

## Letterhead of Ernst & Young Baltic

AB Lietuvos energija  
Elektrinės g. 21  
Elektrėnai  
Republic of Lithuania

AB Lietuvos elektrinė  
Elektrinės g. 21  
Elektrėnai  
Republic of Lithuania

11 May 2011

Dear Sir/Madam,

We have performed the assessment of the terms of reorganisation of AB Lietuvos energija and AB Lietuvos elektrinė and have prepared the assessment report (Annex 1). The assessment has been performed in accordance with Article 63(2) and (3) of the Law of the Republic of Lithuania on Companies and the provisions of the Civil Code, and is limited to the application of the laws of the Republic of Lithuania.

During the assessment of the terms of reorganisations we referred to documents and information provided to us by the representatives of AB Lietuvos energija and AB Lietuvos elektrinė. No additional inquiries have been made to any third party in order to obtain additional information.

The assessment of the terms of reorganisation is based on the assumption that all documents made available to us as well as all data contained in such documents are true and reflect the existing situation; that all signatures and seals on such documents are authentic; that copies of documents conform to the original documents, and that no amendment or supplement was made to these documents after they were presented to us for assessment. We have not verified whether information made available to us was true and complete, except in cases stated in the report. Our assessment does not extend to any other documents of AB Lietuvos energija and AB Lietuvos elektrinė save for the ones listed in Annex 2, and it is limited to information and documents made available to us for the purpose of assessment. We shall not assume any liability for updating the assessment report if any changes are revealed after the date of the provision of the assessment report.

The scope of our work is much narrower than an audit or a review that is performed in order to express an opinion on financial and other information of AB Lietuvos energija and AB Lietuvos elektrinė in accordance with International Standards on Auditing or any other applicable professional standards. If an audit or a review is performed, our assessment would have other objectives and other conclusions, remarks or recommendations could be provided.

Yours Sincerely,

*[signature]*

Asta Štreimikienė  
Auditor

Auditor's Licence No 000382

ASSESSMENT REPORT OF THE TERMS  
OF REORGANISATION OF  
AB LIETUVOS ENERGIJA AND  
AB LIETUVOS ELEKTRINĖ

AB Lietuvos energija  
Elektrinės g. 21  
Elektrėnai  
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Asta Štreimikienė  
Auditor

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## Annex 1

### ASSESSMENT REPORT

#### I. General remarks

AB Lietuvos energija, legal form of the legal entity: public limited liability company, registered office at Elektrinės g. 21, Elektrėnai, Republic of Lithuania, Code 220551550, information about the legal entity is filed with the Register of Legal Entities of the Republic of Lithuania, registrar: Vilnius Branch Office of State Enterprise Centre of Registers, (hereinafter referred to as AB Lietuvos energija), and

AB Lietuvos elektrinė, legal form of the legal entity: public limited liability company, registered office at Elektrinės g. 21, Elektrėnai, Republic of Lithuania, Code 110870933, information about the legal entity is filed with the Register of Legal Entities of the Republic of Lithuania, registrar: Vilnius Branch Office of State Enterprise Centre of Registers, (hereinafter referred to as AB Lietuvos elektrinė),

are reorganised by merger, pursuant to Article 2.97(4) of the Civil Code of the Republic of Lithuania, by merging AB Lietuvos energija and AB Lietuvos elektrinė (who shall be dissolved as legal entities following the merger) into Lietuvos energija, AB, which shall commence its activities after the Reorganisation and which shall become a successor to all assets, rights and obligations of Reorganised Companies.

#### II. Remarks on the Terms of Reorganisation:

##### 1) Contents of the Terms of Reorganisation

*The Terms of Reorganisation have been drawn up pursuant to the provisions of Article 63 of the Law of the Republic of Lithuania on Companies. The Terms of Reorganisation discuss and define all aspects of reorganisation provided by the law.*

##### 2) Change of the denomination of shares

Pursuant to Chapter 5 of the Terms of Reorganisation, the denomination of shares is not changed during reorganisation. The authorised capital of Lietuvos energija, AB, to be active after the Reorganisation shall be LTL 635,083,615. The authorised capital of Lietuvos energija, AB, shall be divided into 635,083,615 ordinary registered shares with the par value of LTL 1 each.

