnia	India	Turkey	Czech	China	Australia	USA	Slovenia	Switzerland	Other	
Revenue	1,572,898	79,198,560	,11,758,696	63,511,855	145,254,827	888,156	5,439,190	230,688,369	85,462,015	17,966,520	5,148,289		1,100,871	647,990,246
Expense	1,670,421	81,267,694	12,065,902	65,171,160	149,049,742	911,360	5,581,294	236,715,313	87,694,788	18,435,912	5,282,793		1,129,632	664,976,011
Operating result	-97,523	-2,069,134	-307,206	-1,659,305	-3,794,915	-23,204	-142,104	-6,026,944	-2,232,773	-469,392	-,134,504		-28,764	-16,985,765

**Year 2005**

Indices	Segments (regions)													All enterprises
	Lithuania	Poland	Romania	Bosnia	India	Turkey	Czech	China	Australia	USA	Slovenia	Switzerland	Other	
Revenue	1,468,633	13,175,653	6,100,190	89,899,516		614,313	8,298,715	375,909,654		68,345,615		59,103,836	16,714,739	639,630,864
Expense	1,531,468	10,339,278	5,085,964	91,475,677		481,829	7,408,197	360,871,992		50,834,308		56,536,144	40,267,750	624,832,607
Operating result	-62,835	2,836,375	1,014,226	-1,576,161		132,484	890,518	15,037,662		17,511,307		2,567,692	-23,553,011	14,798,257

**3.16. General administrative expenses**

Compared to 2005 the general administrative expenses decreased by LTL1,016,435, however some individual expenses went up. The increased expenses are reflected in the table.

	Type of expenses	Increase of expenses in LTL
2005	Repair of premises and installation	46,779
	Social insurance on vacation reserve and accumulation of vacation pay	39,700
	Salaries/wages and social insurance	536,351
	Social insurance	165,793
	Sponsorship	133,500
	Insurance costs	82,020
	Securities accounting	12,202

**3.17. Extraordinary gain and losses**

No extraordinary gain or losses were registered in business year 2006.

**3.18. Profits tax**

In 2006, the company paid the budget advance profits tax in the amount of LTL175,199 and advance social insurance in the amount of LTL51,681. The profits tax amount calculated for 2006 was LTL214,561 and social tax LTL57,216. The expenses related to those taxes and levies increased by LTL77,970 in comparison to 2005.

**3.19. All material amounts recorded in off-balance sheet accounts**

In 2006, there have been no material amounts of third persons' assets being kept, processed or used otherwise.

**3.20. Amounts calculated to managers and related persons, other transferred assets and guarantees**

The managers of the company include: the general director of the parent company, the CEO, the branch director and the deputy director.

Indices	Financial year	Previous financial year	Closing balance of the financial year
1	2	3	4
A. Amounts calculated during a year linked with employment relations to:			
1. Managers	248,098	175,136	
Other connected persons	-	-	
B. Loans granted by the company to:			
1. Managers	-	-	
2. Other connected persons	-	-	
C. Loans obtained from:			
1. Managers	-	-	
2. Other connected persons	-	-	
D. Assets transferred gratis and presents to:			
1. Managers	-	-	
2. Other connected persons			

E. Miscellaneous guarantees issued on behalf of the company to:			
1. Managers	-	-	
2. Other connected persons			
F. Other material amounts calculated during a year to:			
1. Managers	-	-	
2. Other connected persons	-	-	
G. Other liabilities material to the company of:			
1. Managers	-	-	
2. Other connected persons			
H. Assets sold to:			
1. Managers	-	-	
2. Other connected persons			
Average number of management personnel during the year	4	4	

Information on transactions with related legal persons (in LTL) is provided in the table below:

Indices	2006	2005	Receivable amount or balance 31-12-2006	Receivable amount or balance 31-12-2006
A. Total sales of goods or services, including:				
1. Key shareholders (corporate)				
2. Other enterprises	69,420	22,586		2,202
B. Total purchase of goods or services, including:				
1. Key shareholders (corporate)				
2. Other enterprises	75,541	60,539		
C. Total sales of non-current assets, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
D. Total purchase of non-current assets, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
E. Total granted loans, including:		12,503,094		
1. Key shareholders (corporate)		12,503,094		
2. Other enterprises				
F. Total received loans, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
H. Total granted guarantees, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
I. Total other material transactions, including	12,625,144			22,050
1. Key shareholders (corporate)	12,503,094			
2. Other enterprises	122,050			122,050

**3.21. Nature of corrected errors, amounts of corrections and comparative data**

When financial statements are made, an error is considered material when it comes up to 0.5 percent of the sales revenue stated in the financial accounting. When the financial statements of 31-12-2006 were made, the corrected errors and amounts of corrections did not exceed the established limit.

**3.22. Annual inventory**

The annual inventory supporting the data of the financial statements of 31-12-2006 was completed as follows:

- as per 31-10-2006: materials and fuel;
- as per 30-11-2006: non-current assets;
- as per 31-12-2006: goods for resale, non-current assets, receivables and payable debts;
- as per 31-12-2006: cash;
- as per 31-12-2006: receivable and payable amounts;
- as per 31-12-2006: holyday reserve.

**3.23. Brief description of material events after the balance sheet date**

There have been no material events after the balance sheet date.

**3.24 Profit per share**

The profit per share in the reporting year accounted for LTL0.046, while in 2005 the profit per share was LTL0.484.

General director

Irena Keblerienė

Kaunas  
7 March 2007



AB Kauno Tiekimas  
ANNUAL REPORT  
2006

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**OBJECTIVE OVERVIEW OF THE COMPANY STANDING, BUSINESS AND DEVELOPMENT**

Company background

AB Kauno Tiekimas is a limited civil liability private legal person. The seat of the company is located at Palemono g.171, Kaunas, Republic of Lithuania.

The bodies of the company include the general meeting, the board, and the head of the company. The supervisory board is not formed.

The authorised capital amounts to LTL10,180,884.

The authorised capital of the company is divided into 10,180,884 ordinary registered shares with the par value of LTL1.00.

