

(unofficial translation)

Report

**Evaluation of Draft Spin-Off Terms of
Public Company LIETUVOS ENERGIJA**

24 September 2010

(unofficial translation)

To the shareholders of the Public Company LIETUVOS ENERGIJA

We have conducted an evaluation of the draft terms of spin-off of the Public Company LIETUVOS ENERGIJA carried out according to Article 71(1) of the Company Law of the Republic of Lithuania under the spin-off procedure subject to the provisions of the Civil Code of the Republic of Lithuania regulating reorganisation by division approved by the Board of AB Lietuvos energija on 24 September 2010 (hereinafter the "Draft").

All information provided in this Draft has been prepared and made available by management of the Public Company LIETUVOS ENERGIJA which is responsible for the preparation of the Draft. The assets and liabilities of the Public Company LIETUVOS ENERGIJA taking part in the spin-off have not been evaluated for the purposes of spin-off, but the interim financial statements drawn up according to the International Financial Reporting Standards as at 30 June 2010 have been reviewed by the audit company UAB PricewaterhouseCoopers which presented the review report with the qualified opinion on the limited scope of work.

The exchange ratio of shares of AB Lietuvos energija, which will continue operating after the spin-off, and newly set up company, which will receive a portion of assets, rights and obligations of AB Lietuvos energija (hereinafter the "New Company"), has been determined on the basis of book values of assets and in view of the following facts:

- (a) on 30 August 2010, the Public Company LIETUVOS ENERGIJA drew up the financial statements as at 30 June 2010 reviewed by UAB PricewaterhouseCoopers which presented the review report;
- (b) According to the International Financial Reporting Standards, including IAS 34 "Interim financial statements", all post-balance sheet events that occurred before the date of financial statements (30 August 2010) have been disclosed in the explanatory note to the interim financial statements of AB Lietuvos energija;
- (c) The authorised capital of AB Lietuvos energija was increased on 8 September 2010 by issuing 304,098,871 shares with the nominal value of LTL 1 which were paid up by contributing assets worth LTL 629,484,662.97.

Based on the assets and liabilities to be spun off, AB Lietuvos energija divides its equity capital and authorised capital accordingly. Every share of a shareholder of AB Lietuvos energija is divided according to the share of the authorised capital attributed to AB Lietuvos energija operating after the spin-off and to the New Company, taking into account the rounding rules and share allocation procedure laid down in the spin-off terms.

The Draft has been evaluated in accordance with the International Standards on Related Services approved by the International Federation of Accountants, laws of the Republic of Lithuania, Civil Code of the Republic of Lithuania, Company Law of the Republic of Lithuania, other legal acts, contract on evaluation of draft spin-off terms and existing practice.

We hereby represent and assure that:

- we have not deliberately concealed additional circumstances and analyses material to the spin-off of AB Lietuvos energija;
- information on the activities of AB Lietuvos energija is and will be confidential;
- we never had, do not have and do not intend to have any interest in the assets management by AB Lietuvos energija;
- our remuneration for services provided does not depend on the opinion and analysis laid down herein.

The draft spin-off terms of AB Lietuvos energija by spinning off part of the activities from the current activities of the Company and setting up the New Company on the basis of assets, rights and obligations attributed to that spun-off part and allowing AB Lietuvos energija to continue operating have been drawn up properly in accordance with the requirements laid down in the Civil Code of the Republic of Lithuania and Company Law of the Republic of Lithuania.

UAB Moore Stephens Vilnius
(Licence No 001226)
Director, Auditor D. Pranckėnienė
(Certificate No 000345)

Vilnius, 24 September 2010

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1. Conclusions on correctness and validity of the share exchange ratio

On 30 June 2010, the authorised capital of AB Lietuvos energija was LTL 689,515,435 comprising 689,515,435 ordinary registered shares (ORS) with the nominal value of LTL 1. Later, a new share issue was launched and an increase in the authorised capital of AB Lietuvos energija to LTL 304,098,871 was registered on 8 September 2010 after the issue of 304,098,871 ordinary registered shares with the nominal value of LTL 1. All newly issued shares of AB Lietuvos energija have been duly subscribed to and paid up. The increased authorised capital of AB Lietuvos energija divided into 993,614,306 ORS with the nominal value of LTL 1 was registered on 8 September 2010.

The share exchange ratio is calculated according to the financial statements and drawn up spin-off balance sheets as at 30 June 2010 taking account of the share issue of 8 September 2010. Shares of the New Company and AB Lietuvos energija continuing after the spin-off will be issued to the shareholders of AB Lietuvos energija on the share exchange date in proportion to the shares held by each shareholder in AB Lietuvos energija before the spin-off.

