

**JSC KAUNO ENERGIJA**

**ANNUAL PROSPECTUS-REPORT OF THE ISSUER**

KAUNAS, 2007

## **I. GENERAL PROVISIONS**

### **1. Accountable period for which the report has been prepared**

Report prepared for 2006.

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

Name of the issuer:	Joint stock company Kauno Energija
Authorised capital:	118 310 292 LTL divided into 19 718 382 ordinary registered shares of 6 LTL value
Registered address:	Raudondvario st. 84, 47179 Kaunas -21
Telephone number:	+370 37 30 56 50
E-mail address:	info@kaunoenergija.lt.
Web page:	www.ke.lt
Fax number:	(8~37) 30 56 22
Legal-organizational form:	Joint stock company
Date and place of registration:	22 August 1997, Kaunas, order No. 513
Code of the legal person:	235014830
Register manager:	Kaunas subsidiary of State enterprise Register Centre

### **3. Nature of the Issuer's core business (economy branch; major production (type of services provided)).**

Economy branch – energetics.

Nature of core business - generation, provision of services, commerce.

Joint stock company AB Kauno Energija (hereinafter – the Company) generates, buys and supplies heat for consumers located in Kaunas city, Kaunas district and Jurbarkas city. The Company also performs maintenance of engineering systems and provides other services.

The Company is a generator of heat and in small part electric power and supplier of heat in Kaunas city and in a parts of Kaunas, Marijampolė and Jurbarkas administrative districts. The Company provides services of building's heating and domestic hot water supply for consumers of district heating in above mentioned administrative districts.

The Company on the basis of agreements maintains heating and hot water supply systems, provides repair services of heating substations' rooms, structural and electric parts of nonresidential buildings as well as provides services for natural and legal persons in managing of heating systems.

The Company can perform licensed activities only after obtaining particular licenses.

### **4. Information about where and how it is possible to get acquainted with the report and other documents on the basis of whereof it was prepared and the name of the means of the mass media**

The Report and other documents are available at:

The residence of JSC Kauno Energija at Raudondvario str. 84, 47179 Kaunas -21, on business days from 7:30 a.m. till 11:30 a.m. and from 12:00 a.m. till 4:30 p.m., on Fridays from 7:30 a.m. till 11:30 a.m. and from 12:00 a.m. till 2:00 p.m.

Announcements about major events related with the activities of the Issuer are submitted to daily Kauno diena, web pages of Vilnius Stock Exchange and the Company as well as in specialized zone of Baltic News Service (BNS) Terminal.


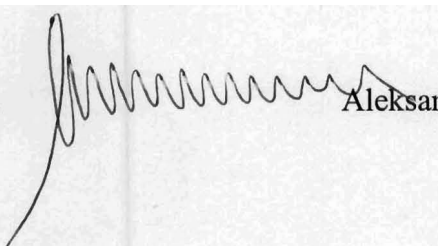

#### **5. Persons responsible for the accuracy of information in the report**

Aleksandras Sigitas Matelionis, General Manager of JSC Kauno Energija, tel. +370 37 30 59 50, fax. +370 37 30 56 22.

Violeta Staškūnienė, Chief Financial Officer of JSC Kauno Energija, tel. +370 37 30 58 41, fax. +370 37 30 58 21.

**6. Confirmation of the members of Issuer's managing bodies, its employees and head of administration responsible for the preparation of this report that information contained herein is true and there are no suppressed facts which could have an impact on investor's decisions to buy or sell the Company's securities, as well as the market price of those securities and their valuation**

Persons responsible for accuracy of information in the report, hereby confirms that information contained in this report is true and there are no suppressed facts, which could have an impact on investor's decisions to buy or sell the Issuer's securities as well as on the market price of those securities and their valuation.

	General Manager of JSC Kauno Energija		Aleksandras Sigitas Matelionis
	Chief Financial Officer of JSC Kauno Energija		Violeta Staškūnienė

14 June 2007

## II. INFORMATION ABOUT THE ISSUER'S SHARE CAPITAL AND ISSUED SECURITIES

### 7. The Issuer's share capital

#### 7.1. Structure of share capital registered in the Registry of Legal Persons

Table 1

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Part of municipalities in the authorized capital (%)	Part of private shareholders in the authorized capital (%)
Ordinary registered shares (ORS)	19 718 382	6	118 310 292	96.38	3.62

All ordinary registered shares of JSC Kauno Energija are fully paid for.

**8. Shareholders** (total number of shareholders, major shareholders – shareholders who at the day of latest general (reporting) meeting possess or control through the right of ownership more than 5 % of the Issuer's authorized capital (names, surnames, personal codes of natural persons (to be filled only at the first copy of report), titles, types, addresses and codes of companies, number of shares owned by shareholders through the right of ownership (according to the types and classes), possessed part of authorized capital and votes in % (indicate separately percentage of votes for each person and percentage of votes, belonging to him together with acting persons)).

8.1. The total number of shareholders of JSC Kauno Energija on 18 April 2006 and 5 May 2007 (the accounting day of regular repeated meeting of shareholders) is 335.

Table 2

Name and surname of the shareholder (name of enterprise, type and registered office, code in the register of enterprises)	Number of ordinary registered shares owned by the right of ownership	Part in the share of authorized capital (%)	Part of votes given by the shares owned by the right of ownership (%)	Part of votes held together with persons acting together (%)
Council of Kaunas city municipality Laisvės avenue 96, 44251 Kaunas Enterprise code 188691967	16 954 892	85.99	85.99	-
Council of Kaunas district municipality Savanorių str. 371, 49500 Kaunas Enterprise code 188603668	1 606 168	8.14	8.14	-
Other shareholders	713 512	3.62	3.62	
Administration of Jurbarkas district municipality Dariaus ir Girėno str 96, 74187 Jurbarkas Enterprise code 188713933	443 810	2.25	2.25	-
<b>TOTAL</b>	<b>19 718 382</b>	<b>100</b>	<b>100</b>	

**9. Basic characteristics of shares issued into public circulation of securities**

No. of registration of stock	A01031430
Number of shares	18 968 382 (ORS)
Nominal value	6 LTL
Total nominal value of shares	113 810 292 LTL

**10. Information about the shares placed for non-public circulation of securities**

Lithuanian Securities Commission on 20 July 2000 (Protocol No. 18, Item No.8) in the Act No.AB-4757 registered securities of JSC Kauno Energija placed for non-public circulation.

No. of registration of stock	A01031430
Number of shares	750 000 (ORS)
Nominal value	6 LTL
Total nominal value of shares	4 500 000 LTL

**11. Information about depository receipts issued on the basis of shares**

There are no deposited stocks on the basis of which depository receipts are issued.

**12. The main characteristics of debt securities issued into public circulation of securities**

There are no debt securities issued into public circulation.

**13. Information about debt securities, which are registered and placed for nonpublic circulation of securities**

There are no debt securities registered and placed for nonpublic circulation.

**14. Securities, which do not certify the participation in the authorized capital, but which circulation is regulated by the Law on Public Trading, except debt securities**

There are no securities which do not certify the participation in the authorized capital.

### III. INFORMATION ABOUT SECONDARY CIRCULATION OF SECURITIES ISSUED BY THE ISSUER

#### 15. Securities included into trading lists of stock exchanges

The following securities of JSC Kauno Energija are included into the Main List of the Vilnius Stock Exchange (VSE).

Number of ordinary registered shares	18 968 382 (code 12301)
Total nominal value of shares	113 810 292 LTL

#### 16. Trading in Issuer's securities on stock exchanges and other organised markets

Securities of the Issuer are included into the Main List of Vilnius Stock Exchange from 28 December 1998.

##### 16.1. Trading on the Vilnius Stock Exchange

*16.1.1. Highest and lowest price of securities quoted and sold in central market during latter 8 quarters (each), largest and smallest turnover during trading session (LTL), price and circulation (LTL) during latest session of accounting period and total turnover (units and LTL) during latter 8 quarters (each) according to types and classes of securities;*

Table 3

Results of trade in central market of Vilnius Stock Exchange										
Accounting period		Central market								
from	till	Price(LTL)			Turnover (LTL)			Date of last session	Total circulation	
		max	min	latest session	max	min	latest session		Units	LTL
2005.01.01	2005.03.31	6,01	1,87	4,03	670 098,16	0,00	4 884 23	2005.03.31	460 680	2 363 950,90
2005.04.01	2005.06.30	4,29	3,75	4,25	80 048,16	0,00	0,00	2005.06.30	126 257	509 114,61
2005.07.01	2005.09.30	5,20	4,00	4,85	116 268,20	0,00	0,00	2005.09.30	184 857	860 506,38
2005.10.01	2005.12.31	5,10	3,91	4,18	67 386,12	0,00	0,00	2005.12.31	98 357	459 950,41
2006.01.01	2006.03.31	4,40	3,26	3,80	48 294,60	0,00	0,00	2006.03.31	72 801	292 508,70
2006.04.01	2006.06.30	4,15	3,65	3,65	15 615,75	0,00	0,00	2006.06.30	15 729	62 497,80
2006.07.01	2006.09.30	4,15	3,05	3,89	57 069,00	0,00	2 404,20	2006.09.29	43 201	150 740,34
2006.10.01	2006.12.31	4,67	4,30	4,30	15 259,26	0,00	0,00	2006.12.29	51 272	198 408,49

*16.1.2. Average price and total turnover (units and LTL) of securities sold manually during latest 8 quarters (each) according to types and classes of securities;*

##### 16. 2. Trading on other exchanges

Securities issued by the Company were not traded on any other stock exchanges.

##### 16.3. Trading on other organized markets

Securities issued by the Company were not traded on any other organized markets.

**17. Capitalization of securities**

Table 4

**Capitalization of the Company's securities in VSE**

Accounting period		Capitalization
From	Till	(LTL)
01/01/2004	31/03/2004	44 765 382
01/04/2004	30/06/2004	44 765 382
01/07/2004	30/09/2004	38 695 499
01/10/2004	31/12/2004	35 470 874
01/01/2005	31/03/2005	76 442 579
01/04/2005	30/06/2005	80 615 624
01/07/2005	30/09/2005	91 996 653
01/10/2005	31/12/2005	79 287 837
01/01/2006	31/03/2006	72 079 852
01/04/2006	30/06/2006	69 234 594
01/07/2006	30/09/2006	73 787 006
01/10/2006	31/12/2006	81 564 043

**18. Trading in Issuer's securities outside the stock exchange**

Table 5

**Results of trading outside the stock exchange**

Accounting period		Settled in cash			Settled in kind		Total quantity
From	Till	Price( LTL)			Quantity (units)	Number of trades	
		Max	Min	Avr.	Quantity (units)	Number of trades	
01/01/2005	31/03/2005	-	-	-	-	-	704
01/04/2005	30/06/2005	2.91	2.73	2.78	81 046	225 332	12
01/07/2005	30/09/2005	3.37	2.79	3.15	125 422	395 412	17
01/10/2005	31/12/2005	3.57	2.80	3.26	48 319	157 346	13
01/01/2006	31/03/2006	-	-	-	-	-	-
01/04/2006	30/06/2006	-	-	-	-	-	-
01/07/2006	30/09/2006	-	-	-	-	-	-
01/10/2006	31/12/2006	-	-	-	-	-	-

**19. Information about the buy-back of its own shares by the Issuer**

The issuer did not bought back its own shares during accounting period.