Shareholders whose participation in AB Kauno Tiekimas authorised capital and the number of votes held thereby exceed 5% as of 31-12-2006:

Shareholder	Company Register No	Seat address	No of shares		Share of authorised capital (%)		Share of votes (%)	
			Total	Under the property right	Total	Under the property right	Total	Under the property right
AB Ūkio Bankas FMD	112020136	Maironio g. 25, Kaunas	2000000	2000000	19.64	19.64	19.64	19.64
UAB Ūkio Banko Investicinė Grupė	135201099	K.Donelaičio g. 60, Kaunas	3597376	1827783	35.33	17.95	35.33	17.95
UAB FMĮ Finbaltus	122020469	Konstitucijos pr.23-660, Vilnius	3597376	1769593	35.33	17.38	35.33	17.38
InCompleks LLC	CP00193203	101 South Spring Street, Suite 2, Little Rock, Arkanzasas 72201, JAV	1502461	1502461	14.76	14.76	14.76	14.76
UAB Energolinija	135647258	Palemono g. 171, Kaunas	1232000	1232000	12.10	12.10	12.10	12.10

#### Business activities

The main activity of AB Kauno Tiekimas is a company operating over 3 decades, whose main activity is wholesale trade with Lithuanian and foreign companies. Since 2002 the company has been successfully trading in alumina, which is the main raw material in aluminium production, and in raw materials required for alumina production. After AB Kauno Tiekimas started trading in alumina, it entered the alumina market, which is currently enjoying a big growth. In order to strengthen its positions in this market, in November 2002 AB Kauno Tiekimas opened a branch of the company which was entrusted all the activities in alumina and the raw materials trade. The branch of AB Kauno Tiekimas is cooperating with Birač alumina factory, which is a strategic and one of the three largest companies in Srpska Republic, Bosnia and Herzegovina. Birač alumina factory does not buy raw materials or sell alumina by itself. This function is delegated to the trade representative of the company Balkal A.D., Bosnia. The branch of AB Kauno Tiekimas and Balkal A.D. have signed an agreement, under which AB Kauno Tiekimas branch undertakes the supply of raw material, i.e. hydrate of sodium and bauxites. Balkal A.D., in its turn, sells the branch of AB Kauno Tiekimas the production of Birač factory: alumina, alumina hydrate, zeolite. After AB Kauno Tiekimas started the new activity, it significantly increased the production volumes and to improve its performance results correspondingly. In 2005 business year, the turnover of the company amounted to LTL639.6m and increased by 104.3% in comparison to 2004. In 2006 business year, the sales revenue of the company amounted to LTL648m and increased by 1.31% in comparison to year 2005. The increase of the revenue was mainly related to the development of alumina trading activities.

In view of the price fall in the global alumina market, which has been experienced since 2006, it is anticipated that in 2007 Birač factory will use 83% of its production capacity and will not increase it in order to minimise the losses. It is expected that the alumina market prices will stabilise in the first half of 2007 and the global alumina demand will grow, which will lead to the growth of production volumes. This should also result in the increase in AB Kauno Tiekimas business volumes and performance results.

Other business activities of the company include the lease of the company's property and related services. There is a customs post, warehouses, and a terminal on the territory of the company.

AB Kauno Tiekimas is located on the highway Vilnius-Klaipėda. The distance from the company headquarters to the centre of Kaunas is 12 km. The area of the company occupies 10.825 ha and it is fenced and guarded 24 hours. The company has 7 buildings of individual warehouses. 7 railway

tracks are connected to the warehouses equipped with loading docks. The total area of multi-purpose warehouses owned by AB Kauno Tiekimas amounts to 13,860 m<sup>2</sup>. Railway and truck scales are used for weighing the goods. Also there is a gantry crane with a lifting capacity of 10 tons. The company has a cement elevator with the capacity of 120 thousand tons per year. Since 2000, the cement elevator is leased to UAB Kauno Tiekimas Prekybos Centras. The loading and unloading works in the company are fully mechanised. Electrical and truck loaders are used for this purpose. The company owns 8 electrical and 2 truck loaders. Loose products are loaded with a wheel excavator, the volume whereof is 0.15m<sup>3</sup>. The company has two shunting locomotives. Bonded free warehouses with the total area of 4,172 m<sup>2</sup> have been operating in the company since 1993. An export-import terminal with the total area of 3,390 m<sup>2</sup> has been operating in the company since 1996. All the work places at the customs office are computerised.

The long-term real estate of the company was constructed long ago and it needs repairs in order to ensure its condition generating economic benefit. The repair of long-term assets is expensive and it requires a significant amount of additional funds.

Apart from the routine operations, the company is engaged in financial and investment activities. Successful investment into securities and the revenue earned from their sales lead to the profitable result of the company in 2006.

#### **INFORMATION ON THE MANAGEMENT BODIES**

In pursuance of Part 3 Article 21 of the Law on Securities of the Republic of Lithuania, Par 20.5 of the Trading Rules issued by AB Vilniaus Vertybinių Popierių Birža (Engl. Vilnius Stock Exchange), and the Governance Code of the companies whose securities are traded on Vilnius Stock Exchange, we hereby provide information on the members of the company's collegial body.

The supervisory board is not formed.

Board members:

1. Igor Gončaruk: Employed by the company since 1992. Open-ended employment contract; job position: CEO. Holds 65,994 shares or 0.65% of AB Kauno Tiekimas authorised capital. University education. Does not have any positions in other companies. Elected a Board Member and the chairman of the Board since 1999. Has relevant professional experience and qualifications to discharge his duties. Takes part in various refresher programs related to the work in the collegiate body and the direct functions.

2. Irena Keblerienė: General Director. Employed by the company since 1993. Open-ended employment contract. University education. Has no shareholding in the Company. Does not have any positions in other companies or any shareholdings of other companies exceeding 5 percent. Elected a Board Member since 1999. Has relevant work experience, qualifications, and professional qualities to discharge her duties in both the collegial body and the position of the head of the company. Regularly takes part in various refresher programs, does a lot of self study.

3. Nijolė Varanavičienė: not employed by the company. Has no shareholding in the Company. Has received no reimbursements from the company. University education. Elected a Board Member since 1999. Well acquainted with the particulars of the company activities. Has relevant experience and qualifications. Professionally discharges her duties of a Board Member.

All the Board members are responsible for the strategic management of the company and other key functions of corporate governance. The number of the Board members satisfies the present scope and the main fields of the company activities.