Table 1. Value of 1 share of AB Lietuvos energija based on net assets (LTL '000 if not stated otherwise)

	AB Lietuvos energija 30.06.2010	New share issue	AB Lietuvos energija 08.09.2010* (before spin- off)
Intangible assets	1,990		1,990
Tangible assets	2,768,992	57,304	2,826,296
Investments in subsidiaries	28,259	572,180	600,439
Investments in associates and jointly controlled entities	24,707		24,707
Receivables	471		471
Non-current assets	2,824,419	629,484	3,453,903
Current assets	243,722		243,722
TOTAL ASSETS	3,068,141	629,484	3,697,625
Non-current liabilities	323,378		323,378
Current liabilities	97,975		97,975
Total liabilities	421,353	0	421,353
Net assets (assets less liabilities)	2,646,788	629,484	3,276,272
Number of shares	689,515,435	304,098,871	993,614,306
Value of 1 share, LTL (net assets/ number of shares)	3.84	2.07	3.30
Nominal value of 1 share, LTL	1	1	1

* Financial data of AB Lietuvos energija as at 30 June 2010 taking into account the increased authorised capital registered on 8 September 2010.

It should be noted UAB PricewaterhouseCoopers, the audit company which reviewed the financial statements of AB Lietuvos energija as at the exchange ratio date, issued a qualified opinion on the limited scope of work drawing attention of shareholders to the fact that all tangible non-current assets, with the exception of the hydropower plant and hydro pumped storage power plant, were carried at a revaluated amount which reflects the fair value of these assets on the revaluation date and that recent amendments to the legal acts may have a significant adverse effect on the fair and recoverable value of AB Lietuvos energija. UAB

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PricewaterhouseCoopers was unable to provide reliable assessment of the value of non-current assets in the financial statements.

Legal acts of the Republic of Lithuania regulating reorganisation and spin-off processes do not require the evaluators to provide an assessment of assets and liabilities of the company taking part in the spin-off as at the share exchange ratio date. In view of that and the fact that all shareholders of AB Lietuvos energija entitled to a certain share of equity in the operating AB Lietuvos energija will acquire the same interest in both the spun-off New Company and continuing AB Lietuvos energija, the qualified opinion of UAB PricewaterhouseCoopers on the financial statements of AB Lietuvos energija has no effect on the share exchange ratio.

Net assets of AB Lietuvos energija before the spin-off (assets at book value less liabilities) comprised LTL 2,646,788,000 on 30 June 2010. Therefore, each share of the nominal value of LTL 1 entitled to net assets of LTL 3.8386 and, if assets acquired during the increase of the authorised capital of AB Lietuvos energija are added, the net asset value on the date of execution of spin-off terms (when the Board of AB Lietuvos energija approved the draft spin-off terms) is LTL 3,276,272,000 and one ORS carries LTL 3.2973 in net assets. The impairment of one ORS resulted from the above-mentioned share issue at the price of LTL 2.07 per one ORS.

In accordance with the spin-off terms, AB Lietuvos energija will divide the authorised capital (100%) existing on the date of execution of spin-off terms (when the Board of AB Lietuvos energija approved the draft spin-off terms) between the companies operating after the spin-off, i.e. the New Company (50.75725833%) and continuing AB Lietuvos energija (49.24274167%). Using the same proportion as for the attribution of the authorised capital of operating AB Lietuvos energija, each share held by a shareholder of AB Lietuvos energija will also be divided taking into account the rounding rules and share allocation procedure laid down in the spin-off terms.

After the New Company is spun off from AB Lietuvos energija and the latter continues operating under the prescribed terms and conditions, both companies will have good financial indicators and will be able to operate successfully. The calculation of financial indicators as a comparison of the existing AB Lietuvos energija, New Company and continuing AB Lietuvos energija is provided in Table 2 below.

Table 2. Financial indicators of companies involved in the spin-off process

Indicators	AB Lietuvos energija	New Company	Continuing AB Lietuvos energija
Net working capital (current assets – current liabilities), LTL '000	145,747	39,980	105,767
Gross current solvency ratio (gross liquidity) (current assets / current liabilities)	2.49	5.81	2.18
Absolute current solvency ratio (net cash / current liabilities)	1.02	5.53	0.60
Fixed capital current solvency ratio (cash + receivables - current liabilities / fixed capital)	0.04	0.02	0.13
Gross debt indicator (total liabilities / total assets)	0.11	0.13	0.10

Since the existing shareholders of AB Lietuvos energija will have ownership rights in each company operating after the spin-off proportionate to their rights in AB Lietuvos energija operating before the spin-off subject to the rounding and share allocation rules, the limited scope of work indicated by UAB PricewaterhouseCoopers as well as the assets of the

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hydropower plant and hydro pumped storage power plant not measured at the market value will have no effect on the ownership ratio.