**20. Announcement of the official tender offer**

None

**21. Issuer's paying agents**

None

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

On 1 April 2003, the Company and AB SEB Vilniaus Bankas, Gedimino ave. 12, LT-01103 Vilnius (Code 1202123) represented by Department of Financial Markets, made an agreement on provision of services for the Issuer.

#### **IV. INFORMATION ABOUT THE ISSUER'S ACTIVITIES**

##### **23. Legal basis for Issuer's activities (laws on which activities of the Issuer are based).**

Major laws regulating activities of the Issuer are as follows:

- Law on Stock Corporations of the Republic of Lithuania;
- Law on Enterprises of the Republic of Lithuania;
- Law on Database of Legal Persons of the Republic of Lithuania;
- Law on Energy of the Republic of Lithuania;
- Heat Law of the Republic of Lithuania;
- Law on Securities of the Republic of Lithuania;
- Law on Markets in Financial Instruments of the Republic of Lithuania;
- Law on reorganization of joint stock company of special purpose Lietuvos Energija and delivery of heat sector and its control to municipalities of the Republic of Lithuania (8 April 1997 No. VIII-182);
- Other normative documents of the Republic of Lithuania.

**24. Membership in associated structures** (belonging of the Issuer to associations of companies and organizations (unions) – financial-industrial groups, concerns, consortiums, associations and so on; description of association, place of the Issuer in association, participation of the Issuer in the capital of the members and participation of other members of association in authorized capital of the Issuer, legal basis of association establishment).

The Issuer belongs to the following associated structures: Lithuanian District Heating Association, Lithuanian Association of Bioenergy and Energy Saving, Lithuanian Electricity Association, Lithuanian Thermotechnical Engineers Society, The Association of Kaunas Region Industrialists and Employers and Association of Non-formal Energy Education. The Issuer is also sharer of Kaunas Regional Energy Agency.

**Lithuanian District Heating Association (LDHA)** was founded 24 February 1998. JSC Kauno Energija was one of the founders of Association.

It is a voluntary organization for representation of interests of heat supply companies and other associated energy organizations as well as separate subjects acting in the field of heat supply.

The Association is comprised of 40 members, 31 of which are DH companies, producing and supplying approximately 97 % of the total heat supplied through the DH networks in the Republic of Lithuania, and 9 companies whose activities are in the heat sector. Approximately 5000 employees are employed in these heat supply companies, total generated thermal energy in 2005 reached 9909.4 GWh and generation of electric power reached 1763 GWh.

Ruling body of Association is general meeting of members, Council and Administration of Association. Council coordinates activities of Association, prepares programme of activities and budget plan, constitutes conditions for implementation of goals provided in the Statute of Association. LDHA has committees of Political Strategy, Marketing and Information of Consumers, Technical, Economics, Law and Education. These committees are responsible for solving questions, important for heat supply companies.

Major recent activities of Association are related with preparation of Heat Law's sub laws and other normative documents.

**Lithuanian Association of Bioenergy and Energy Saving (LABES)** is registered in 23 January 1998. Members and honorary members of Association include more than 40 biofuel production, heat supply, heating equipment supply companies and scientific organizations. JSC Kauno Energija



is a member of LABES since 2001.

Major goals of association:

- Promotion of consumption of biological mass in fuel production, usage of modern heating equipment, thermal insulations, energy efficiency improvement, conservation of nature and utilization of renewable and local energy sources;
- Seeking to improve solving of questions related with the efforts of members of Association, advocating the lawful interests of its members in public, State and international energy related organizations;
- Pursuance of favour conditions for development of economical-social progress through expanding production markets, improvement of export-import conditions, introduction of new standards and norms during integration into European Union.

### **Lithuanian Electricity Association (LEA)**

unites electric power generation and supply companies of Lithuania as well as construction companies of energy sector.

Lithuanian Electricity Association was founded on 5 June 1998 as a voluntary organization for representation and defence of interests of electricity and thermal energy generation, transfer, supply and distribution companies and construction companies of energy sector, other associated energy organizations as well as separate subjects acting in the field of energy generation, supply and energetic designing.

Association is self-contained and independent from State and Government structures, non-profit seeking organization and is not financed by the Government. Association participates in preparation of Laws and sub laws of the Republic of Lithuania related with development and management of electricity sector, studies important problems related with activities of the members of Association, prepares and implements purposive programmes of the sector. Association also makes economical-technical contacts with international organizations and separate foreign partners. It provides informational aid for the members of Association related with electricity generation and supply, consults on behalf of business and management questions. Association organizes exhibitions, conferences, seminars and questionings on conjuncture and public opinion. It represents interests of its members in the field of employment. Activities of Association are based on publicity, equal rights of all members and democratic forms of management.

In 1999 Association made contacts with European Electricity Union EUROELECTRIC and in 2003 Association was accepted into this Union and currently represents Lithuania in EUROELECTRIC. Lithuanian Electricity Association is one of the founders of Lithuanian Committee of World Energy Council, founded on 5 July 2001. This Committee represents Lithuania in World Energy Council.

In 2002 LEA signed an agreement of collaboration with energy associations of Estonia and Latvia. Association also maintains contacts with companies of construction of energy objects in Estonia and Latvia.

On of priority activities of Association is distribution of information related with changes in World energetic, its harmonious development, environmental protection, formation of public opinion on questions which are important for energetic.

Currently LEA unites 45 legal persons among them 12 largest Lithuanian companies related with energy generation, transfer, distribution and supply as well as companies of construction of energy objects, energy industry companies, design companies and training centres.

Major goals of Association are:

- to form favourable conditions for economical-technical and business activities of electricity supply and energy construction companies of all forms of ownership and social provision of population, to improve energy supply conditions for Lithuanian towns, inhabitants and separate consumers;
- to represent rights of Association members, protect their interests in State, public and international organizations;
- Coordinate implementation of normative and management documents in companies and organizations of energy sector.

**The Association of Kaunas Region Industrialists and Employers (AKRIE).** Kaunas industrialists Association was founded in 22 December 1989 on the decision of Acting Committee of Kaunas city folk deputy Soviet. Due to development in activities, emerging of new priorities of activities and joining of new members on 15 August 1996 Association was reregistered and named The Association of Kaunas Region Industrialists and Employers. Its mission and priorities of operation remain until this day. The Company became a member of Association in 2003. AKRIE is voluntary organization of representation of interests of separate subjects, acting in production and servicing of production and other business, scientific and social services fields. Its goals are as follows: to represent right of its members, to protect their lawful interests in public, State and international organizations; to represent and protect rights of employers or their authorized personnel; to seek favourable conditions for technical, economic and social progress of subjects of all forms of ownership through development of service and production sale markets, supporting the development of private business, improvement of export – import conditions. Association activities include lobby, operative information, club activities, purposeful consulting, international business missions, media relations.

**Association of Non-formal Energy Education** is related with participation of the Company's personnel in sport activities since 1999.

## **25. Brief description of the Issuer's history**

JSC Kauno Energija was formed during reorganization of JSC of special purpose Lietuvos Energija, which continues its activities as a legal person through separation of heat supply branch Kauno Šilumos Tinklai from JSCSP Lietuvos Energija together with branch of electricity and thermal energy generation branch Kaunas Power Plant.

JSCSP Kauno Energija was registered on 22 August, Company's Code 3501483. Registered authorized capital 191480190 LTL., divided into 19148019 ordinary registered shares. Nominal value of one share 10 LTL. Nature of activities: production, commerce, services.

On 15 May 1998 according to Chapter 10 Part 3 Item 1 of Law on stock corporations Lithuanian Securities Commission registered securities, emitted during reorganization of JSCSP Kauno Energija through incorporation of JSCSP Kauno Energetika and increase of authorized capital from 191480190 LTL till 198980190 LTL. Increased authorized capital was registered on 15 July 1998.

During non-routine meeting of shareholders held on 7 July 1999 it was decided to approve AB Vattenfal as a winner of tender "On implementation of Kaunas energy sector modernization project". On 1 June 2000 a letter was received with the statement that AB Vattenfal refuses to participate in the tender "On implementation of Kaunas energy sector modernization project".

During non-routine general meeting of shareholders held on 21 February 2000 it was decided to reorganize JSCSP Kauno Energija through separation of the Company's branches Jurbarko Šilumos Tinklai and Šakių Šilumos Tinklai, and on the basis of these branches to establish new joint stock companies of special purpose.

During non-routine general meeting of shareholders held on 28 April 2000 it was decided to decrease authorized capital of JSCSP Kauno Energija till 119388114 LTL (through lowering nominal value of shares from 10 LTL till 6 LTL) and dropping Company's position as a special purpose company. On 20 July 2000 Lithuanian Securities Commission through Act No. AB-4757 and Act No.4756 registered securities of the Issuer with nominal value of one share equal to 6 LTL. Smaller authorized capital was registered on 8 August 2000.

During constituent assembly of shareholders of Joint Stock Company of special purpose Šakių Šilumos Tinklai, held on 5 October 2000 it was decided to establish Joint Stock Company Šakių Šilumos Tinklai. JSC Šakių Šilumos Tinklai was registered on 2 January 2001.

During repeated constituent assembly of shareholders of Joint Stock Company Jurbarko Šilumos Tinklai, held on 17 October 2000 the decision to establish Joint Stock Company Jurbarko Šilumos Tinklai was not approved.

During regular general meeting of shareholders of JSC Kauno Energija held on 26 April 2001 final part of reorganization project through separating JSC Šakių Šilumos Tinklai (according to the project of reorganization of JSCSP Kauno Energija, approved on 21 February 2000 during non-routine general meeting of shareholders) has been approved together with new version of Company's statute.

During non-routine general meeting of shareholders of JSC Kauno Energija held on 3 December 2002 it was decided to sell property attributed to the branch of the Company Kaunas Power Plant (Kaunas Power Plant, Taikos ave. 147 / V.Krėvės ave. 128) heavy fuel sector (Ateities pl. 35) and pulp sector (V.Krėvės pr. 135) for JSC Kauno Termofikacijos Elektrinė (Enterprise code 1088449) for a sum of 116500000 (one hundred sixteen million five hundred thousand) LTL. During general meeting of Company's shareholders held on 14 March 2003 the deal of Kaunas Power Plant selling has been approved from the date of signing of agreement – 31 March 2003.

On 31 March 2003 JSC Kauno Energija and JSC Kauno Termofikacijos Elektrinė, founded by consortium of Russian company Gazprom, Lithuanian company Dujotekana and USA company Clement Power Venture Inc. signed agreements on Selling Power Plant and Buying Thermal Energy. Consortium paid for Power Plant 116.5 mln.LTL and committed to invest into bought property no less than 400 mln.LTL. Agreement on running Power Plant has been canceled as agreed by the parties (JSC Kauno Energija and JSC Kauno Termofikacijos Elektrinė).

On 23 October 2003 a branch of JSC Kauno Energija JSC Naujasodžio Energijos Paslaugos has been founded. On 30 December 2003 JSC Naujasodžio Energijos Paslaugos obtained property attributed to the branch company Naujasodžio Energija of JSC Kauno Energija together with its employees and on 31 December 2003 began operation as a branch company of JSC Kauno Energija. Activities of JSC Naujasodžio Energijos Paslaugos include extraction of the peat, isolation of pipes using polyurethane, installation and service of pipes and heating substations and running of rest-houses.