##### 3) Transfer of assets, rights and obligations

Pursuant to Chapter 7 of the Terms of Reorganisation, during reorganisation Lietuvos energija, AB, to be active after the Reorganisation shall become a successor to all fixed assets, current assets, also long-term and short-term financial and other obligations, accounts receivable and accounts payable under contracts entered into by AB Lietuvos energija and AB Lietuvos elektrinė, and other otherwise arising obligations of AB Lietuvos energija (including Kruonis Pumped Storage Plant (a branch of AB Lietuvos energija) and Kaunas Hydroelectric Plant (a branch of AB Lietuvos energija)) and AB Lietuvos elektrinė.

##### 4) Specials rights are provided for members of the bodies of the company involved in the reorganisation and of the company to be active after the reorganisation, also to experts assessing the terms of reorganisation

Pursuant to Chapter 9 of the Terms of Reorganisation, the Boards and Heads of AB Lietuvos energija and AB Lietuvos elektrinė as well as experts performing the assessment of the Terms

of Reorganisation enjoy all rights during the Reorganisation that they are entitled to by the laws of the Republic of Lithuania, concluded contracts and the articles of association of the Companies.

The new company Lietuvos energija, AB, shall have the following bodies: the general meeting of shareholders, a collegial management body – the board that will consist of 5 members elected for the term of 4 years, and a single person management body – the director general; the powers of these bodies shall be as defined in the laws of the Republic of Lithuania and the articles of association of Lietuvos energija, AB.

### **III. Conclusions on the fairness and reasonableness of the conversion rate of shares**

On the date of the Terms of Reorganisation the authorised capital of AB Lietuvos energija was LTL 489,282,926, which was divided into 489,282,926 ordinary registered shares with the par value of LTL 1 each.

On the date of the Terms of Reorganisation the authorised capital of AB Lietuvos elektrinė was LTL 145,800,689, which was divided into 145,800,689 ordinary registered shares with the par value of LTL 1 each.

Pursuant to the Terms of Reorganisation, the authorised capital of Lietuvos energija, AB, to be active after the Reorganisation shall be LTL 635,083,615, which shall be divided into 635,083,615 ordinary registered shares with the par value of LTL 1 each.

The fairness of the conversion rate of shares shall depend on the how precisely the real values of the shares to be converted are established.

As is analysed in detail in Chapter IV below, the calculation of the conversion rate of shares of AB Lietuvos energija and AB Lietuvos elektrinė into shares of Lietuvos energija, AB, was based on the values of shares of the Companies established from the revenue point of view and based on the method of discounted cash flow. Thus, the value of all shares of AB Lietuvos energija and AB Lietuvos elektrinė calculated as stated above is LTL 939,070,507 and LTL 432,300,000 respectively, while the ratio of share values of AB Lietuvos energija and AB Lietuvos elektrinė is 68.47:31.53.

AB Lietuvos energija holds 139,292,961 ordinary registered shares of AB Lietuvos elektrinė, which amounts to approximately 95.54% of the authorised capital of AB Lietuvos elektrinė. If the value of these shares of AB Lietuvos elektrinė held by AB Lietuvos energija is included into the value of shares of AB Lietuvos energija stated in paragraph 5.10 of the Terms of Reorganisation, the value of shares of AB Lietuvos energija (including the shares of AB Lietuvos elektrinė held by AB Lietuvos energija) shall be LTL 1,352,089,927.

With due consideration to the above circumstances, for the purpose of establishing the conversion rate of shares, the value of shares of AB Lietuvos energija to be converted (including the shares of AB Lietuvos elektrinė held by AB Lietuvos energija) shall be LTL 1,352,089,927, and the value of shares of AB Lietuvos elektrinė to be converted shall be LTL 19,285,040, while the ratio of values of shares of both Companies shall be 98.59:1.41.