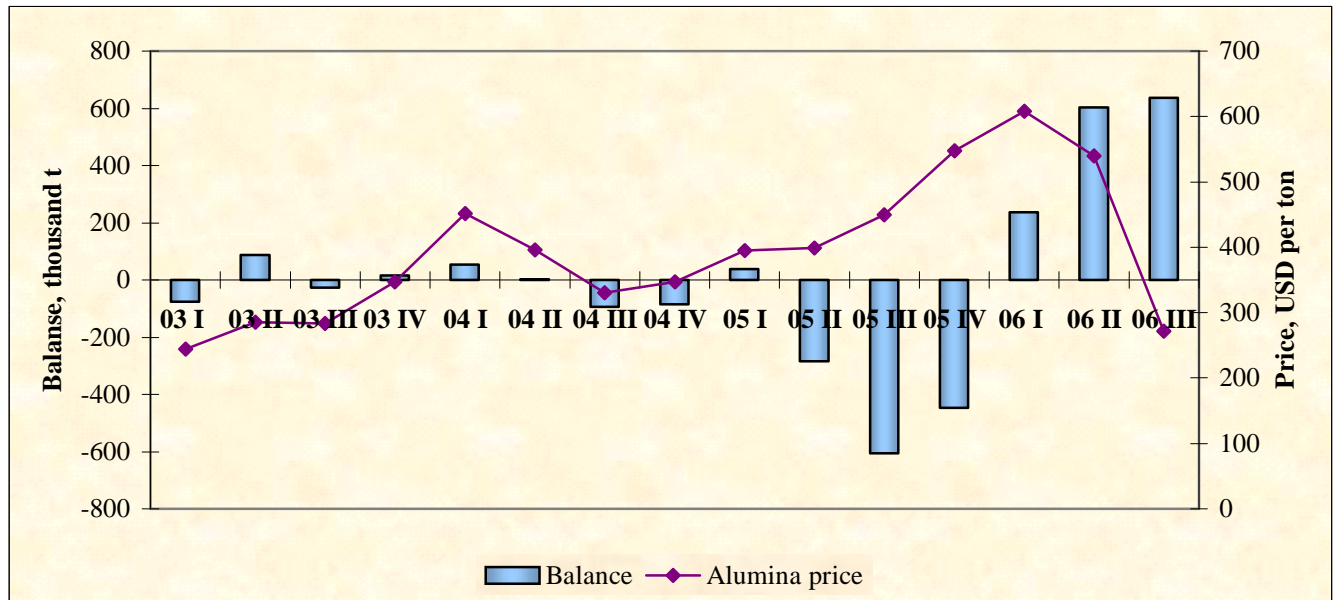
#### **DESCRIPTION OF THE KEY RISK TYPES AND CONTINGENCIES FACED BY THE COMPANY**

Alumina is the main raw material in aluminium production. Therefore its supply and demand on the market depends on the aluminium production volumes. The global alumina prices depend on the

supply and demand of the alumina exporting and importing countries. The alumina price fluctuations have a direct effect on the performance of the company. Figure 1 provides information on the relation of the alumina market price to its global supply and demand balance.

**Figure 1**

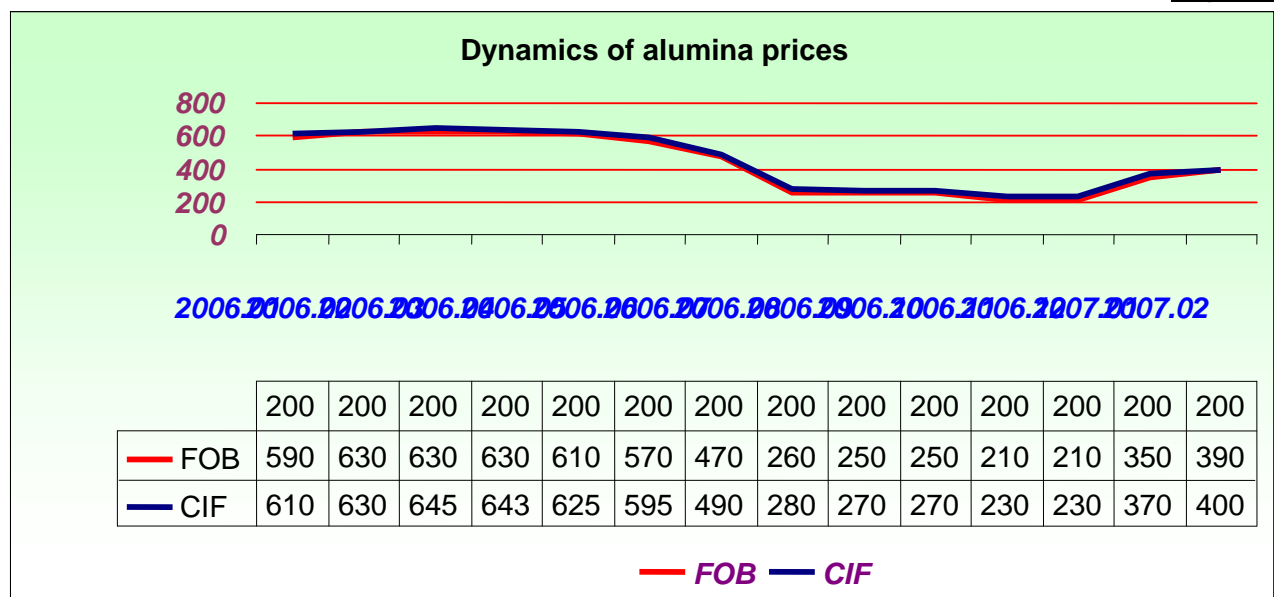
**Relation of the alumina market price and its global supply and demand balance 2003 through 2006, by quarters**



Source: CRU Monitor Alumina/ [www.crumonitor.com](http://www.crumonitor.com)

The largest alumina prices were observed at the beginning of 2006, whereas in the second quarter of 2006 they began to fall. According to the forecasts, this fall is temporary, since the alumina raw material prices did not change and therefore the alumina prices should stabilise. Figure 2 provides information on the fluctuations in the alumina market in 2006 and the beginning of 2007. The price is given in USD per ton on FOB and CIF terms.

**Figure 2**



Source: CRU Monitor Alumina/ [www.crumonitor.com](http://www.crumonitor.com)

In its activities, the company is using credit lines. The variable tax rate of the credit lines depends on the VILIBOR (Vilnius Inter Bank Offering Rate) and LIBOR (London Inter Bank Offering Rate) fluctuations. An increase in the credit source price would have a negative impact on the company business.

The currency used for payments with business partners in Europe is EUR (Euro), in Asia and other continents it is USD (USA dollar). The fluctuations in the USD exchange rate may affect the result of the company.

#### **ANNOUNCEMENT ON THE COMPLIANCE WITH THE GOVERNANCE CODE APPROVED BY THE STOCK EXCHANGE**

In pursuance of the provisions of the EU directives, on 22 June 2006 the Seimas of the Republic of Lithuania adopted the Law on the Amendment of Articles 2, 6, 7, 13, 14, 17, 18, 19, 191, 40, 45, 52, and 61 of the Law on the Securities Market, Amendment of the Law by Adding Article 3, and Amendment of the Annex to the Law No X-714 (Official Gazette, 2006, No 77-2963), which inter alia prescribes the requirement for annual report of the companies, whose securities are traded on the stock exchange, to provide information on the compliance of the company with the Governance Code approved by the Stock Exchange.

AB Kauno Tiekimas securities are listed in Lithuania. Therefore, with respect of the provisions of the Law on Securities Market, Schedule 1 provides information on the compliance with the Governance Code of the companies, whose securities are traded on the Stock Exchange, approved by Vilnius Stock Exchange. We hope that the provided information will help the investors and other users of the reporting submitted by the company to obtain all the necessary information on our company.