On 30 December 2003 Board of the Company terminated activities of branches Kaunas Power Plant and Naujasodžio Energija.

On 31 August 2004 Board of the Company decided to terminate activities of JSC Kauno Energija branches Kauno Šilumos Tinklai and Kauno Energijos Paslaugos and on 1 September 2004 on the basis of these branches Departments of the Company have been established.

On 30 September 2004 JSC Kauno Energija and JSC Naujasodžio Energijos Paslaugos on the basis of agreements of the parties canceled agreement of property buying-selling (signed on 30 December 2003, registry No.1-17532), and since 1 October 2004 this property has been leased for JSC Naujasodžio Energijos Paslaugos.

On 6 April 2005 JSC Kauno Energija, JSC City Plaza and Klasmann-Deilmann consortium signed agreements on Shares and Property selling-buying targeted at 100% of JSC Naujasodžio Energijos Paslaugos shares together with property of JSC Kauno Energija leased by JSC Naujasodžio Energijos Paslaugos.

According to decision of JSC Kauno Energija of 24 April 2006, branch company JSC Pastatų Prižiūros Paslaugos (Enterprise code 300580563) has been registered by State enterprise Register Center, with 100% of shares belonging to JSC Kauno Energija.

**26. Characteristics of the production (services)** (total scope of production (services provided) during latter 3 financial (business) years, the scope of production during latter 3 financial (business) years in value and quantity according to major types of production and services provided, share of major production (services) (in percentage) in total scope of production and provision of services, tariffs of production (services provided) and their changes during latter 3 financial (business) years, major indexes characterizing operation of the Company (net profitability, return on tangible assets, debt coefficient, debt-ownership coefficient, general liquidity coefficient, the turnover of the asset, accounted value of share, net profit per share) and their changes during latter 3 financial (business) years, description of new production (services) under implementation or intender for implementation, other important information on production (services provided); in case of extraction industry please provide additional information on description of resources, evaluation of economically justified amount to extract, provide projected duration of resource pool exploitation).

The main activities of the Company are related with generation of heat and electricity and heat supply.

Table 6

**Total scope of production (services provided) during latter 3 financial (business) years**

(Revenue from sales of electricity, thermal energy and other services (thou.LTL)

No	Sales and services	2004	2005	2006
I.	Sales and services	196014	178215	191688
I.1	Among them: electricity	1314	1725	2005
I.2	thermal energy	160 951	161532	166172
I.3	other activities	33 749	14958	23511

**The scope of production during latter 3 financial (business) years in value and quantity according to major types of production and services provided, share of major production (services) (in percentage) in total scope of production and provision of services.**

Production capabilities of the Company consist of Petrašiūnai Power Plant, boiler houses located in Kaunas integrated DH network, boiler houses located in Kaunas, Jurbarkas and Marijampolė districts and local natural gas firing boiler houses located in Kaunas town.

In 2005 co-generation units have been installed in Noreikiškės boiler house (consisting of internal combustion engines burning biogas fuel) and currently the Company generates electricity in Petrašiūnai Power Plant and Noreikiškės boiler house.

*Electricity*

Table 7

Generation and sales of electricity (thou.MWh)

No.	Name	2004 thou.MWh	2004 thou.LTL	2005 thou.MWh	2005 thou.LTL	2006 thou.MWh	2006 thou.LTL
I	Generation (supply into the network)	13.1		15.4		17.1	
II	Sales for consumers	12.2	1314	14,3	1725	15,3	2005

*Thermal energy*

Table 8

Generation and sales of thermal energy (thou.MWh)

No.	Name	2004 thou.MWh	2004 thou.LTL	2005 thou.MWh	2005 thou.LTL	2006 thou.MWh	2006 thou.LTL
I.	Generation	1849		1816		1804	
II.	Sales for consumers	1378	160 951	1398	161532	1423	166172

*Domestic hot water*

Table 9

Heating of water and sales for inhabitants (in thousands m<sup>3</sup>)

No.	Name	2004 thou.m <sup>3</sup>	2005 thou.m <sup>3</sup>	2006 thou.m <sup>3</sup>
I.	Generation	3 852	4 398	4511
II.	Sales for consumers	3 640	4 247	4238

Table 10

Share of major production (services) in percentage in total scope of generation (services)

No.	Name	2004 %	2005 %	2006 %
1.	Electricity	0.67	0.97	1.05
2.	Thermal energy	82.11	90.64	86.69
3.	Other activities	17.22	8.39	12.26
	Total	100	100	100

**Tariffs of production (services provided) and their changes during latter 3 years.**

Since 1 July 1997 tariffs of electricity and heat are set by National Control Commission for Prices and Energy.

Prices of heat for suppliers are regulated by National Control Commission for Prices and Energy. The Company sets the tariff which must be approved by National Control Commission for Prices and Energy. In 2003 regional tariff of heat was 11.98 cntLTL/kWh, in 2004 single regional price of 11.97 cntLTL/kWh was set for a period of 4 years, approved on 1 April 2004.

Table 11

Average tariff of heat (cntLTL/kWh)

Groups of energy consumers	2004	2005	2006
Inhabitants	11.83	11.81	11.85
Other consumers	11.27	10.86	11.04

Table 12

Average heating price of domestic hot water without VAT (LTL/m<sup>3</sup>)

Groups of energy consumers	2004	2005	2006
Inhabitants	6.1047	6.1047	6.1047
Other consumers	6.1047	6.1047	6.1047

**Major indexes characterizing operation of the Company and their changes during latter 3 years (according to the methodology of Listing Department of Vilnius Stock Exchange).**

Table 13

Major indexes characterizing operation of the Company

No.	Name of index	2004	2005	2006
1	Net profitability (net profit / sales and services)	0.05	0.04	0.05
2	Return on tangible assets (net profitability*assets turnover) sales and services / average assets (assets at the	0.04	0.03	0.05



	beginning of the period 1 + assets at the end of the period 2)			
3	Debt coefficient (liabilities / assets)	0.47	0.39	0.39
4	Debt – ownership coefficient (liabilities/ownership of the owners)	0.89	0.64	0.63
5	General liquidity coefficient (short term asset /short term liability)	1.04	1.37	0.99
6	The turnover of the asset (sales and services /asset)	0.77	0.87	0.87
7	Accounted value of share	5.93	6.10	6.57
8	Net profit per share (net profit/average weighted number of the shares in turnover)	0.47	0.33	0.47

**27. Sales markets** (scope of sold production (services) in Lithuania and abroad (according to the countries) during latter 3 financial (business) years, nature of sales (short-term or long-term agreements, casual transactions, sales through own distribution network, participation in production exchange sales and so on.)

Electricity is sold on the contractual basis through JSC Lietuvos Energija and JSC VST.

Thermal energy and domestic hot water are sold for inhabitants and other consumers in Kaunas region and Jurbarkas town.

Table 14

Sales of production (thermal energy) during latter 3 financial (business) years according to the groups of consumers (%)

No.	Group of energy consumers	2004	2005	2006
1.	Total thermal energy:	100	100	100
1.1.	Inhabitants	74.4	73.4	75.6
1.2.	Other consumers	25.6	26.6	24.4

**28. Procurement** (major suppliers of raw materials, parts, energy resources and services, scope of supply in percentage according to the countries, type of relations with major suppliers (short-term or long-term agreements, casual transactions); if dependence on the single supplier exists, identify him; major problems in procurement).

After selling of property attributed to JSC Kauno Energija branch Kaunas Power Plant (Taikos ave. 147 / V. Krėvės ave. 128), heavy fuel sector (Ateities pl. 35) and pulp sector (V. Krėvės pr. 135) for JSC Kauno Termofikacijos Elektrinė, the Company signed an agreement with this company on buying-selling of thermal energy for a duration of 15 years. According to this agreement the Company is obliged to buy no less than 80 % of annual heat demand in Kaunas town district heating integrated network. The remaining part of annual heat demand in Kaunas town district heating integrated network (20 %) is covered by energy generated by the Company itself or bought from Kaunas Power Plant on more favorable conditions for the Company.

On the basis of long-term agreements electricity is bought from JSC VST, water is bought from JSC Kauno Vandenys.

Other procurements have been performed according to the Law on Public Procurement of the Republic of Lithuania, passed on 22 December 2005 (No. X-471), decrees of the Government and Order of Summary Procurements of JSC Kauno Energija approved by the Board of JSC Kauno Energija on 27 March 2003 (No. 2003-07-07), as long as it does not comes in contradiction with the Law.

**29. Real estate and other fixed assets** (size of land plot, geographic position, legal basis of land plot usage; location and size of major subdivisions of business, description of major buildings and structures (functional purpose, balance value, age and condition), information on unfinished constructions (functional purpose, estimated value, used part, projected date of construction finishing).

Land plots needed for operation of JSC Kauno Energija are under lease from Administration of Governor of Kaunas County and Administration of Governor of Tauragė County.

Table 15

Total area of leased land plots

No.	Title	Total area (m <sup>2</sup> )
1.	JSC Kauno Energija	370 700

Table 16

Largest land plots leased by JSC Kauno Energija

No.	Geographical position (address)	Functional purpose	Area (m <sup>2</sup> )	Legal basis of land plot usage
1	Jurbarkas district heating network	Other special purpose	18461	Lease
2	Petrašiūnai Power Plant Jėgainės 12, Kaunas	Other special purpose	1189	Lease agreement is under preparation
3	Domeikava boiler house Neries st. 6, Domeikava, Kaunas district	Other special purpose	15496	Lease
4	Garliava boiler house Lozoraičio 17A, Garliava, Kaunas district	Other special purpose	21593	Lease
5	Raudondvaris boiler house Kondroto st., Raudondvaris, Kauno district	Other special purpose	8592	Lease
6	Šilko boiler house Varnių st. 48, Kaunas	Other special purpose	8423	Lease
7	Pergalės boiler house Karo ligoninės st. 31, Kaunas	Other special purpose	7687	Lease
8	Inkaro boiler house Raudondvario st. VII takas 4 , Kaunas	Storage for construction and exploitation of industrial objects	9076	Lease
9.	Pump station, Jonavos st. 276	Other special purpose	5434	Detailed plan is under preparation
10.	Pump station, Krėvės ave. 49A	Other special purpose	2489	Lease
11.	Pump station, Šiaurės ave. 2a	Other special purpose	1538	Lease
12.	Production-administration building	Other special purpose	17551	Lease



	Raudondvario st. 84, 86A, Kaunas			
13.	Girionys village Kaunas district	Other special purpose	5557	Lease
14.	Budriai village Garliava sen. Kaunas district	Other special purpose	95014	Detailed plan is approved
15.	Universiteto st. 1, Akamedija township	Other special purpose	14207	Lease
16.	Davalgonių st. Neveronys village. Kaunas district	Other special purpose	4736	Lease

Table 17

## Real estate of JSC Kauno Energija

No	Title	Number of buildings	Total area (m <sup>2</sup> )	Year of construction	Condition of buildings
1.	JSC Kauno Energija	287	88 270.3	1930-2006	Good

