

**AB KAUNO TIEKIMAS EXPLANATORY NOTES
to Financial Statements for the first six months of 2007**

1. GENERAL PROVISIONS

AB Kauno Tiekimas authorised capital amounts to LTL10,180,884. The Company is a limited liability company. AB Kauno Tiekimas is a legal person which enjoys commercial, production and economic, financial, organisational, and legal independence. The address of the company is at Palemono g.171, Kaunas, LT-52501. Administrators telephone number: (8 37) 373550; General Director's telephone number: (8 37) 473744; telephone/fax number: (8 37) 473744; e-mail: tiekimas@kaunas.balt.net. Company type: public limited liability company. AB Kauno Tiekimas was registered on 26 November 1992, register No AB-1072. Company code: 133523653. The Company has no website. The Company has a branch. The branch was registered on 8 November 2002. The code of the branch is 235944730. The company has no subsidiaries.

The main activities of the company include commercial activities and services. The commercial activities include wholesale and retail trade. The services include the customs and terminal services and rent of premises.

2. SHARES AND ACCOUNTING FOR SHARES

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

Shareholders whose participation in AB Kauno Tiekimas authorised capital and the number of votes held thereby exceed 5% as of 30/09/2006.

Shareholder	Company Register No	Seat address	No of shares		Participation in the authorised capital, %	
			Total	Under the property right	Total	Under the property right
UAB Ūkio Banko Investicinė Grupė	135201099	K.Donelaičio g. 60, Kaunas	3597376	1827783	35.33	17.95
UAB FMĮ Finbaltus	122020469	Konstitucijos pr. 23-660, Vilnius	3597376	1769593	35.33	17.38
AB Ūkio bankas FMD	112020136	Maironio g. 25, Kaunas	2000000	2000000	19.64	19.64
InCompleks LLC	CP00193203	101 South Spring Street, Suite 2, Little Rock, Arkansas 72201, JAV	1502461	502461	14.76	14.76

UAB Energolinija	135647258	Palemono g. 171, Kaunas	1232000	1232000	12.10	12.10
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Group of related persons:

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

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

Reporting period		Central market and block trading					
From	To	Price LTL			Last session date	Total turnover	
		Max	Min	Last session		Units	LTL
01-01-2007	31-03-2007	1.89	1.12	1.12	30-03-2007	365 347	622 030
01-04-2007	30-06-2007	1.24	0.95	1.08	29-06-2007	189 562	196 029

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

3. MEMBERS OF MANAGING BODIES

The Supervisory Board is not formed.

Board members:

Chairman of the Board Igor Gončaruk, holds 65,994 shares or 0.65% of AB Kauno Tiekimas authorised capital, 8,600 UAB Agrobiznis shares (100%) and 100 UAB Klemka shares (100%). Igor Gončaruk does not have any positions in other companies.

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

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

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

Administration:

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

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

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

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

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

4. ACCOUNTING POLICY

The accounting policy of the Company has been consistently applied in the financial statements for the first nine months of 2006. The interim financial reports have been drawn up in pursuance of the International Financial Accounting Standard on Interim Financial Reporting.

The assets, liabilities, revenue, and expenses valuation methods in the financial statements for the first nine months of 2006 remained the same. The income tax for the interim period was calculated in pursuance of the valid provisions set forth for income tax calculation.

5 .FINANCIAL ASSETS

During the reporting period there have been no movements of AB Kauno tiekimas financial assets. At the end of the reporting period the value of the company's shares quoted at the Stock Exchange is reflected in the Balance Sheet at the fair market value. The revenue from the revaluation of the financial assets accounted for LTL 1.3 m. At the end of the reporting period the company had current and noncurrent financial assets for LTL 28.8m.

6. BUSINESS AND GEOGRAPHIC SEGMENTS

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

The sales revenue in the first half year of 2007 decreased in comparison with the same period in 2006. This decrease resulted from a significant fall in the prices of alumina, which is the main raw material for aluminium, on the international markets as compared to 2006.

In the reporting period, there were slight changes in the customer geography. Compared to first half year of 2006, the sales to buyers from India increased 19.8 percents. In first half year of 2007, the sales to buyers from Turkey were 6.9 higher than in first half year of 2006. The company has new customers from USA, Switzerland, Greece. The sales to the Polish, Romanian and Chinese customers slightly declined.

The revenue and results of the business and geographic segments are provided in Table 1 “Information on business segments” and Table 2 “Information on geographic segments”.