Our company does not enjoy significant experience in complying with the Governance Code since the Governance Code was approved only in the second half of 2006. In this light, in the forthcoming business year we are going to make decisions which will make the corporate governance and performance transparency understandable to the investors and the corporate governance is deemed progressive.

#### **ANALYSIS OF FINANCIAL AND NON-FINANCIAL BUSINESS RESULTS**

The analysis of key financial indices is provided in the Schedules.

##### **Schedule 2 Horizontal analysis of Balance Sheet indices**

The largest AB Kauno Tiekimas assets volumes were recorded in 2005. In 2006, the total value of assets decreased by LTL251.2m. The non-current assets shrank by LTL9.21m. The decrease was mainly caused by the sales of non-current financial assets and the depreciation of the tangible non-current assets owned by the company.

The current assets reduced by LTL242.0m. The decrease was mainly caused by the decrease in amounts receivable within one year, inventories, and other non-current assets.

In 2006, the decrease in the liabilities of the company resulted from the fall in trade creditors by LTL308.4m.

In 2006 the shareholders' equity increased by 2.9% and amounted to LTL16.4m.

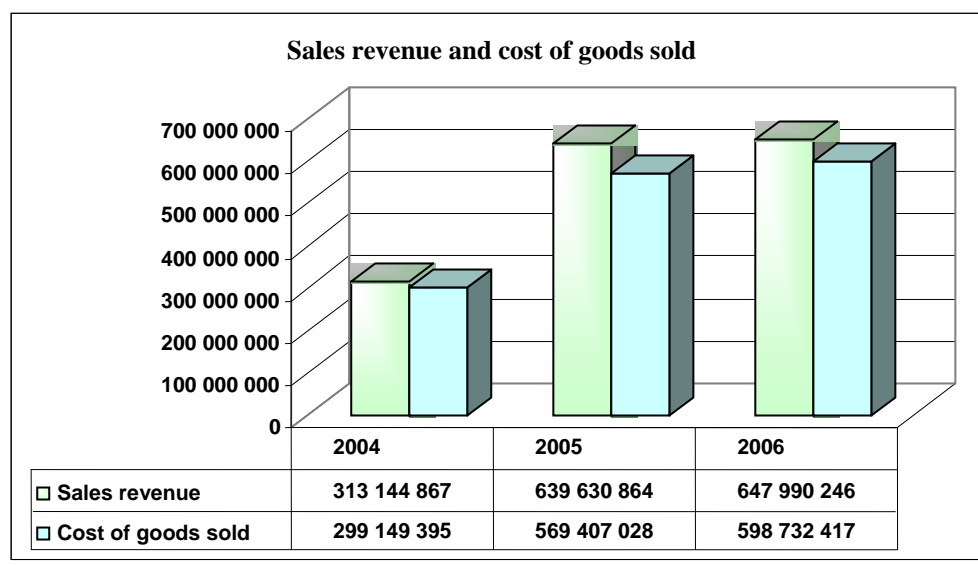
##### **Schedule 3 Vertical analysis of Balance Sheet indices**

Over the last 3 years the assets structure did not experience significant changes. In 2006 the current and non-current assets accounted for 95.7% and 4.3% of total assets respectively. 92.9% of all assets were acquired with borrowed funds and 7.1% was acquired for the company's own money.

##### **Schedule 4 Analysis of Profit and Loss Account**

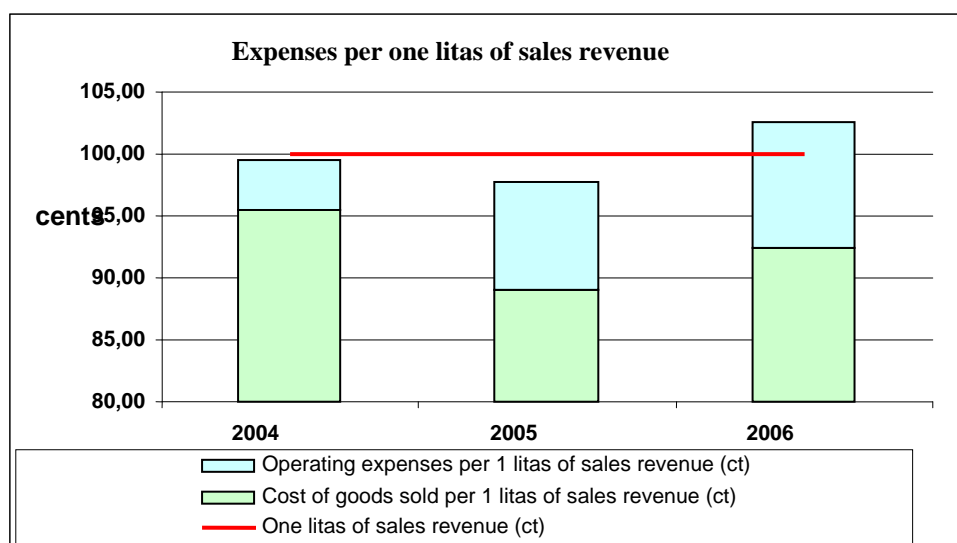
In 2006 the sales revenue increased by LTL8.4m or 1.3%. The cost of goods sold increased by LTL29.3m or 5%. Due to higher energy resource prices and significantly lower alumina market prices in Quarter 4 2006, the gross profit of the company shrank by LTL30m in comparison to 2005.

**Figure 3**



In 2006 the operating expenses increased by LTL10.8m or 19.5%. The dynamics of expenses per one litas of sales revenue is reflected in figure 4.

**Figure 4**



Other operating revenue decreased by LTL8.9m. The revenue from financial and investing activities increased by LTL16.5m.