Table 18

## Major buildings and structures of JSC Kauno Energija

No.	Title, address, functional purpose	Residual balance value on 31/12/2006	Total area	Year of construction	Condition
1.	Production block, Jėgainės 12	1236471.83	11151.73	1944-1958	Good
2.	Water heating boiler house, Jėgainės 12	147853.62	1394.19	1965	Good
3.	Building of chemical cleaning of water, Jėgainės 12	162996.76	1650.46	1959-1966	Good
4.	Domeikava boiler house Neries st. 6, Domeikava	943034.38	602.72	1980	Good
5.	Building of Garliava boiler house Lozoraičio 17A, Garliava	67937.90	3939.96	1968-1970	Good
6.	Building of Girionys boiler house Samylų circuit, Kaunas district	490362.47	605.66	1980	Good
7.	Building of Noreikiškės boiler house Noreikiškės village, Kaunas district	1007516.17	2393.31	1980	Good
8.	Building of Neveronys boiler house Neveronys village, Kaunas district	77477.49	392.89	1986	Good
9.	Šilko boiler house Varnių st. 48, Kaunas	187356.44	2960.82	1968	Good
10.	Pergalės boiler house Karo ligoninės 31	1383378.65	5866.29	1962-1980	Good
11.	Inkaro boiler house Raudondvario st. VII takas	1104822.42	2768.45	1952-1993	Good
12.	Pump stations: Šiaurės 2A , Kaunas	34813.53 289668.68	613.90 1265.98	1980-1984	Good

*Prospectus-report of JSC Kauno Energija for 2006*

	Krėvės 49A, Kaunas Jonavos 276, Kaunas	652197.97	1681.88		
14.	Administration building, Raudondvario st. 84,86A	50694.55 2141032.20	498.94 3101.60	1966-2005	Good

Purpose of buildings owned by JSC Kauno Energija on the basis of proprietary rights: administrative; production-industrial; auxiliary sector; other buildings; uninhabitable; garage; services; storage; other.

In case of 52,14 % of land used by the Company contracts of State owned land lease are set, in case of remaining 47,86 % of land under usage, procedures of setting of agreements on land plot lease are under way.

Table 19

**Unfinished constructions of JSC Kauno Energija (21/12/2006), unfinished significant projects**

No	Title	Functional purpose	Start/end of project	Value of project thou.LTL	Value implmented on 31/12/2006
1.	Installation of system of distance reading of data from heat meters (among them 142.171 thou.LTL by own means)	Distance reading of data	2005/2007	1.614.403	539601.24
2.	Document management system (including buying of the server stations)	Efficient management of documents of the Company	2005/2007	1.035.0	991548.00
3.	Building of mechanical workshop, Raudondvario st. 84	Thermal insulation of storage building	2005/2007	611.706	596184.47
4.	Heat distribution network Partizanų st. (4Ž-27-4Ž-35)	Reconstruction of heat distribution network	2005/2007	4.570.927	306449.48
5.	Heat distribution lines for new consumers	Connection of new consumers to district heating network	2005-2007	6.192.198	5.600.592

**30. Risk factors associated with the Issuer's activities**

It is the risk related with generation and supply of thermal energy. External risk factors include inflation, economical crisis, unfavourable decisions of government and Laws, price policy, State regulation of prices of resources.

*Economical factors:*

The Company is a main supplier of heat in Kaunas region. In order to maintain such position the Company should adapt to changing conditions of energy supply, continue implementation of modern and efficient technologies, assure high quality of services provided for consumers and to have flexible marketing. The tariffs of heat supplied are changed due to changes in the market.

Sales of the Company depend on consumption of thermal energy, which in turn depends on ambient temperature during heating season and on capability to pay-up the accounts for consumed thermal energy. Consumption of thermal energy by industrial consumers dropped few years ago and does not poses risk any more. Connection of new consumers to existing heating network should be performed taking into account possibility of business development. Improvement of thermal insulation of external walls of buildings and improved quality of windows and doors and reconstruction of heating systems will have negative impact on consumption of energy. Moreover, consumption of energy may be decreased due to possibility to control indoor temperature. On the other hand, improved distribution of heat indoor and increased requirements on comfortable heating conditions will cause increase in thermal energy consumption.

Currently stable economic situation causes increase in purchasing power of population. At the same time commercial and service sector are also growing. Destabilization of current conditions would cause increase in risk for business of heat supply and maintenance of buildings.

The main fuel used for generation of energy is natural gas. Constant increase in price of the fuel has influence on cost price of generation of thermal energy and electric power and on the price of thermal energy bought from JSC Kauno Termofikacijos Elektrinė.

Management of the Company was restructurized fundametally in 2004. Abilities of employees are adjusted to new technologies.

Competition of gas and electricity supply companies with the Company displays itself through disconnection of consumers from district heating network while choosing alternative heat sources (gas, electricity and so on). Choosing of fuel type is regulated by The Order of Disconnection of Heat Consumers from District Heating System and Changing of the Type of Quarters' or Buildings' Heating approved by the Kaunas City Council.

Main type of the fuel used for generation of electricity and thermal energy is natural gas, reserve fuel is heavy fuel oil. Procurement of natural gas and heavy fuel oil in 2006 has been performed on the basis of competition according to the Item 10.6 of Law on Public Procurement of the Republic of Lithuania, passed on 22 December 2005 (No. X-471) and on Item 29.1 of Chapter 6 of Decree of the Government of the Republic of Lithuania No. 277 passed on 3 March 2003.

Agreements on natural gas purchase have been signed with JSC Lietuvos Dujos and JSC Dujotekana. Total of 21669424 m<sup>3</sup> of natural gas have been purchased in 2006.

Procurement of heavy fuel oil according to the agreements signed in 2006 reached 4666.481 t (from JSC Ekochema) and 2357.539 t (from JSC Petrolona).

Activities of the Company are season based. During heating season (from October till April) largest income is received. During non-heating season generation capabilities of the Company are not fully utilized and income at that time of year is the smallest. During non-heating season the Company must prepare for the heating season (repair and reconstruction works are performed in heat distribution network and boiler houses).

#### *Political factors:*

Kaunas City Municipality, owning controlling interest, on the basis of the Laws of Lithuania may set some obligatory activities for the Company, conditions of thermal energy supply and requirements for major activities of the Company. On the basis of heat tariff calculation project presented by the Company base tariff of the heat supplied by the Company is set by National Control Commission for Prices and Energy and the Council of Municipality on the basis of this base tariff approves heat tariff of heat supplied by the Company through district heating network. Base tariff is recalculated annually taking into account index of business efficiency improvement set for each particular supplier and correction coefficients set by Commission: correction coefficient due to inflation, correction coefficient due to the changes in fuel prices, coefficient of

changes in the sales of thermal energy and correction coefficient due to the other factors. In case if recalculated tariff of thermal energy differentiates from currently valid heat tariff by no more than 1 %, then current tariff may be left unchanged. Major shareholder is responsible for election of Supervisory Board of the Company and representatives of Municipality control management of the Company.

*Social factors:*

Activities of the Company are important for many inhabitants and companies of Kaunas region. Some inhabitants occasionally express complains about the sums of accounts presented by the Company, unacceptable quality of services provided or insufficient attention for the interests of consumers.

*Technical - technological factors:*

Largest internal risk is related with heat supply systems and their current condition. Level of automation in infrastructure of thermal energy generation is related with large involvement of manual operations and large expenses for upkeep of personnel. In order to improve efficiency of thermal energy supply systems, operated by the Company, they are reconstructed utilizing advanced technologies and equipment. Heating and domestic hot water supply systems as well as heating substations maintained by the Company in most cases should be reconstructed. Economical condition of the Company and the Group is still related with insufficient capabilities for rehabilitation and renovation of equipment and development of the Company and the Group.

*Ecological factors:*

The Company utilizes requirements of Helsinki Commission (HELCOM) and environmental restrictions set in Helsinki Convention on burning the heavy fuel oil. Major sources of pollution are as follows: air pollution – burning of organic fuel, water pollution – preparation of water for use in generation. The Group and the Company pays environmental taxes of air and water pollution each quarter. Release of pollutants is regulated by Kaunas and Marijampolė Regional Environmental Protection Departments through issuing Control Permissions of Integrated Pollution Prevention. According to valid Laws of the Republic of Lithuania penalties are applied in case of exceeding the allowed limiting values or annual limits of pollution. Since 2006 according to the Laws of the Republic of Lithuania exemptions are granted for the Group and the Company allowing to not to pay environmental taxes for pollution emerged during burning of biofuel. Major measures for lowering of pollution level utilized by the Group and the Company are as follows: lowering of heat losses during supply through replacement of old pipes with pipes insulated using polyurethane insulation; implementation of new modern thermal energy generation technologies (modern burners, conversion of boilers into water heating regime); constant monitoring of pollution; largest part in fuel balance is held by natural gas – 70 %, heavy fuel oil holds 18 %, peat – 7 %, biogas – 3 %, wood chips – 2 %.

*The repayment of bank loans:* The Company repays loans on determined time.

*Lawsuits:* There are no lawsuits which would make an impact on activities of the Company.

**31. Termination or reduction of production, which has had a material impact on the Issuer's results during the latter two fiscal (business) years**

Production decreased during latter two financial years due to the decrease in demand of thermal energy, disconnection of consumers (influence of natural conditions on demands of consumers, influence of economical situation of consumers) and due to the selling of assets (buildings and production equipment) related with generation of thermal energy and electric power.

### **32. Patents, licences, contracts**

The Company may proceed with licensed activities or activities for which permissions are needed only after obtaining corresponding licenses or permissions.

On 26 February 2004 the Company received Heat Supply Licence No L4-ŠT-26 which allows to perform heat supply activities and which is valid indefinitely. This license was issued by National Control Commission for Prices and Energy.

Permission for generation of electricity No.LG-0093 issued by the Ministry of Economy of the Republic of Lithuania on 19 May 2005, registration No.05-013. Duration of permission validity is indefinite.

Permission for generation of electricity No.LG-0097 issued by the Ministry of Economy of the Republic of Lithuania on 1 July 2005, registration No.05-032 (approved by the Order of Minister of Economy of the Republic of Lithuania No 51). Duration of permission validity is indefinite.

Permission for increase in electricity generation capability No.LP-0066 issued by the Ministry of Economy of the Republic of Lithuania on 14 March 2005, registration No.05-005. Duration of validity – 3 years.

Certificate for exploitation of electricity equipment No.E-0412 issued by State Energy Inspectorate at the Ministry of Economy of the Republic of Lithuania. According to the Law of Energy of the Republic of Lithuania the Company received right to perform exploitation of energy related equipment. Certificate is valid till 25 August 2009.

Certificate for exploitation of electricity equipment No.E-0412 issued by State Energy Inspectorate at the Ministry of Economy of the Republic of Lithuania. According to the Law of Energy of the Republic of Lithuania the Company received permission to perform exploitation of electricity related equipment. Certificate is valid until 25 August 2009.

Certificate for exploitation of heat related equipment and turbines No.T-0223 issued by State Energy Inspectorate at the Ministry of Economy of the Republic of Lithuania. According to the Law of Energy of the Republic of Lithuania the Company received permission to perform exploitation of heat related equipment and turbines. Certificate is valid until 25 August 2009.