With due consideration to the final ration of values of shares of AB Lietuvos energija and AB Lietuvos elektrinė, which is 98.59:1.41, the shares of AB Lietuvos energija shall be converted into the shares of Lietuvos energija, AB, to be active after the Reorganisation according to the following rate: one share of AB Lietuvos energija shall traded for 1.28 shares of Lietuvos energija, AB. The shares of AB Lietuvos elektrinė shall be converted into the shares of Lietuvos energija, AB, to be active after the Reorganisation according to the following rate: one share of AB Lietuvos elektrinė shall traded for 1.37 shares of Lietuvos energija, AB. The

rounding rules provided in the Terms of Reorganisation seem to be proper in the given situation, as they take into account the shareholders with the minority interest.

With due consideration to the above, we may state that the conversion rate of shares is essentially reasonable and fair.

#### **IV. Methods used to establish the conversion rate of shares. Conclusions regarding the reasonableness of the these methods and their impact on the determination of the value of shares**

Pursuant to the Terms of Reorganisation, the calculation of the conversion rate of shares of AB Lietuvos energija and AB Lietuvos elektrinė into shares of Lietuvos energija, AB, was based on the value of shares of the Companies. The Terms of Reorganisation provide comprehensive considerations and assumptions that were used for establishing the fair value of shares of both Companies.

Considerations that prices in the stock market cannot be directly relied upon seem unreasonable. The fact that AB Lietuvos energija is the largest shareholder of AB Lietuvos elektrinė and that it seems likely that the market price of shares of AB Lietuvos energija also reflects the value of shares of AB Lietuvos elektrinė in one way or another is especially important (or on the contrary – this fact is not sufficiently considered).

Likewise, even though the assessment when using the method of accounting values would be one of the easiest methods to apply (even though it has significant limitations because in general case the accounting value of equity fails to objectively reflect the developmental opportunities of the Companies and the potential future benefit of the generation of cash flow), arguments that it is wrong to rely on this method seem reasonable and convincing, especially considering limitations related to the accounting of fixed assets of the Companies that the auditors of the Companies mention in their opinion.

Even though any assessment analysis is based on assumptions and is not precise, we think that the provision of the Terms of Reorganisation to use the revenue point of view and to follow the method of discounted cash flow in establishing the conversion rate of shares of AB Lietuvos energija and AB Lietuvos elektrinė into the shares of Lietuvos energija, AB is correct, as:

- the assessment analysis has been performed with due consideration to the specific case of reorganisation;
- the assumptions that formed the basis for the assessment analysis were comprehensively described and seemed reasonable;
- the performed assessment analysis pertained to the situation on 31 December 2010, i.e. the last date on which the audited financial information of the Companies was publicly available;
- limitations regarding the made assumptions were clearly stated and were not higher than the assumptions that are usually made for assessment analyses.

#### **V. Description of encountered assessment difficulties**

Material difficulties encountered during the assessment:

- Because only a small part of shares of AB Lietuvos energija and AB Lietuvos elektrinė is traded in NASDAQ OMX Vilnius stock exchange, the turnover of shares of AB Lietuvos energija and AB Lietuvos elektrinė in NASDAQ OMX Vilnius stock exchange is low; also, as AB Lietuvos energija is the largest shareholder of AB Lietuvos elektrinė, it seems likely that the market price of shares of AB Lietuvos energija reflects the value of shares of AB Lietuvos elektrinė as well; thus, the stock

- exchange information could not be used for establishing the value of shares even though in general it would be one of the most reliable methods of assessment;
- The income point of view was used and the method of discounted cash flow was followed; they have the usual limitations applicable to such assessment analysis.

No more difficulties were encountered during the assessment.

## **Annex 2**

### **LIST OF DOCUMENTS**

1. Terms of Reorganisation, including annexes;
2. Table for the calculation of the conversion rate of shares;
3. Resolution of the general meeting of shareholders of AB Lietuvos energija on the approval of the drafting of the Terms of Reorganisation.
4. Resolution of the general meeting of shareholders of AB Lietuvos elektrinė on the approval of the drafting of the Terms of Reorganisation.