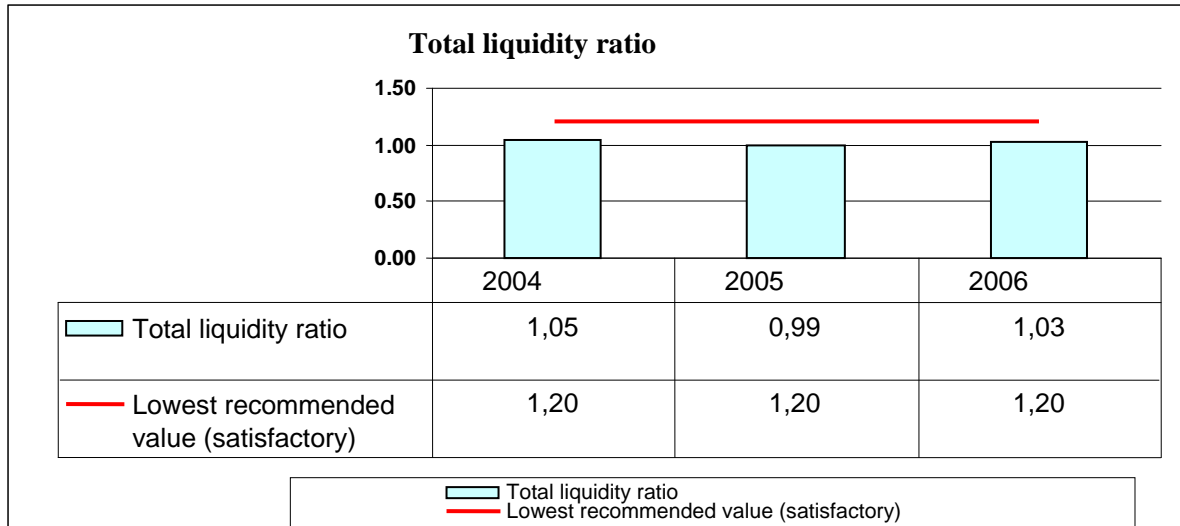
Compared to 2005, the net profit in 2006 decreased by LTL4.5m and accounted for LTL472,066.

**Schedule 5 Summary of liquidity ratio calculations**

The liquidity ratio of the company shows the degree to which the current assets cover the current liabilities.

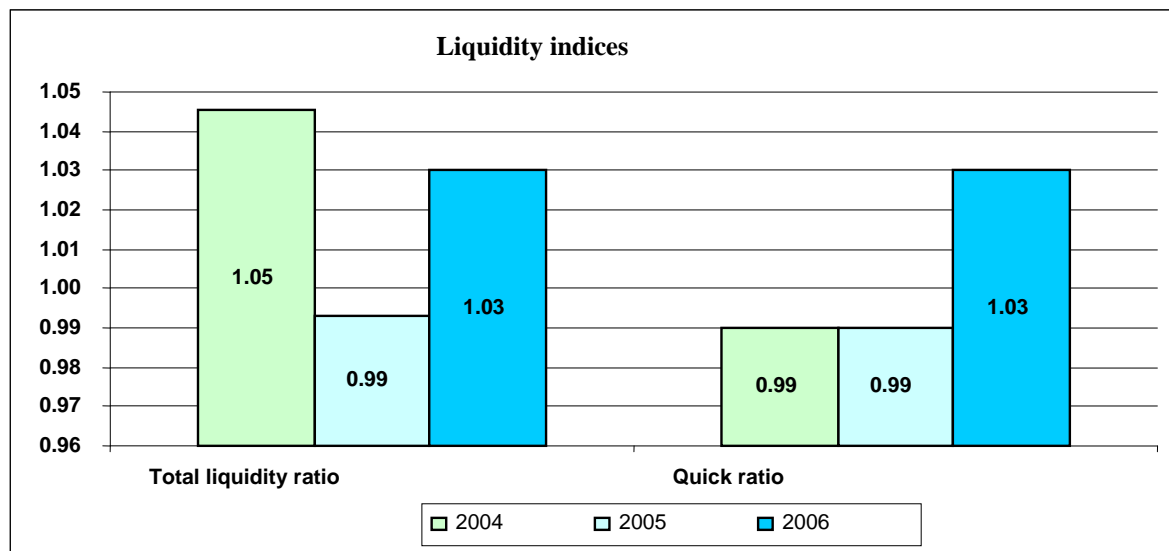
The total liquidity ratio increased by 0.04 points as a result of reduced current assets and amounts payable within one year. The index value is higher than 1, which means that the company is able to pay its current liabilities from current assets.

**Figure 5**



The comparison of the total liquidity ratio to the quick ratio shows the same growth rates (as compared between 2005 and 2006); the growth of this index indicates improvement in the inventory management policy.

**Figure 6**

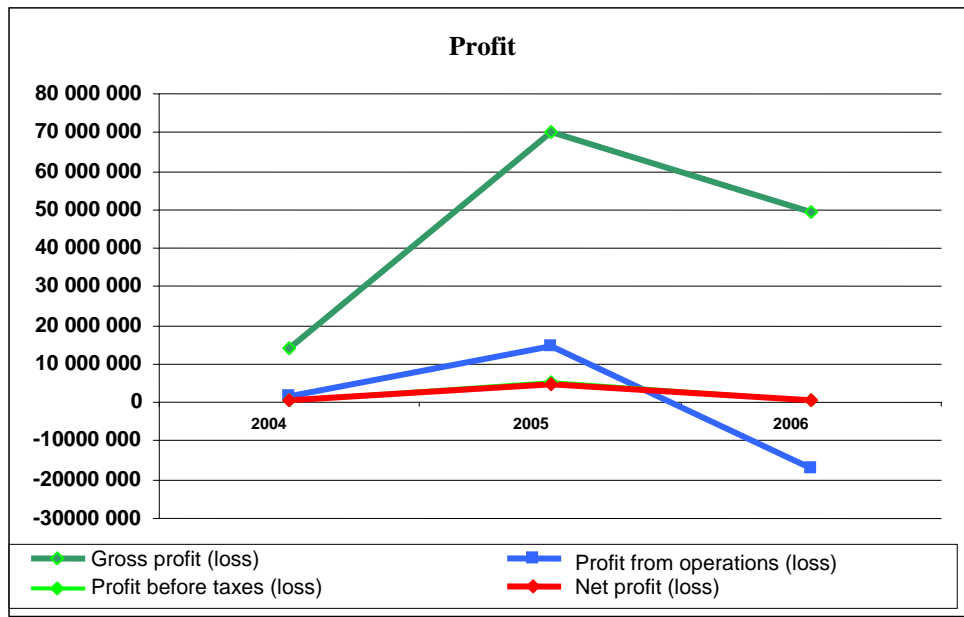


The net working capital is defined as current assets minus current liabilities. At the end of 2005 this value was negative. In 2006 it became positive and amounted to LTL6,433,986.