Certificate for exploitation of equipment related with oil and oil products No.N-0047 issued by State Energy Inspectorate at the Ministry of Economy of the Republic of Lithuania. According to the Law of Energy of the Republic of Lithuania the Company received permission to perform exploitation of equipment related with oil and oil products. Certificate is valid till 25 August 2009.

Certificate for exploitation of equipment related with natural gas No.GD-0060 issued by State Energy Inspectorate at the Ministry of Economy of the Republic of Lithuania. According to the Law of Energy of the Republic of Lithuania the Company received permission to perform exploitation of equipment related with natural gas. Certificate is valid till 25 August 2009.

Permission to buy undenatured ethyl alcohol No. 84/07N is given by the State tobacco and alcohol control office to the Lithuanian Government on 24 May, 2007.

Permission – Hygiene Pass to perform economical business activities No.05-15007 issued by Kaunas Public Health Centre of Ministry of Health of the Republic of Lithuania at 21 December 2004. Permission is valid until 14 October 2007.

Permission to use nature's resources No.1/105a-03 issued by Kaunas Region Environmental Protection Department at Ministry of Environment of the Republic of Lithuania.

Corrected permission to use nature's resources No.1/105a Chapters II, III, IV issued by Kaunas Region Environmental Protection Department at Ministry of Environment of the Republic of Lithuania.

## Commercial contracts signed by JSC Kauno Energija

Contracts	2004	2005	2006
Procurements	30	24	38
Repair works (installation of heating substations and installation of new heat supply pipes)	97	142	93
Other services	155	17	45
Supply of water and removal of waste water	4	4	3
Purchase of fuel	5	5	5
Purchase and selling of electric power	2	2	2
Financing	4	3	2

**33. Litigation and arbitration** (information about litigation and arbitration, which could affect of have affect on financial condition of the Issuer during reporting period (sanctions applied (adjudged compensation of damage and so on), their causes, litigation and arbitration during which judicial decisions or arbitraments are not yet declared and possible outcome of suits), changes in comparison with passed financial (business) years and short description of them).

Currently there are no litigations which could affect financial condition of the Company.

The Company since 1 January 2006 till 31 December 2006 brought a lawsuits against 287 persons, organizations or companies (Table 21) due to unpaid consumption of thermal energy.

Table 21

Distribution of actions given to the court in the year 2006 according to the groups of customers

No.	Consumers	Number of actions	Sum of actions (LTL)	Note
1.	Industry	-	-	
2.	Inhabitants	250	1 722 500.00	
3.	State owned organizations	-	-	
4.	Other consumers	37	196 945.00	
5.	Patient funds	-	-	
	Total:	327	1 872 431.00	

In the year 2006 11 creditor cases were formed and given for the 38 505,00 LTL sum.

## Main data on recovery of debts for consumed thermal energy from inhabitants on judiciary basis

No.		2004		2005		2006	
		quantity	thou.LTL	quantity	thou.LTL	quantity	thou.LTL
1.	Bought actions	470	1 989.155	296	1 678.499	250	1 722.500
2.	Adjudged by the court	381	1 364.524	294	1 762.530	247	1 715.601

According to the decisions of the court the sums adjudged to the residents sometimes are not searched for the unsolvency of residents, lended property, debts sometimes are adjudged after some years. We are only the third line creditors of the bankrupted enterprises.

**34. Personnel** (average number of listed personnel, changes during latter tree financial (business) years, please provide reasons in case of significant changes (more than 10 %); assorting of personnel according to the level of education, quantity of managing personnel, specialists and workmen and average monthly salary of employees of each group, special rights and duties of employees of the Issuer or their part as laid in employment contracts or collective agreements).

In 2006 number of employees of the Company (average listed) was 780; among them: 320 managing personnel and specialists, 460 workmen. Managers and administration personnel have obtained high education required. Education level of most specialists corresponds to positions occupied; record of service and level of practical knowledge of other employees correspond to the requirements of positions they occupy.

Table 23

## Average listed number of employees

No.	Average listed number of employees	2004	2005	2006
1.	Managing personnel and specialists	374	357	320
1.1.	Among them: managers	6	6	5
1.2.	Officeholders	368	351	315
2.	Workmen	594	553	461
	Total	968	905	780

Since 1 September 2004 JSC Kauno Energija taking into account Strategy of operations, Study of management models and Study of optimization of workplaces performed by JSC Ernst & Young Baltic discontinued operations of branches Kauno Šilumos Tinklai and Kauno Energijos Paslaugos and according to approved management structure instead of these branches departments of the Company have been established. Despite these changes JSC Kauno Energija remains company with largest amount of created workplaces.

With the goal of reducing production expenses of the Company and incensement of reliability of reserve heat source of Kaunas integrated district heating network competition for buying of Petrašiūnai Power Plant exploitation services has been announced. The competition has been won by JSC Energijos Sistemų Servisas and in July 2006 the Company consigned exploitation of Petrašiūnai Power Plant to this company. Largest part of Petrašiūnai Power Plant employees have been transferred to JSC Energijos Sistemų Servisas. During continuation of changes in the Company's structure in mind, instead of Service Department branch company JSC Pastatų



Priežiūros Paslaugos has been established and part of the employees of Service Department have been transferred into this branch company. After implementation of these structural changes listed number of Company's employees has been reduced from 898 till 630.

Table 24

Grouping of employees according to their education at the end of period

No	Education level	31/12/2004	31/12/2005	31/12/2006
1.	Unfinished secondary	43	44	27
2.	Secondary	424	406	273
3.	Higher	177	172	117
4.	High	273	276	213
	Total	917	898	630

Table 25

Average conditional number of employees and average monthly salary

	Managers		Officeholders		Workmen	
	average conditional	average salary	average conditional	average salary	average conditional	average salary
2004	6	5721	349	1868.8	590	1166
2005	6	5979.6	328	2067.9	546	1283.1
2006	5	6990	303	2224.0	443	1457.1

*Special rights and duties of employees of the Issuer or their part as laid in collective agreements*

According to collective agreement currently in effect in the Company:

1. For continuous record of service in the Company employees are granted with additional paid vacations:

- for worked 5 years - 1 calendar day;
- from 6 till 10 years - 2 calendar days;
- for more than 10 years - 3 calendar days;
- fore each further 5 years - 1 calendar day;
- **Record of service is treated as continuous** (additional vacation days are granted) in case of employees who have been working in the companies of Lithuanian energy system and transferred into JSC Kauno Energija on the basis of employers' agreement, i.e. when transfer happened with Work Law Code or Work Contract Law in effect.

2. Employees have a right to receive additional paid vacation days:

- in case of marriage - 3 calendar days;
- in case of the death of close person (one of the parents or one of the parents of husband or wife, husband or wife, brother, sister, daughter, son or legal foster-child) - 3 calendar days;
- in case of childbirth by the wife - 1 calendar day;



- in case of marriage of employee's daughter, son or legal foster-child - 3 calendar days.

3. Employer is obliged:

- to assure conditions for preventive checking of health of employees and in case of the need arisen – rehabilitation treatment, to provide free services in health centre of the Company;
- in case of employee to pay grant of two (in case of the Company) or one (in case of the branch of the Company) last month average salary size, free transport or to cover expenses for the transport. The grant is to be paid for the person who was responsible for the burial;
- in case of the death of close person of employee (father, mother or husband or wife), to pay grant of one last month average Company or branch salary size, free transport or to cover expenses for the transport;
- in case of one or more children to pay grant for employee of 50% last month average Company or branch salary size for each child born;
- in case of marriage of employee to pay grant for employee of 50% last month average Company or branch salary size;
- for employees who are raising three or more children younger than 16 years, widower (widow) or lonely parents who are raising one or more children till 19 years old (if they are attending secondary school) or 21 year old (if they are full-time students in high school) or are caring for other members of the family with heavy or medium level of disability or lower than 55 % level of working capacity or family members of old-age pension age who have, according to the laws, appointed large or average special demand level, to pay once a year grant for employee of 50% last month average Company or branch salary size according to the date of appeal presentation;
- for employees who reached 50, 60 (in case of women even 55) years and taking into account their continuous record of service in the Company, to pay gift of last month average Company or branch salary size: for those with record of service from 1 to 10 years – 25%, from 10 to 15 years – 37.5%, from 15 to 20 years 50%, and for more than 20 years – 75 %;
- in all other cases when material support is required (due to experienced casualties from natural disasters or from other reasons independent on the employee) to pay grant up to 2000 LTL in size on the agreement of the sides who signed Collective agreement;
- in case of heavy sickness of employee or in case of heavy disaster, to pay grant of five last month average Company or branch salaries size on the agreement of the sides who signed Collective agreement.

**35. Investment policy** (Companies into which the Company had invested more than 30 % of its authorized capital, as well as companies in who's authorized capital the Company shares more than 30 %)

*35.1. titles, addresses of offices, nature of operations, share in authorized capital, unpaid part of the Issuer in authorized capital, net profit (loss), ratio of short term liability and short term asset, ratio of total liability and total asset:*

On 1 July 2006 JSC Pastatų Priežiūros Paslaugos branch company of JSC Kauno Energija has been established. Address of the office Savanorių ave. 347, 49423 Kaunas-43, enterprise code 300580563.

Authorized capital of JSC Pastatų Priežiūros Paslaugos is 6518 thou. LTL. All authorized capital has been paid.

The main data about JSC Pastatų Priežiūros Paslaugos on 31 December 2006: *net profit (loss) was 328 thou. LTL; ), ratio of short term liability and short term asset – 0.51; ratio of total liability and total asset – 0.06.*

The activities of JSC Pastatų Priežiūros Paslaugos are related with maintenance of heating and domestic hot water supply systems and heating substations, maintenance and repair of buildings' structural elements and constructions as well as systems of cold water supply, waste water discharge and drainage, electricity supply.

*35.2. Type and class of shares belonging to the Issuer, quantity of shares, nominal value, percentage of votes owned or controlled by the Issuer under the rights of ownership during general meetings of shareholders of those companies, please indicate separately percentage of votes ensured for the Issuer by shares controlled under the rights of ownership and votes belonging to him together with acting persons:*

JSC Kauno Energija had 65180 units of JSC Pastatų Priežiūros Paslaugos ordinary registered shares, nominal value of one share is equal to 100 LTL. The Company owns under the right of ownership 100 % shares of this company and it is the only shareholder.

*35.3. Value of dividends paid for the Issuer, value of loans paid by the Issuer for company and received from company during reporting period, characteristics of debt securities obtained by the Issuer and their total nominal value.*

None.

*35.4. Large investment projects worth more than 10 % of the Issuer's authorized capital, investment projects implemented during latter three financial (business) years: types of investments, scope of investments, sources of investment financing (external, internal); geographic distribution of investments (in Lithuania and abroad):*

None.

*35.5 information on intended investments:*

None.

## **36. Competitors**

Major competitors of JSC Kauno Energija are companies of natural gas and electricity supply. Competition displays itself through disconnection of consumers from district heating network, conversion of fuel type and installation of individual heat generation sources (natural gas and electricity supply companies issue technical conditions for installation of those autonomous heating systems) and in case of new consumers – choosing of fuel type. Choosing of fuel type is regulated by The Order of Disconnection of Heat Consumers from District Heating System and Changing of the Type of Quarters' or Buildings' Heating approved by the Kaunas City Council.

## **37. Dividends paid:**

The Company paid no dividends during last five financial years.