Table 1. Information on business segments

First second quarter of 2007

Indices	Segments (types of activities)				All enterprises	
	Services		Trade		Second quarter of 2007	Second quarter of 2006
	Second quarter of 2007	Second quarter of 2006	Second quarter of 2007	Second quarter of 2006		
Revenue	421 968	393 805	103 661 935	208 885 068	104 083 903	209 278 873
Expenses	465 994	377 686	103 711 914	198 532 963	104 177 908	198 910 649
Result of operations	-2 283	13 124	834 410	10 352 105	-94 005	10 368 224

First half year of 2007

Indices	Segments (types of activities)				All enterprises	
	Services		Trade		First half year of 2007	First half year of 2006
	First half year of 2007	First half year of 2006	First half year of 2007	First half year of 2006		
Revenue	853 417	712 791	190 154 752	472 889 163	191 008 169	473 601 954
Expenses	899 726	727 406	189 370 321	455 981 752	190 270 047	456 709 158
Result of operations	-46 309	-14 615	784 431	16 907 411	738 122	16 892 796

Table 2. Information on geographic segments

Second quarter of 2007

Indices	Segments (regions)											All enterprises
	Lithuania	Poland	Switzerland	Bosnia	India	Turkey	Check	Greece	USA	Slovenia	Other	
Revenue	444 661	440 280	15 666 640	9 693 646	54 991 766	479 384	24 635	232 732	19 923 750	1 487 831	698 578	104 083 903
Expenses	489 504	440 489	15 674 072	9 698 244	55 017 852	479 611	24 647	232 842	19 933 201	1 488 537	698 909	104 177 908
Result of operations	-44 843	-209	-7 432	-4 598	-26 086	-227	-12	-110	-9 451	-706	-331	-94 005

Second quarter of 2006

Indices	Segments (regions)										All enterprises
	Lithuania	Poland	Romania	Bosnia	India	Turkey	Check	China	Greece	Other	
Revenue	395 636	16 045 608	2 058 204	24 539 839	39 795 863	59 709	1 627 296	124 311 649	107 861	337 208	209 278 873
Expenses	380 099	15 250 354	1 956 195	23 323 594	37 823 497	56 750	1 546 644	118 150 506	102 515	320 495	198 910 649
Result of operations	15 537	795 254	102 009	1 216 245	1 972 366	2 959	80 652	6 161 143	5 346	16 713	10 368 224

First half year of 2007

Indices	Segments (regions)													All enterprises
	Lithuania	Poland	Romania	Bosnia	India	Turkey	Check	China	USA	Slovenia	Switzerland	Greece	Other	
Revenue	935 739	2 102 300	303 861	18 301 852	99 002 804	828 684	1 159 030	27 718 482	21 712 848	2 124 572	15 666 640	232 732	918 625	191 008 169
Expenses	983 105	2 086 460	300 927	18 223 324	98 603 894	825 538	1 148 088	27 450 816	21 705 022	2 119 129	15 674 072	232 842	916 830	190 270 047
Result of operations	-47 366	15 840	2 934	78 528	398 910	3 146	10 942	267 666	7 826	5 443	-7 432	-110	1 795	738 122

First half year of 2006

Indices	Segments (regions)												All enterprises
	Lithuania	Poland	Romania	Bosnia	India	Turkey	Check	China	Greece	Slovenia	Other		
Revenue	725 146	38 226 176	2 645 842	46 218 199	82 627 665	119 887	3 029 586	297 374 718	107 861	2 141 450	385 424	473 601 954	
Expenses	758 512	36 878 623	2 529 201	44 462 160	79 588 781	115 430	2 914 017	286 904 282	102 515	2 088 128	367 509	456 709 158	
Result of operations	-33 366	1 347 553	116 641	1 756 039	3 038 884	4 457	115 569	10 470 436	5 346	53 322	17 915	16 892 796	

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

Indices	First half year of 2007	Firs half year of 2006	Receivable amount or balance 30-06-2007	Receivable amount or balance 30-06-2007
A. Total sales of goods or services, including:				
1. Key shareholders (corporate)				
2. Other enterprises	100 525	26 382	41 742	
B. Total purchase of goods or services, including:				
1. Key shareholders (corporate)	8 757	8 400		7 357
2. Other enterprises	264 385			60 039
C. Total sales of non-current assets, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
D. Total purchase of non-current assets, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
E. Total granted loans, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
F. Total received loans, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
H. Total granted guarantees, including:				
1. Key shareholders (corporate)				
2. Other enterprises				
I. Total other material transactions, including				
1. Key shareholders (corporate)				
2. Other enterprises				

7. EMPLOYEES

At the end of the previous financial year the Company employed 59 persons. At the end of first half year of 2007 the Company employed 61 persons..

8. CREDIT FACILITIES

The Company uses credit facilities granted by the bank. At the end of the accounting period the Company's debt to the Bank was LTL44.5m.

Irena Keblerienė
General Director