Conclusion: The share exchange ratio determined on the basis of book values of assets and liabilities as at 30 June 2010 plus the results of the share issue of 8 September 2010 is correct and valid for the purposes of exchanging a share held by every shareholder according to the adjusted authorised capital attribution ratio (Chapter XXI of Annex 1 to the Spin-Off Terms of the Public Company Lietuvos energija).

2. Methods to determine the share exchange ratio and conclusions on suitability of methods and impact on value determination

The authorised capital of continuing AB Lietuvos energija will be divided into 489,282,926 ordinary registered shares with the nominal value of LTL 1 and, accordingly, the authorised capital of the New Company will be divided into 504,331,380 ordinary registered shares with the nominal value of LTL 1.

The method used to allocate the shares of AB Lietuvos energija and the New Company to the shareholders of the New Company and AB Lietuvos energija continuing after the spin-off based on the proportion of attribution of the authorised capital determined on the basis of proportions of net assets (at book values as at 30 June 2010) adjusted after the changes in the authorised capital following the registration of the new share issue of AB Lietuvos energija on 8 September 2010 is correct as the existing shareholders will retain the proportions of their ownership interest before the spin-off of AB Lietuvos energija both in the New Company and in AB Lietuvos energija continuing after the spin-off.

There will be no share price differences at the time of spin-off and shareholders will receive no payments.

The following was used to determine the share exchange ratio:

- The financial statements of AB Lietuvos energija as at 30 June 2010 reviewed by UAB PricewaterhouseCoopers which presented the review report with the qualified opinion on the limited scope of work;
- The allocation of assets and liabilities between the public companies operating after the spin-off laid down in the spin-off terms of the Public Company LIETUVOS ENERGIJA;
- Results of the share issue registered on 8 September 2010.

Conclusion: The method used to determine the share exchange ratio based on the allocation proportion of the existing authorised capital of AB Lietuvos energija by dividing the existing shares of AB Lietuvos energija into the shares of the New Company and AB Lietuvos energija continuing after the spin-off is appropriate for the purposes of determining the exchange ratio of shares of companies which will operate after the spin-off.

3. Description of encountered evaluation difficulties

Management of the Company is responsible for the financial statements of AB Lietuvos energija as at 30 June 2010. Management of AB Lietuvos energija arranged for the review of the financial statements by independent auditors and ensured their reliability. If there were any inaccuracies in these statements, they are the responsibility of management of AB Lietuvos energija.

As indicated by AB Lietuvos energija in its financial statements as at 30 June 2010, there were plans to increase the authorised capital of AB Lietuvos energija, which was subsequently increased on 8 September 2010 by issuing 304,098,871 ORS with the nominal value of LTL 1 at the issue price of LTL 2.07 per share. Since the issue price of newly issued shares is lower than the amount of net assets per share measured at the book value as at 30 June 2010, there was a change in the share exchange ratio. Shareholders who acquired shares during the above-mentioned share issue of 2010 receive a relatively larger value of net assets per share after the increase in the authorised capital than the value of net assets per one newly issued share during the share issue of 2010. Each existing shareholder was

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entitled to exercise their pre-emption right and acquire newly issued shares and retain the same ownership ratio. Therefore, the new share issue has no effect on the determination of the share exchange ratio.

The authorised capital existing as at 30 June 2010 was divided by AB Lietuvos energija according to the share of net assets attributable to the companies which will operate after the spin-off and the results are presented in Table 3 below.

Table 3. Allocation of the authorised capital of AB Lietuvos energija as at 30 June 2010 (LTL '000 if not stated otherwise)

	AB Lietuvos energija 30.06.2010	New Company	AB Lietuvos energija (continuing)
Intangible assets	1,990	395	1,595
Tangible assets	2,768,992	2,042,799	726,193
Investments in subsidiaries	28,259	10,161	18,097
Investments in associates and jointly controlled entities	24,707	0	24,707
Receivables	471	0	471
Total non-current assets	2,824,419	2,053,356	771,063
Current assets	243,722	48,291	195,431
TOTAL ASSETS	3,068,141	2,101,647	966,494
Non-current liabilities	323,379	263,665	59,713
Current liabilities	97,975	8,311	89,664
Total liabilities	421,354	271,976	149,377
Net assets (assets less liabilities)	2,646,787	1,829,671	817,117
Number of shares	689,515,435	476,648,124	212,867,311
Value of 1 share, LTL (net assets/ number of shares)	3.84	3.84	3.84
Nominal value of 1 share, LTL	1	1	1

Since the authorised capital of AB Lietuvos energija was increased before the date of execution of the spin-off terms (when the Board of AB Lietuvos energija approved the draft spin-off terms), the allocation of shares and, at the same time, authorised capital as at 30 June 2010 as specified in Table 3 above was adjusted by the amount of nominal values of newly issued shares assuming that if the above-mentioned events occurred on 30 June 2010 and would have affected the allocation of the authorised capital.