## V. FINANCIAL STATUS

## 38. Financial reports

Financial reports are presented in national currency of Lithuania – litas. Data is presented in thousands of LTL. Accountancy is managed and financial accountability is compiled in the Company according to the general principles of accounting, Accounting Law of the Republic of Lithuania and other normative documents of the Republic of Lithuania. Financial year corresponds to calendar year. Since 1 January 2005 accounting of the Company is managed according to International standards of accounting.

In the following financial accountability of JSC Kauno Energija on 31 December 2006 is presented as accepted by routine general meeting of shareholders held on 14 May 2007. Comparative numbers of 2004 and 2005 have been calculated according to International standards of financial accounting, accepted for application in case of company and group in European Union.

## 38.1. Balance Sheet

**Balance**

		31/12/2006		31/12/2005	31/12/2004
		Group	Company		
	<b>Assets</b>				
<b>A</b>	<b>Non-current assets</b>				
I.	Intangible assets	2,144	2,089	1,863	1,435
II.	Property, plant and equipment				
II.1.	Land and buildings	29,489	27,791	30,291	29,145
II.2.	Structures and machinery	101,940	101,875	93,173	96,915
II.3.	Vehicles	1,215	1,135	1,292	1,790
II.4.	Equipments and tools	5,892	5,790	5,504	9,031
II.5.	Other property, plant and equipment	2,406	2,406	1,901	2,540
II.6.	Construction in progress and prepayments	10,122	10,122	2,757	5,925
	Total property, plant and equipment	151,064	149,119	134,918	145,346
III.	Investment assets				15,315
IV.	Non-current financial assets				
IV.1.	Investments into daughter companies	-	6,518		
IV.2.	Non-current accounts receivable	1,441	1,441	2,654	647
IV.3.	Other financial assets	433	433	433	433
	Total non-current financial assets	1,874	8,392	3,087	1,080
V.	Non-current part of expenditure of future periods				431

	<b>Total non-current assets</b>	<b>155,052</b>	<b>159,600</b>	<b>139,868</b>	<b>163,607</b>
<b>B</b>	<b>Current assets</b>				
I.	Inventories and prepayments				
I.1.	Inventories	8,645	8,568	4,888	6,759
I.2.	Prepayments	451	436	464	868
	Total inventories and prepayments	9,096	9,004	5,352	7,627
II.	Current accounts receivable				
II.1.	Trade receivables	34,531	34,238	41,490	37,826
II.2.	Other receivables	4,009	4,072	5,975	6,817
	Total accounts receivable	38,540	38,310	47,465	44,643
III.	Other current assets				10
IV.	Cash and cash equivalents	4,466	4,436	4,333	4,957
	<b>Total current assets</b>	<b>52,102</b>	<b>51,750</b>	<b>57,150</b>	<b>57,237</b>
	<i>Total assets</i>	<b>207,154</b>	<b>211,350</b>	<b>197,018</b>	<b>220,844</b>
	<b>EQUITY AND LIABILITIES</b>				
<b>C.</b>	<b>Equity</b>				
I.	Share capital	118,310	118,310	118,310	118,310
II.	Reserve				
II.1.	Legal reserve	3,634	3,634		11,831
II.2.	Other reserve				5,090
III.	Retained earnings (deficit)				
III.1.	Profit for the current year	5,907	9,360	6,425	9,357
III.2.	Profit (loss) for the previous year	(1,671)	(1,671)	(4,462)	(27,643)
	Total retained earnings (deficit)	4,236	7,689	1,963	(18,286)
	<b>Total equity</b>	<b>126,180</b>	<b>129,633</b>	<b>120,273</b>	<b>116,945</b>

<b>D. Liabilities</b>				
<b>I. Non-current liabilities</b>				
I.1. Non-current financial borrowings	18,009	18,009	26,138	43,610
I.2. Liabilities of leasing (financial lease)				-
I.3. Liabilities for suppliers				163
I.4. Other accounts payable			109	431
I.5. Deferred income tax liability	2,754	3,423	4,298	194
I.6. Grants (deferred income)	7,935	7,935	4,545	4,312
<b>Total non-current liabilities</b>	<b>28,698</b>	<b>29,367</b>	<b>35,090</b>	<b>48,710</b>
<b>II. Current liabilities</b>				
II.1. Current portion of non-current borrowings	7692	7,692	7,771	12,469
II.2. Current financial borrowings	14,177	14,177	5,278	5,180
II.3. Trade payables	26,038	26,403	24,343	28,750
II.4. Advances received	873	873	746	857
II.5. Taxes payable	948	876	864	1,017
II.6. Payroll-related liabilities	1,717	1,665	2,112	2,192
II.7. Income tax payable	676	598		
II.8. Other current liabilities	155	66	541	4,724
<b>Total current liabilities</b>	<b>52,276</b>	<b>52,350</b>	<b>41,655</b>	<b>55,189</b>
<b>Total liabilities</b>	<b>80,974</b>	<b>81,717</b>	<b>76,745</b>	<b>103,899</b>
<b>Total equity and liabilities</b>	<b>207,154</b>	<b>211,350</b>	<b>197,018</b>	<b>220,844</b>

## 38.2. Profit (Loss) Statement

		2006		2005	2004
		Group	Company		
<b>I.</b>	<b>Operating income</b>				
I.1.	Income from sales	183,734	183,224	171,382	170,430
I.2.	Other operating income	3,704	8,464	6,833	25,584
	<b>Total activity income</b>	<b>187,438</b>	<b>191,688</b>	<b>178,215</b>	<b>196,014</b>
<b>II.</b>	<b>Operating expenses</b>				
II.1.	Fuel and heat acquired	(112,894)	(112,894)	(106,464)	(109,176)
II.2.	Salaries and social security	(26,017)	(24,543)	(22,447)	(22,867)
II.3.	Raw materials	(3,407)	(3,352)	(2,959)	(3,562)
II.4.	Taxes other than income tax	(4,085)	(4,066)	(4,162)	(5,027)
II.5.	Electricity	(3,804)	(3,804)	(3,512)	(3,290)
II.6.	Depreciation and amortization	(18,560)	(18,497)	(17,908)	(16,692)
II.7.	Repairs and maintenance	(755)	(755)	(1,521)	(1,215)
II.8.	Water	(1,069)	(1,069)	(479)	(683)
II.9.	Change in allowance for accounts receivable	847	847	(206)	5,118
II.10.	Change in allowance for inventories	324	324	(279)	1,290
II.11.	Expenses of maintenance of heat and domestic hot water supply systems		(1,995)		
II.12.	Petrašiūnai power plant operator expenses	(967)	(967)		
II.13.	Other expenses	(11,413)	(10,942)	(8,467)	(14,855)
II.14.	Other operating expenses	(1,198)	(1,491)	(6,517)	(5,878)
	<b>Total operating expenses</b>	<b>(182,998)</b>	<b>(183,204)</b>	<b>(174,921)</b>	<b>(176,837)</b>
<b>III.</b>	<b>Profit from operations</b>	<b>4,440</b>	<b>8,484</b>	<b>3,294</b>	<b>19,177</b>
<b>V.</b>	<b>Financial and investing activities</b>				
V.1.	Income from financial and investing activities	1,946	1,946	1,926	2,261
V.2.	Expenses from financial and investing activities	(1,347)	(1,347)	2,212	(9,766)
	<b>Financial and investing activities, net</b>	<b>599</b>	<b>599</b>	<b>4,138</b>	<b>(7,505)</b>
<b>VI.</b>	<b>Profit before tax</b>	<b>5,039</b>	<b>9,083</b>	<b>7,432</b>	<b>11,672</b>
VII.	Income tax	868	277	(1,007)	(2,315)
<b>VIII.</b>	<b>Net profit</b>	<b>5,907</b>	<b>9,360</b>	<b>6,425</b>	<b>9,357</b>
	Basic earnings per share (LTL)	0.30	0.47	0.33	0.47

## 38.3. Cash Flow Statement

		2006		2005	2004
		Group	Company		
<b>I.</b>	<b>Cash flows from (to) operating activities</b>				
I.1.	Net profit	5,907	9,360	6,425	9,357
	<b>Adjustments for non-cash items:</b>				
I.2.	Depreciation and amortization	19,610	19,548	18,497	17,809
I.3.	Change in allowance for accounts receivable	(847)	(847)	206	(5,118)
I.4.	Loss (gain) from sale and write-off of property, plant and equipment and shares	(2,344)	(2,344)	1,150	(19,215)
I.5.	Change in allowance for inventories	(324)	(324)	279	(1,290)
I.6.	Expenses (income) from income tax	(868)	(277)	1,007	2,315
I.7.	Income from revaluation of branch company's non-current assets		(4,462)		
I.8.	Change in the value of non-current assets			-	1,573
I.9.	Accruals	(319)	(401)	(7,734)	9,689
I.10.	Amortization of grants	(891)	(891)	(708)	(252)
I.11.	Change in currency exchange rate			445	(737)
I.12.	Interest expenses	1,315	1,315	2,080	2,058
I.13.	Elimination of other financial and investing activity results	(1,914)	(1,914)	(1,418)	(662)
		<b>19,325</b>	<b>18,763</b>	<b>20,229</b>	<b>15,527</b>
	<b>Changes in working capital:</b>				
I.13.	(Increase) decrease in inventories	(3,433)	(3,356)	1,592	3,824
I.14.	Decrease in prepayments	13	28	404	570
I.15.	Decrease (increase) in trade receivables	7,806	8,099	(3,870)	4,355
I.16.	Decrease (increase) in other receivables	2,014	1,951	(1,280)	4,602
I.17.	(Decrease) in non-current trade payable	(71)	(71)	(92)	(92)
I.18.	Increase in current trade payables and advances received	1,822	2,187	1,795	3,548
I.19.	Increase (decrease) in payroll-related liabilities	6	(46)	(24)	21
I.20.	Increase (decrease) in other liabilities for the State	84	12	(153)	(594)
I.21.	(Decrease) in other liabilities	(172)	(141)	(2,482)	170
	<b>Net cash flows from operating activities</b>	<b>27,394</b>	<b>27,426</b>	<b>16,119</b>	<b>32,531</b>
<b>II.</b>	<b>Cash flows from (to) investing activities</b>				

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II.1.	(Acquisition) of tangible and intangible assets	(32,347)	(32,314)	(24,404)	(26,927)
II.2.	(Acquisition) on non-current investments		(10)		
II.3.	Proceeds from sale of tangible and intangible assets and investments	3,978	3,931	30,082	568
II.4.	Penalty interest and fines (received)	1,761	1,761	1,873	1,438
II.5.	Increase in cash flows from (to) non-current accounts receivable	337	299	206	532
	<b>Net cash flows (to) from investing activities</b>	<b>(26,271)</b>	<b>(26,333)</b>	<b>7,757</b>	<b>(24,389)</b>
<b>III.</b>	<b>Cash flows from (to) financing activities</b>				
III.1.	Proceeds from loans	10,295	10,313	113,838	45,163
III.2.	(Repayment) of loans	(9,604)	(9,622)	(135,876)	(48,604)
III.3.	Interest (paid)	(1,649)	(1,649)	(2,416)	(2,058)
III.4.	Financial lease (payments)			(33)	(62)
III.5.	Grants received			941	149
III.6.	Penalty interest and fines (paid)	(32)	(32)	(954)	(39)
	<b>Net cash flows from (to) financing activities</b>	<b>(990)</b>	<b>(990)</b>	<b>(24,500)</b>	<b>(5,451)</b>
<b>IV.</b>	<b>Net (decrease) increase in cash flow</b>	<b>133</b>	<b>103</b>	<b>(624)</b>	<b>2,691</b>
<b>V.</b>	<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,333</b>	<b>4,333</b>	<b>4,957</b>	<b>2,266</b>
<b>VI.</b>	<b>Cash and cash equivalents at the end of the year</b>	<b>4,466</b>	<b>4,436</b>	<b>4,333</b>	<b>4,957</b>