Schedule 6 Summary of profitability ratio calculations

The profitability indices showed a tendency of decrease:

**Figure 7**



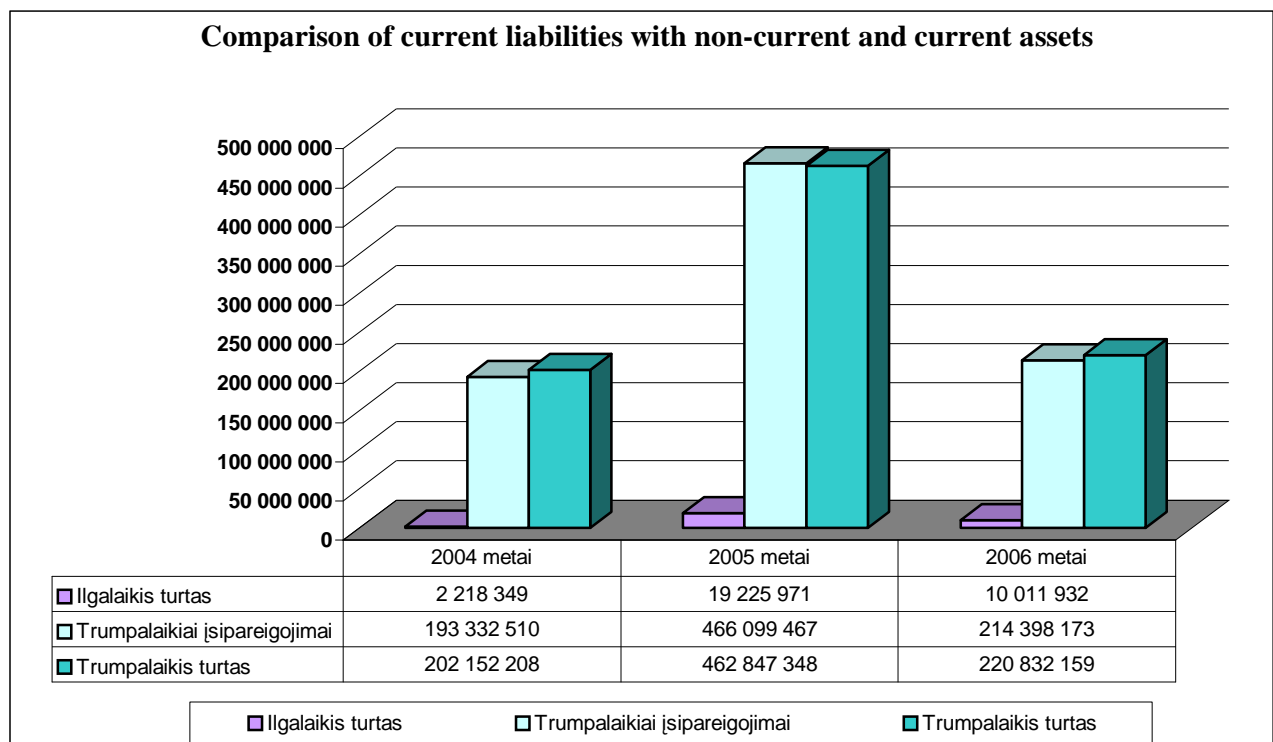
Schedule 7 Summary of financial leverage ratio calculations

The debt ratio tells how much the company relies on debt to finance assets. Over the last 3 years this ratio was fluctuating and at the end of 2006 it was 0.93.

The debt-to-equity ratio indicates the relative proportion of equity and debt. At the end of 2006 it was 13.04.

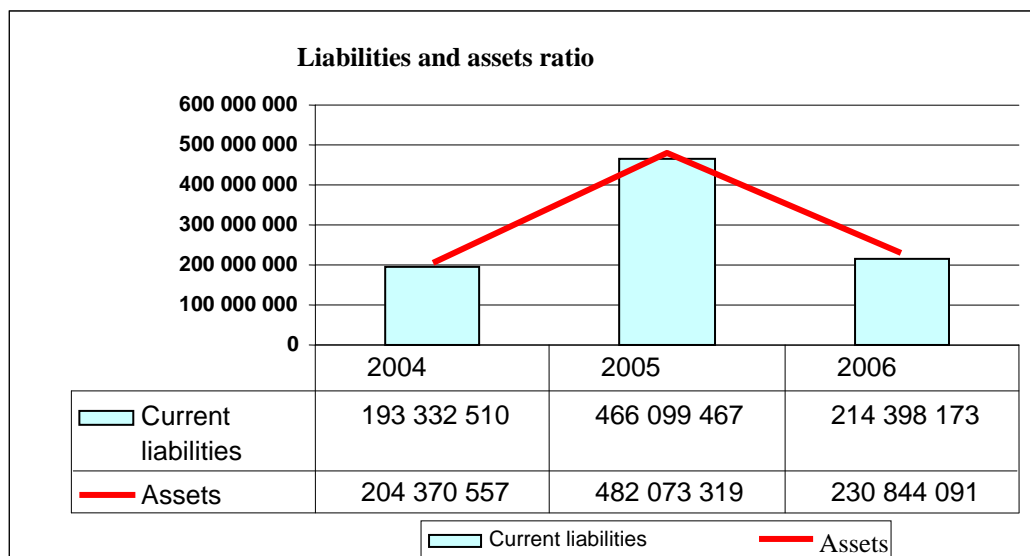
Figure 8 compares non-current and current liabilities with non-current and current assets and Figure 9 provides the ratio of the company liabilities and assets.

**Figure 8**





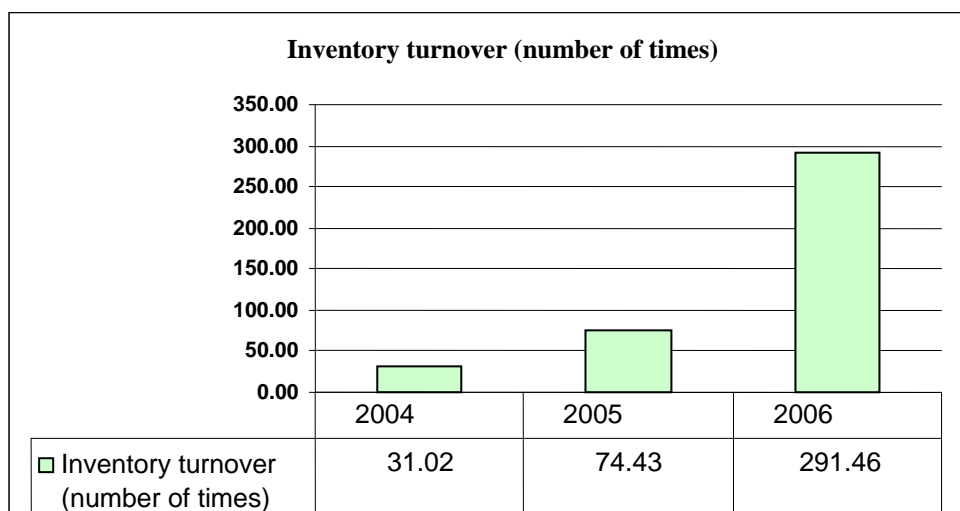
**Figure 9**



**Schedule 8 Summary of assets turnover ratio calculations**

The schedule provides analysis of inventory turnover, receivables turnover, net working capital turnover, non-current assets turnover, and assets turnover. The inventory turnover enjoyed the largest growth.