Table 4. Allocation of the new share issue of AB Lietuvos energija registered on 8 September 2010 (LTL '000 if not stated otherwise)

	AB Lietuvos energija share issue of 08.09.2010	New Company	AB Lietuvos energija (continuing)
Tangible assets	57,304	57,304	
Investments in subsidiaries	572,180		572,180
Total non-current assets	629,484	57,304	572,180
Current assets			
TOTAL ASSETS	629,484	57,304	572,180
Total liabilities	0	0	0
Net assets (assets less liabilities)	629,484	57,304	572,180

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Number of shares	304,098,871	27,683,256	276,415,615
Value of 1 share, LTL (net assets/ number of shares)	2.07	2.07	2.07
Nominal value of 1 share, LTL	1	1	1

The shares of AB Lietuvos energija existing before the spin-off, including the shares of the new issue, will be divided by adding the shares of the new issue allocated as indicated in Table 4 above to the allocation of shares indicated in Table 3 above based on the net asset value (the result is presented in Table 5 below).

Table 5. Allocation of assets and liabilities of AB Lietuvos energija to the companies operating after the spin-off (LTL '000 if not stated otherwise)

	AB Lietuvos energija 08.09.2010* (before spin-off)	New Company	AB Lietuvos energija (continuing)
Intangible assets	1,990	395	1,595
Tangible assets	2,826,296	2,100,103	726,193
Investments in subsidiaries	600,439	10,162	590,277
Investments in associates and jointly controlled entities	24,707	0	24,707
Receivables	471	0	471
Non-current assets	3,453,903	2,110,660	1,343,243
Current assets	243,722	48,291	195,431
TOTAL ASSETS	3,697,625	2,158,951	1,538,674
Non-current liabilities	323,378	263,665	59,713
Current liabilities	97,975	8,311	89,664
Total liabilities	421,353	271,976	149,377
Net assets	3,276,272	1,886,975	1,389,297
Number of shares	993,614,306	504,331,380	489,282,926
Value of 1 share, LTL	3.30	3.74	2.84
Nominal value of 1 share, LTL	1	1	1

* Financial data of AB Lietuvos energija as at 30 June 2010 taking into account the increased authorised capital registered on 8 September 2010.

The exchange of a share held by each shareholder of AB Lietuvos energija according to the adjusted authorised capital attribution ratio will not take account of the differences in net asset values in companies which will operate after the spin-off but this will have no effect on the proportion of shareholder equity in the New Company and continuing AB Lietuvos energija.

Part of assets of AB Lietuvos energija is set to be evaluated during the period up to the final spin-off and transfer of the spun-off part to the New Company and contributed as a property contribution to other companies in exchange for their shares. The share exchange ratio does not need to be changed because of this evaluation since the existing shareholders of AB Lietuvos energija will receive shares in both companies which will operate after the spin-off in the same proportions as they had in AB Lietuvos energija before the spin-off.

Conclusion: Encountered evaluation differences have no effect on the determination of the share exchange ratio.

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4. Conclusion

The spin-off terms of AB Lietuvos energija providing for the spin-off from the existing AB Lietuvos energija of part of activities of AB Lietuvos energija in the form of assets, rights and obligations and set up the New Company and retain the continuing AB Lietuvos energija have been drawn up properly in accordance with the requirements of the Civil Code of the Republic of Lithuania and Company Law of the Republic of Lithuania.

The following is an integral part of this evaluation report of draft spin-off terms:

- Draft spin-off terms of AB Lietuvos energija with Annexes approved by the Board of AB Lietuvos energija on 24 September 2010;
- Financial statements of AB Lietuvos energija as at 30 June 2010 and their review reports by UAB PricewaterhouseCoopers;
- Draft new articles of association of the continuing AB Lietuvos energija;
- Draft articles of association of the New Company;
- Articles of Association of AB Lietuvos energija.

The evaluation report of spin-off terms may be submitted to the Register of Legal Entities of the Republic of Lithuania.

Independent certified auditor of Lithuania
Dangutė Pranckėnienė, Auditor's Certificate No
000345