38.4. Statements of change in equity

	Notes	Share capital	Legal reserve	Retained earnings	Total
<b>Group</b>					
<b>Balance at 31 December 2004</b>		<b>118,310</b>	<b>16,921</b>	<b>(18,286)</b>	<b>116,945</b>
Repair of error	3	-	-	(3,097)	(3,097)
<b>Adjusted balance at 31 December 2004</b>		<b>118,310</b>	<b>16,921</b>	<b>(21,383)</b>	<b>113,848</b>
Covering of accumulated deficit		-	(16,921)	16,921	-
Net profit for the year		-	-	6,425	6,425
<b>Balance at 31 December 2005</b>		<b>118,310</b>	<b>-</b>	<b>1,963</b>	<b>120,273</b>
Transferred to the legal reserve of the Company	9	-	3,634	(3,634)	-
Net profit for the year		-	-	5,907	5,907
<b>Balance at 31 December 2006</b>		<b>118,310</b>	<b>3,634</b>	<b>4,236</b>	<b>126,180</b>

	Notes	Share capital	Legal reserve	Retained earnings	Total
<b>Company</b>					
<b>Balance at 31 December 2004</b>		<b>118,310</b>	<b>16,921</b>	<b>(18,286)</b>	<b>116,945</b>
Repair of error	3	-	-	(3,097)	(3,097)
<b>Adjusted balance at 31 December 2004</b>		<b>118,310</b>	<b>16,921</b>	<b>(21,383)</b>	<b>113,848</b>
Covering of accumulated deficit		-	(16,921)	16,921	-
Net profit for the year		-	-	6,425	6,425
<b>Balance at 31 December 2005</b>		<b>118,310</b>	<b>-</b>	<b>1,963</b>	<b>120,273</b>
Transferred to the legal reserve of the Company	9	-	3,634	(3,634)	-
Net profit for the year		-	-	9,360	9,360
<b>Balance at 31 December 2006</b>		<b>118,310</b>	<b>3,634</b>	<b>7,689</b>	<b>129,633</b>

### **39. Comments of Financial Statements**

Comments on financial statements are presented in the explanatory letter on financial statements for 2006 (attached is JSC Kauno energija consolidated and financial report prepared according to International standards on financial accounting together with conclusion of independent auditors).

### **40. Report prepared by the Issuer's Board or other managing body**

Consolidated annual report of JSC Kauno Energija and its branch company for the financial year 2006 and report on following management codex of companies listed in Vilnius Stock Exchange are attached to this prospectus.

### **41. Audit – related information**

Independent auditor company has been selected during competition. In routine meeting of shareholders held on 28 April 2006 JSC Ernst&Young Baltic (audit company certificate No.000514, Subačiaus st. 7, LT – 01008 Vilnius) has been selected as a auditor of JSC Kauno Energija business-financial activities for the period of 2006-2008.

Financial audit of 2006 have been concluded on 5 March 2007. It has been performed by auditor Jonas Akelis (auditor's certificate No.000003) and auditor Ramūnas Bartašius (auditor's certificate No.000362).

Audited financial report for 2006 and conclusion of independent auditor on it is presented together with this annual prospectus-report.

## VI. INFORMATION ABOUT THE MANAGING BODIES OF THE ISSUER

**42. Members of the managing bodies** (members of Supervisory Board and the Board of Directors of the Company, General Manager, Chief Financial Officer).

*42.1. position, names and surnames, interests in authorized capital of the Issuer (owned part of authorized capital and part of the votes in percents)*

*Information on members of Supervisory Board of the Company*

Adolfas Antanas Balutis, Chairman of Supervisory Board of the Company.  
Beginning of the term 26/04/2005, end of term 30/04/2008.

Kęstutis Mikėnas, Deputy Chairman of Supervisory Board of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Giedrius Donatas Ašmys, Member of Supervisory Board of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Tautvydas Barštys, Member of Supervisory Board of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Anicetas Ignotas, Member of Supervisory Board of the Company.  
Beginning of the term 30/04/2004, end of term 27/07/2006.

Gediminas Budnikas, Member of Supervisory Board of the Company.  
Beginning of the term 30/04/2005, end of term 30/04/2008.

Aloyzas Zairys, Member of Supervisory Board of the Company.  
Beginning of the term 30/04/2005, end of term 30/04/2008.

Members of Supervisory Board of the Company have no interest in shares of the Company.

*Information on members of the Board of Directors of the Company*

Algirdas Vaitiekūnas. Chairman of the Board of Directors of the Company.  
Has no interest in shares of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Rymantas Juozaitis. Deputy Chairman of the Board of Directors of the Company.  
Has 45674 units of the shares of the Company (as of 5 May 2007).  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Gintaras Čižikas. Member of the Board of Directors of the Company.  
Has no interest in shares of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Henrikas Matulionis. Member of the Board of Directors of the Company.  
Has no interest in shares of the Company.  
Beginning of the term 30/04/2004, end of term 30/04/2008.

Andrius Stankevičius. Member of the Board of Directors of the Company.  
Has no interest in shares of the Company.

Beginning of the term 30/04/2004, end of term 30/04/2008.

Stanislovas Karčiauskas. Member of the Board of Directors of the Company.

Has no interest in shares of the Company.

Beginning of the term 30/04/2004, end of term 30/04/2008.

Aleksandras Sigitas Matelionis. Member of the Board of Directors of the Company.

Has no interest in shares of the Company.

Beginning of the term 5/10/2005, end of term 30/04/2008.

Since 27/07/2004 General Manager of JSC Kauno Energija.

*Information on members of Administration:*

Aleksandras Sigitas Matelionis. Since 27/07/2004 General Manager of JSC Kauno Energija. Ownership of the Company's capital and total votes – 0.0%;

Violeta Staškūnienė. Chief Financial Officer of JSC Kauno Energija.

Owns 2641 units of the Company's shares, which make less than 5% of authorized capital.

*42.2. Information on the Chairman of the Board of the Company, General Manager, Chief Financial Officer:*

Algirdas Vaitiekūnas. Chairman of the Board of Directors of JSC Kauno Energija since 30/04/2004. He has a Engineer-Electrician degree of Automation of electric gears and industrial equipment at Kaunas University of Technology. Positions held during last 10 years: from 1982 till 1997 he worked as a Energy Engineer at Experimental production depot, from 1997 till 2001 he worked as a Chief Engineer of Energy Section at Kaunas City Municipality, from 02/03/2001 till 11/07/2001 he was Head of Energy Section at Kaunas City Municipality, from 07/08/2001 till 02/10/2002 he worked as a Deputy Head and Chief Specialist of Energy Section at Kaunas City Municipality, from 03/10/2002 he is a Head of Energy Section of City Economy Department at Kaunas City Municipality. Chairman of the Board of the Company.

Aleksandras Sigitas Matelionis is a General Manager of JSC Kauno Energija since 27/07/2004. He has a degree of Construction Engineer in Heat and gas supply and ventilation at Kaunas University of Technology. Positions held during last 10 years: from 02/05/1994 he worked as a Deputy Deputy Head of Heat Supply Network Exploitation Section at Kauno šilumos tinklai (Kaunas District Heating Network), since 15/08/1997 he was Deputy Director for Heat Supply in JSCSP Kauno Energija branch company Kauno Šilumos Tinklai, since 01/02/2000 he was a Deputy Director for Heat Supply in JSC Kauno Energija branch company Kauno Šilumos Tinklai.

Violeta Staškūnienė is a Chief Financier of JSC Kauno Energija since 27 July 2000, since 16 January 2003 she is a Chief Financial Officer. She has a degree of Accountant in Work Economics at Vilnius University (1984). Positions held during last 10 years: from 01/09/1995 she worked as a Deputy Chief Financial Officer at Heat Sales Accountancy of Kauno šilumos tinklai (Kaunas District Heating Network), since 01/03/1996 she was a Deputy head of Heat Sales Section, since 02/01/1997 she was Chief Specialist of Non-production Activities Section, since 20/10/1997 she worked as a Deputy Head for documentation of Heat Sales Section of JSCSP Kauno Energija, since 22/06/1998 she was a Chief Financial Officer of branch company Kauno Energijos Paslaugos, since 10/01/2000 she was a Deputy Chief Financier of JSCSP Kauno Energija. Since 1998 till 04/2004 she was a Chief Financial Officer of JSC Itvizija, since 01/2003 till 06/2004 she worked as a Chief financial Officer of JSC Energijos Realizacijos Centras.

*42.3. information about participation in activities of other companies, offices and organizations (title of company, office or organization and position held), ownership of more than 5% of shares*

*Members of Supervisory Board:*

Adolfas Antanas Balutis. Member of Council of Kaunas City Municipality. Chairman of Kaunas city table tennis federation. Has shares of JSC Žemprojektas, JSC Snaigė and JSC Invalda which make less than 5% of authorized capital.

Kęstutis Mikėnas. Member of Council of Kaunas City Municipality. Deputy Director of JSC Salvyda. Has no interest in capital of other companies.

Giedrius Donatas Ašmys. Has 245 units of JSC Kauno Kranai shares and 3 units of JSC Vilties Vaistinė shares, which make less than 5% of authorized capital.

Tautvydas Barštys. Member of Council of Kaunas City Municipality. General Manager and Chairman of the Board of JSC Kauno Grūdai. Chairman of the Board of JSC Kaišiadorių Paukštynas and JSC Vilniaus Paukštynas. President of Basketball Club Viktorija of LWBL, Preident of JSC Kauno Grūdai Charity and Support Fund, President of Lithuanian Association of Grain Processing Enterprises. Owns 790683 units of JSC Kauno Grūdai shares which makes 38.8 % of authorized capital and owns 48855 units of JSC Vilniaus Paukštynas shares, shares of JSC Jūsų Stilius, JSC Tubus, JSC Laukinių Vakarų Salūnas which makes less than 5 % of authorized capital.

Anicetas Ignotas. Secretary of ministry of Economy of the Republic of Lithuania. Chairman of JSC Rytų Skirstomieji Tinklai Supervisory Board. Chairman of JSC Lietuvos Energija Supervisory Board. Has no interest in capital of other companies.

Gediminas Budnikas. Member of Council of Kaunas City Municipality. Head of Fee Section of JSC Automobilių Stovėjimo Aikštelė. Chairman of the Council of Kaunas Regional Energy Agency. Member of the Board of JSC A.Sabonio Žalgirio Krepšinio Centras. Has no interest in capital of other companies.

*Members of the Board of Directors of the Company:*

Algirdas Vaitiekūnas. Head of Energy Section of City Economy Department at Kaunas City Municipality. Has no interest in capital of other companies.