**Figure 10**



**INFORMATION RELATED TO ENVIRONMENT AND STAFF ISSUES**

The company leases out its cement elevator where the wholesale trade and packing of cement is performed. The company uses vehicles, tractors and railway transport and therefore it pays pollution taxes for discharge from stationary pollution sources.

The company employed 65 persons at the beginning of the previous financial year and 59 at the end of the financial year.

At the company, the pay to the employees includes a fixed and variable portion. The variable portion depends on the business results of the company, efficiency of the employee, performance of urgent and complicated tasks, disciplinary punishments, qualification, and other factors. There is no pension funding in the company.

#### REFERENCES AND FURTHER EXPLANATIONS ON THE DATA PROVIDED IN THE ANNUAL FINANCIAL STATEMENTS

The data provided in the annual statements are detailed in the Explanatory Notes.

#### INFORMATION ON THE ACQUIRED SHARES AND COMPANY'S SHARES HELD BY THE COMPANY

Over the previous periods and the reporting period the company has not purchased its own shares, has made no payments for its own shares, and it is not planning to purchase its own shares.

#### INFORMATION ON THE COMPANY BRANCHES AND REPRESENTATIVE OFFICES

The company has one branch. AB Kauno Tiekimas branch was registered on 8 November 2002. The code of the branch is 235944730. The branch is a structural unit of the company which is not a legal person. The activities of the branch are regulated by its Statute. The Director shall organize the work of the branch, direct the economic activities of the branch, manage the property, issues orders, and approve/sign the documents. AB Kauno Tiekimas branch specialises in sale of alumina and other aluminium industry products and it sells the products produced by Birač factory operating in Bosnia and Herzegovina.

#### MATERIAL EVENTS SINCE THE END OF THE LAST FINANCIAL YEAR

In 2007, AB Kauno Tiekimas became a prize-winner of the fast-growing SMEs competition Gazelle, which is organised by daily Verslo Žinios, and was nominated Gazelle of the Year. We believe that this award will be beneficial for the business. This competition is known in Europe and all over the world according to the rules of the competition, the Gazelle of the Year is allowed to use the logo of the competition on its stationary and in its advertisements for a period of three years.

#### COMPANY'S BUSINESS PLANS AND FORECASTS, INFORMATION ON THE RESEARCH AND DEVELOPMENT ACTIVITIES IN THE COMPANY

The further perspectives of the company activities are related to the trade in alumina and other products of aluminium industry. Therefore the company puts emphasis on the market research and prospective business planning. Brief overviews of the feasibility study and business plan are provided below.

#### Feasibility study on the development of aluminium sector and electricity economy in Bosnia and Herzegovina

The constant growth of the aluminium demand and production in the global market produces a respective increase in the demand for the main raw material in aluminium production, i.e. alumina. Despite the development of the closely related markets in the recent years, the international competition may significantly increase in the future, which will bring about changes in the positions of all market players. China and Australia enjoy especially large alumina and aluminium production potential and there is a risk of those countries setting up new alumina and aluminium plants, which will present tough competition to the European producers.

Currently the company is selling products produced by Birač factory, Bosnia and Herzegovina.

Over the recent years the volumes of AB Kauno Tiekimas sales of aluminosilicate chemicals were growing and presently they constitute the main business activity of the company generating the largest revenue and profit. Based on the assessment of the market situation, the company predicts a likely risk of the alumina prices falling dramatically in the future, which would result in loss-making performance of Birač factory. Under such circumstances, Birač factory would endeavour to minimise the losses and to reduce the production volumes. If the market situation becomes very unfavourable, the factory might even suspend their production. In such event the performance results of the company would also decline: the sales and profit margins would decrease.

The company is seeking to diversify the business risks and considering the possibilities of expanding its business volumes by taking advantage of its extensive experience in the aluminium market, i.e. taking up trade in aluminium, which enjoys larger profit margin in comparison to alumina and consequently less distressful market price fluctuations. Currently the company sees the greatest aluminium production perspectives in Bosnia and Herzegovina, which has the required infrastructure for aluminium production: an alumina refinery and bauxite mines. Furthermore, the economy and social sector of Bosnia and Herzegovina are closely related to aluminium industry and therefore it is likely that the government will grant various incentives to the aluminium factory in order to ensure further development of this sector.

At the present moment the company does not have possibilities of making independent investments into the construction of the new aluminium line and therefore it is planning to look for partners who would be interested in making such investments. The feasibility study was made to assess the attractiveness of the planned investments and the potential business results of the company.

The feasibility study analyses the aluminium production line with the capacity of 125,000 t/year. However this line requires continuous supply of large volumes of electric power: 1,690 GWh is required to produce the aforesaid annual volumes of aluminium. Therefore apart from the benefits derived by the investors from aluminium production line and the potential business results of the company, the study also analyses the power economy of Bosnia and Herzegovina since electric power represents one of the key energy resources in aluminium production, which affects the overall success of the business. According to the calculations and recommendations provided by energy experts, it is necessary to install 350-400 MW generators to produce the required electric power volumes. In that respect, the feasibility study analyses the possibility of investing into the electric power station located in Bosnia and Herzegovina or building one or two new electric power stations.

The performed analysis of the power economy of Bosnia and Herzegovina shows that the country has favourable conditions for investing into the production of different types of energy: hydro, thermal, and gas. The study also provides calculations which provide 6 scenarios of the return on investment into the aluminium production line. They reflect different potential alumina and aluminium market situations. Such large number of different market situation scenarios show that the investment risk is quite big since it is rather complicated to forecast the alumina and aluminium markets for a period exceeding 1 year.

#### Business plan

The business plan, which was drawn up in November 2006, surveys the alumina raw material, alumina, and aluminium market. It provides detailed descriptions of the business organisation schemes and financial forecasts. Subject to a favourable market situation, the alumina sales volumes are expected to grow in 2007 and the estimated annual sales are approximately 500 thousand tons of alumina.

#### USE OF FINANCIAL INSTRUMENTS

To develop its business, the company needs additional working capital. In order to secure a sufficient level of working capital, the company is using credit resources. An agreement on credit line has been made with AB Ūkio Bankas.

The factoring agreement with AB Ūkio Bankas provided the company with a possibility to get funds required for payments without pledging its assets. The factoring agreement reduced the risk of debts related to insolvency of the customers.

AB Kauno Tiekimas did not use derivative financial instruments.

General Director

Irena Keblerienė

#### **41. Information on audit**

The audit of the business and financial activities of the Company for the period from 01-01-2006 through 01-01-2006 was performed by Auditor Roma Račienė (Auditor's licence No 000221) from UAB Auditorių Biuras.

On 22 March 2007 the Balance Sheet, Income Statement, Profit and Loss Distribution Statement, and Explanatory Notes as of 31 December 2006 were audited.