Rymantas Juozaitis. General Manager of JSC Lietuvos Energija, Member of the Board of JSC Lietuvos Energija. Owns 45674 units of shares of the Company (as of 5 May 2007). Owns 216964 units of JSC Lietuvos Energija shares, which make less than 5 % of authorized capital.

Gintaras Čižikas. Chairman of the Board of Public Enterprise S. Dariaus ir S. Girėno Sporto Centras. Deputy Chairman of Lithuanian Work Federation and Chairman of this federation's Kaunas Section. Has no interest in capital of other companies.

Stanislovas Karčiauskas. Deputy General Manager of JSC Kauno Energija – Director of Marketing Department. Has no interest in capital of other companies.

Aleksandras Sigitas Matelionis. General manager of JSC Kauno Energija. Deputy Chairman of the Board of JSC Pastatų Priežiūros Paslaugos. Has no interest in capital of other companies.

Henrikas Matulionis. Manager of JSC Empirija. Has no interest in capital of other companies.

Andrius Stankevičius. Deputy Manager of JSC Pastatų Priežiūros Paslaugos for legal questions. Member of the Board of JSC Pastatų priežiūros paslaugos. Member of the Board of Kaunas City Centre Community. Has no interest in capital of other companies.

*Members of administration:*

*Administracijos nariai:*

Violeta Staškūnienė. Chief Financial Officer of JSC Kauno Energija. Has no interest in capital of other companies.

Aleksandras Sigitas Matelionis. General Manager of Joint Stock Company Kauno Energija. Has no interest in capital of other companies.

*42.4. information about existing conviction of the members of managing bodies for the crimes against property, economic procedures or finance.*

Members of managing bodies have no existing conviction for the crimes against property, economic procedures or finance.

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

*43.1. Information about the average amount per person (of the members of managing bodies) of the remunerations, tantiemes and other payments from the profit by JSC Kauno Energija during the reporting period of 2006.*

- There have been no remunerations, tantiemes and other payments from the profit for the members of Supervisory Board during 2006.
- There have been no remunerations, tantiemes and other payments from the profit for the members of the Board of Directors during 2006.
- Value of remunerations, tantiemes and other payments from the profit for administration members during 2006 was – 122 244.79 LTL, average value – 60122.40 LTL.

*43.2. Remunerations, tantiemes and other payments from the profit paid during the reporting period by the companies, where the Issuer holds more than 20 percent of their authorized capital, to the members of the Issuer's Supervisory Board, Board of Directors and Administration members. **None.***

*43.3. Loans, guarantees and warranties, which ensure the fulfillment of their obligations extended to the members of managing bodies during the reporting period of 2006. **None.***

**44. Transactions with related parties**

None.

## **VII. RECENT EVENTS IN THE ISSUER'S ACTIVITIES AND ITS PROSPECTS**

### **45. Recent events in the Issuer's activities**

According to the Agreement on Selling-Buying of Thermal Energy signed on 31 March 2003 and assessing changes of inflation, price of heat purchasable from JSC Kauno termofikacijos elektrinė has been recalculated on 1 January 2007. Tariff of thermal energy on sale by the Company did not changed since 1 August 2004 and will remain stable till 1 August 2007 (i.e. 11.97 ctLTL/kWh without VAT).

Recent changes in financial condition of the Issuer did not represented in financial reports: during I quarter of 2007 net profit obtained (unaudited) was 13701 thou.LTL.

On 14 May 2007 during repeated general meeting of shareholders consolidated and financial statements of the Company have been approved.

There have been no other material events which could influence financial condition of the Company during period from the end of reporting year till the day of preparation of this Annual prospectus – report.

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

On 31 January 2006 the Company announced preliminary results of its actions during 2005:

Preliminary unaudited result of JSC Kauno Energija actions during 2005 (31 December 2005) according to International standards on accounting is profit 8,814,654 LTL (2,552,600 EUR). Sales income during 2005 was 171,382,490 LTL (49,635,800 EUR).

On 24 March 2006 information about calling of Routine general meeting of shareholders of JSC Kauno Energija has been announced:

On the initiative and decision of the Directors's Board of the Company Routine general meeting of shareholders of JSC Kauno Energija (Enterprise code 235014830, Address of the office Raudondvario st. 84, Kaunas) was called to happen on 27 April 2006 (12 AM) to be held in Act Hall on the first floor of the office of the Company (Raudondvario st. 86A Kaunas).

On 27 March 2006 information has been announced on changes in the date of holding the Routine general meeting of shareholders:

On the decision of the Directors' Board of the Company the date of Routine general meeting of shareholders of JSC Kauno Energija (Enterprise code 235014830, Address of the office Raudondvario st. 84, Kaunas) was changed 28 April 2006 (12 AM) without the changes in agenda of the meeting, published on 27 March 2006 in daily Kauno Diena and web page of the Company (<http://www.ke.lt>).

On 20 April 2006 propositions for decisions on agenda questions of Routine general meeting of shareholders to be held on 28 April 2006 have been announced.

Propositions of decisions to be presented for voting on General meeting of shareholders to be held on 28 April 2006 prepared by JSC Kauno Energija Directors' Board:

1. To select JSC Ernst & Young Baltic as a performer of JSC Kauno Energija financial accounting audit (in the following to be referred as the Audit) for the period of 2006 – 2008 with the payment for preparation of the Audit set as the following:
2. For 2006 – 60000 LTL (17377 EUR) without VAT, for 2007 – 63000 LT (18246 EUR) without VAT, for 2008 – 63000 LTL (18246 EUR) without VAT, with the payment to be performed in 60 days period after signing of the act of services' admission-rendering.
3. To approve action report of the Company for 2005.

4. To approve financial accounting of the Company for 2005.
5. To approve distribution of the profit of the Company for 2005:
  - I. Undistributed result – profit (loss) at the end of last financial year (1 365 256) LT (395 405) EUR
  - II. Net profit (loss) of reporting financial year at the end of last financial year (6 348 147) LT (1 838 550) EUR  
Distributed result – profit (loss) at the end of last financial year (4 982 891) LT (1 443 145) EUR
  - III. Transfer from reserves 0 LTL 0 EUR
  - IV. Contribution of shareholders for covering of Company's loss 0 LTL 0 EUR
  - V. Distributed profit (4 982 891) LTL (1 443 145) EUR
  - VI. Distribution of profit: (4 982 891) LTL (1 443 145) EUR
    - VI.1. into legal reserves (3 633 746) LTL (1 052 406) EUR
    - VI.2. for buying of own shares 0 LTL 0 EUR
    - VI.3. into other reserves 0 LTL 0 EUR
    - VI.4. for dividends 0 LTL 0 EUR
    - VI.5. support 0 LTL 0 EUR
    - VI.6. for annual remunerations (tantiemes) for the members of Supervisory Board, Board of Directors, premiums for employees and other purposes (249 145) LTL (72 157) EUR
  - VII. Undistributed result – profit (loss) at the end of financial year 0 LTL 0 EUR

General meeting of shareholders of JSC Kauno Energija has been held on 24 April 2006. The following decisions have been made during this meeting:

- To select JSC Ernst & Young Baltic as a performer of JSC Kauno Energija financial accounting audit (in the following to be referred as the Audit) for the period of 2006 – 2008;
- To approve action report of the Company for 2005.
- To approve financial accounting of the Company for 2005.

To approve distribution of the profit of the Company for 2005. Distributional result at the end of financial year was 4 982 891 LTL (1 443 145 EUR). Allot to the reserves foreseen by the law - 3 633 746 LTL, for the support - 1 100 000 LTL. It was decided not to pay dividends.

On 28 April 2006 the Company announced result of its business activities during I-st quarter:

Unaudited action result of JSC Kauno Energija for the I-st quarter of 2006 (21 March 2006) according to International standards of accounting is profit 29254 thou. LTL (8473 thou. EUR). Earnings from sales during I-st quarter of 2006 were 99214 thou. LTL (28734 EUR).

On 26 June 2006 the Company announced information about application for Kaunas City Council to extend validity of JSC Kauno Energija centrally supplied heat tariff which was approved by Kaunas City Council by Decision No. T-348 on 23 June 2004 till 31 March 2007. The Company also announced that it intends not to change this tariff until 31 March 2008.



On 3 July 2006 information about establishment of legal body has been announced.

The Boards of JSC Kauno Energija decided to establish joint stock company with authorized capital of 10,000.00 LTL. This company would perform maintenance of heating and domestic hot water supply systems. 100 % of shares of established company would be owned by JSC Kauno Energija.

On 25 July 2006 the Company announced result of its business activities during I-st half-year:

Unaudited action result of JSC Kauno Energija for the I-st half-year of 2006 (21 June 2006) according to International standards of accounting is profit 21134 thou. LTL (6121 thou. EUR). Earnings from sales during I-st half year of 2006 were 124336 thou. LTL (36010 EUR).

On 4 September 2006 information has been announced about sale of shares of Company's branch company:

JSC Kauno energija as a owner of all shares of JSC Pastatų Priežiūros Paslaugos decided to begin open contest for the sale of 100 % shares of JSC Pastatų Priežiūros Paslaugos.

On 27 September 2006 information about open contest of JSC Kauno Energija on sale of shares has been announced.

The Board of JSC "Kauno Energija, taking into account opinion of members of Supervisory Board and response of the public on ongoing open sale contest of JSC Pastatų Priežiūros Paslaugos shares, decided to obligate administration to postpone date for presentation of covers with proposals and to suspend contest procedures and from 14 PM 26 September 2006 for all intending to participate in the contest not to sell conditions of open contest for the sale of shares of JSC Pastatų Priežiūros Paslaugo.

On 25 July 2006 the Company announced result of its business activities during first III quarters of the year:

Unaudited action result of JSC Kauno Energija for the first III quarters of the 2006 (30 September 2006) according to International standards of accounting is profit 12474 thou. LTL (3613 thou. EUR). Earnings from sales during nine months of 2006 were 137934 thou. LTL (39948 EUR).

On 22 November 2006 information has been announced about sale of shares of Company's branch company:

JSC Kauno energija as a owner of all shares of JSC Pastatų Priežiūros Paslaugos decided to cancel open contest for the sale of 100 % shares of JSC Pastatų Priežiūros Paslaugos.

On 28 December 2006 the Company announced prognosis of results of its business activities during 2006:

Forecasted profit from JSC Kauno Energija ordinary activities during 2006 is 9065 thou. LTL (2625.4 thou. EUR). The changes in forecasted result have been influenced by the changes in non-current asset and increase in sales of thermal energy.

#### **47. Business strategy and its foreseen changes during the next financial (economic) year**

Major activities of the Company are generation, distribution and sales of electric power and thermal energy for customers. There are no intentions to change directions of activities in the future. It is planned to propose additional services related with generation and sales of electricity and thermal energy for customers.

JSC Kauno Energija intends to further improve efficiency of activities and service of customers and to seek to maintain results of activities at level as best as possible. The goal of Investment Program of 2007 is to maintain and develop joint generation, supply and distribution of heat and electricity.

The further projects are intended to be implemented in JSC Kauno Energija in 2007:

- implementation of document management and assignment control system undivided for the whole Company;
- installation of equipment for distant reading of data from existing and new heat consumers and replacement of heat meters;
- reconstruction of heat supply network, installation of new heat supply lines and elimination of group heating substations.