In the auditors' opinion, the financial statements fairly present, in all material respects, the financial position of AB Kauno Tiekimas as of 31 December 2006, the performance results, and the cash flows in 2006 and it is prepared in accordance with the International Accounting Standards.

The Auditor's Opinion is enclosed: Appendix 1.

### **VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES**

42. Members of the managing bodies

#### **The Supervisory Board is not formed.**

Board members:

Chairman Igor Gončaruk, personal ID code 35503130922. Holds 65,994 shares or 0.65% of AB Kauno Tiekimas authorised capital. Holds 8,600 (100%) UAB Agrobiznis shares, 64,200 (5.53%) UAB Businessline shares, and 95 (9.50%) UAB Optimalus Turto Valdymas shares. Employed by the Company for 15 years. In 2006, Igor Gončaruk was paid salaries in the total amount of LTL68,553. University education.

Board member Irena Keblerienė, personal ID code 44808010769, has no shareholding in the Company. In 2006, Irena Keblerienė was paid salaries in the total amount of LTL61,103. University education. Employed by the Company for 14 years. Does not have any positions in other companies and does not hold over 5% of other companies' shares.

Board member Nijolė Varanavičienė, personal ID code 46102090516, board member of UAB Energolinija; not employed by the Company; has no shareholding in the Company; has received no reimbursements from the Company. Does not hold over 5% of other companies' shares. University education.

The Board was elected at the General Meeting held on 25 April 2007.

The office term of the Board members started on 25 April 2007; the office term will end in April 2011.

#### **ADMINISTRATION:**

Irena Keblerienė: General Director, has no shareholding in the Company. In 2006, Irena Keblerienė was paid salaries in the total amount of LTL61,103. University education. Employed by the Company for 14 years. Open-ended employment contract.

Igor Gončaruk: CEO, holds 65,994 shares of the Company. In 2006, Igor Gončaruk was paid salaries in the total amount of LTL61,103. University education. Employed by the Company for 14 years. Open-ended employment contract.

Danutė Skučienė: Chief Financial Officer, personal ID code 45202010255, has no shareholding in the Company. Does not have any positions in other companies and does not hold over 5% of other companies' shares. University education. Open-ended employment contract. In 2006, Danutė Skučienė was paid salaries in the total amount of LTL36,347. Employed by the Company since May 2004.

Gediminas Antanas Baranauskas: Director of AB Kauno Tiekimas branch, personal ID code 36010020131, has no shareholding in the Company, does not have any positions in other companies. Holds 8 (13.33% of the authorised capital) of UAB Pilega shares. University education. Open-ended employment contract. In 2006 Gediminas Antanas Baranauskas was paid salaries in the total amount of LTL45,244. Employed by the Company since October 2004.

Nadežda Belozerskich: Branch Accountant, personal ID code 46602220603, has no shareholding in the Company. University education. Open-ended employment contract. Does not have any positions in other companies, holds 320,000 (9.78%) of UAB Korelita shares. In 2006, Nadežda Belozerskich was paid salaries in the total amount of LTL69,551. Employed by the Company since November 2002.

#### **43. Information about payments and loans to the members of the managing bodies**

No bonuses or benefits have been paid from the profit for 2006.

No loans have been extended to the members of the managing bodies.

#### **44. Transactions with interested parties**

Over the last year no transactions unrepresentative of the Issuer's main activities have been made.

### **VI. LATEST AND MATERIAL EVENTS IN THE ISSUER'S ACTIVITIES; BUSINESS PERSPECTIVES**

#### **45. Latest events in the Issuer's business**

In 2007, AB Kauno Tiekimas became a prize-winner of the fast-growing SMEs competition Gazelle, which is organised by the daily Verslo Žinios, and was nominated Gazelle of the Year. We believe that this award will be beneficial for the business. This competition is known in Europe and all over the world. According to the rules of the competition, the Gazelle of the Year is allowed to use the logo of the competition on its stationary and in its advertisements for a period of three years.

#### **46. Material events in the Issuer's business**

23.10.2006 - 14:28	(VSE) KTK: Results for the third quarter and nine months of 2006
25.07.2006 - 14:04	(VSE) KTK: Results of the first half 2006
28.04.2006 - 08:45	(VSE) KTK: Results for the first quarter of 2006
27.04.2006 - 14:28	(VSE) KTK: Resolutions of the General Meeting
13.04.2006 - 16:11	(VSE) KTK: Draft resolutions of the General Meeting 27-04-2006
23.03.2006 - 14:23	(VSE) KTK: Notification about General Meeting
27.02.2006 - 14:12	(VSE) KTK: Preliminary activity results of AB Kauno Tiekimas for 2005
27.01.2006 - 08:47	(VSE) KTK: Transfer of block of shares
10.01.2006 - 14:26	(VSE) KTK: Acquisition of block of shares
10.01.2006 - 14:23	(VSE) KTK: Acquisition of block of shares

The investors were informed of all the material events through the VSE information system (accessible on the Internet) and also all the notifications on the material events were submitted to the daily Lietuvos Rytas and the news agency BNS.

#### **47. Strategy of activities and its prospective changes during the next financial (business) years**

The further perspectives of the Company activities are related to the trade in alumina and other products of aluminium industry. Therefore the Company puts emphasis on the market research and prospective business planning.

Over the recent years, the volumes of AB Kauno Tiekimas sales of aluminosilicate chemicals have been growing and presently they constitute the main business activity of the Company generating the largest revenue and profit. Based on the assessment of the market situation, the Company predicts a likely risk of a dramatic fall in alumina prices in the future, which would result in loss-making performance of Birač factory. Under such circumstances, Birač factory would endeavour to minimise

the losses by reducing the production volumes. If the market situation becomes very unfavourable, the factory might even suspend their production. In such event the performance results of the Company would also decline: the sales and profit margins would decrease.

The Company is seeking to diversify the business risks and considering the possibilities of expanding its business volumes by taking advantage of its extensive experience in the aluminium market, i.e. taking up trade in aluminium, which enjoys larger profit margins in comparison to alumina and consequently less distressful market price fluctuations. Currently the Company sees the greatest aluminium production perspectives in Bosnia and Herzegovina, which has the required infrastructure for aluminium production: an alumina refinery and bauxite mines. Furthermore, the economy and social sector of Bosnia and Herzegovina are closely related to aluminium industry and therefore it is likely that the government will grant various incentives to the aluminium factory in order to ensure further development of this sector.

At the present moment the company does not have possibilities of making independent investments into the construction of a new aluminium line and therefore it is planning to seek partners who would be interested in making such investments. A feasibility study was made to assess the attractiveness of the planned investments and the potential business results of the Company.