# REPORT ON INTENDED REORGANIZATION

## OF THE BOARD OF

## PUBLIC LIMITED LIABILITY COMPANY LIETUVOS DUJOS

VILNIUS
2015

# CONTENT

## 1. DEFINITIONS

1.1. Capitalized words in this report on intended reorganization of the Board of public limited liability company Lietuvos Dujos shall have the following meanings, except for cases where they have a different meaning in a particular context:

1.1.1. **Companies** shall collectively refer to AB LESTO and public limited liability company Lietuvos Dujos being reorganized, whereas the **Company** shall mean any of the aforementioned companies individually.

1.1.2. **ESO** shall stand for a new company, namely, AB Energijos Skirstymo Operatorius established by merging the Companies during the reorganizational process, to which all assets, rights and obligations of the merged Companies are transferred.

1.1.3. **Reorganization** shall mean the reorganization of the Companies performed in compliance with the Civil Code of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania and other respective legal acts of the Republic of Lithuania, by merging two public companies, namely, AB LESTO and public limited liability company Lietuvos Dujos, which terminate their individual activity after the Reorganization and cease to exist as legal entities, into a new legal entity, i.e. ESO.

1.1.4. **Reorganization Terms** shall mean the document prepared and approved by managing bodies of the Companies, including all annexes, supplements, amendments to the Reorganization Terms as well as other documents which are attached to the Reorganization Terms and (or) are considered their integral part.

1.1.5. **Reorganized Companies** shall mean the companies which terminate their activity after the Reorganization and cease to exist as legal entities, namely, AB LESTO and public limited liability company Lietuvos Dujos.

1.1.6. **LD** shall stand for public limited liability company Lietuvos Dujos incorporated and operating in accordance with the legislation of the Republic of Lithuania, registered with the Register of Legal Entities of the Republic of Lithuania under the legal entity code 120059523 at the address Aguonų St. 24, Vilnius.

1.1.7. **LESTO** shall mean public limited liability company AB LESTO incorporated and operating in accordance with the legislation of the Republic of Lithuania, registered with the Register of Legal Entities of the Republic of Lithuania under the legal entity code 302577612 at the address Aguonų St. 26, Vilnius.

1.1.8. **Licences** shall mean licences for the distribution of natural gas as well as distribution and public supply of electrical energy.

1.1.9. **Transferred Assets, Rights and Obligations** shall mean all fixed and current assets of LESTO and LD, also long-term and current financial and other liabilities, accounts receivable and payable in accordance with agreements concluded by LESTO and LD or obligations arising from other bases, as well as all rights to licences, permits and certificates used by LESTO and LD, if legislation provides for the possibility to transfer such rights, and other rights and obligations of LESTO and LD assumed according to other transactions and obligations arising from other bases (including the rights and obligations under collective and employment contracts, funds kept in bank accounts of LESTO and LD, agreements with the newest and existing consumers of electrical energy and gas distribution services, producers of electrical energy, independent suppliers, also suppliers of goods, services and (or) works) and rights and obligations under other documents drawn up by LESTO and LD (technical specifications, design specifications, etc.), except for those rights and obligations of LESTO and LD which are prohibited to be transferred or which cannot be transferred to another person during the Reorganization in accordance with the imperative provisions of the Republic of Lithuania.

1.1.10. **Date of Transfer** shall mean the date before the moment the Licences come into effect on which ESO takes over all Transferred Assets, Rights and Obligations from the Companies.

1.2. In this report of the Board of LD on intended Reorganization, words importing the singular meaning shall, where the context so admits, include the plural meaning and vice versa. Similarly, the words importing the masculine gender may, where the context so admits, include the feminine gender and vice versa. Any names used in the report on intended Reorganization of the Board of LD are included for convenience only and shall have no effect on the meaning or interpretation of the report on intended Reorganization of the Board of LD. Every time such words as "include", "among them" or "including" or words of similar meaning are used in the report on intended Reorganization of the Board of LD, it shall be deemed that they are followed by the phrase "but not limited to".

1.3. A reference to a specific article, paragraph or subparagraph shall mean the reference to that specific article, paragraph or subparagraph of the report on intended Reorganization of the Board of LD, unless otherwise specified.

1.4. References to laws or other legislation made in the report on intended Reorganization of the Board of LD shall mean references to respective editions of the law or other piece of legislation of the Republic of Lithuania which is in effect at that time (unless the context requires otherwise).

## 2. LEGAL BASIS FOR REORGANIZATION

Based on the Reorganization Terms drafted upon instruction of the Company General Meeting of Shareholders held on 29 May 2015 and approved by decisions of the Boards of LESTO and LD adopted in the Board meetings of LESTO and LD held on 31 August 2015, LESTO and LD participating in Reorganization shall be merged and on the basis of the assets, rights and obligations of these Companies a new legal entity of the same legal form, namely ESO, shall be formed.

The report on intended Reorganization of the Board of LD is drafted in accordance with Article 2.99(3) of the Civil Code of the Republic of Lithuania and Article 64 of the Law on Companies.

This report on intended Reorganization of the Board of LD was approved by the decision of LD Board adopted in the Board meeting of LD held on 31 August 2015.

Liudas Liutkevičius
Chairman of the Board of public limited liability company Lietuvos Dujos

## 3. INFORMATION ABOUT THE REORGANIZED COMPANIES AND THE NEW COMPANY RESULTING FROM THE REORGANIZATION

3.1. The reorganized companies:

3.1.1. LD

- legal entity name – public limited liability company Lietuvos Dujos;
- legal form of the legal entity – public limited liability company;
- registered address of the legal entity – Aguonų St. 24, Vilnius, the Republic of Lithuania;
- legal entity code – 120059523;
- register where information about a legal entity is collected and kept – the Register of Legal Entities of the Republic of Lithuania, Registrar – SE Centre of Registers, Vilnius branch;
- value added tax payer's code – LT200595219;
- authorised capital – EUR 84,298,864.60 divided into 290,685,740 ordinary registered shares with the nominal value of EUR 0.29 each, the ISIN code of the issue of shares being LT0000116220;
- paid up capital – EUR 84,298,864.60;
- LD is considered an issuer in accordance with the Law on Securities of the Republic of Lithuania, its shares are listed on the Official Trading List of NASDAQ OMX Vilnius, AB. All regulated information announced by LD, including the historical financial details for 2012, 2013 and 2014 as well as interim financial information is available for familiarisation on the website of LD http://www.lietuvosdujos.lt, also on the website of NASDAQ OMX Vilnius, AB www.nasdaqomxbaltic.com and in the Central Storage Facility on the website www.crib.lt.

3.1.2. LESTO

- legal entity name – AB LESTO;
- legal form of the legal entity – public limited liability company;
- registered address of the legal entity – Aguonų St. 26, Vilnius, the Republic of Lithuania;
- legal entity code – 302577612;
- register where information about a legal entity is collected and kept – the Register of Legal Entities of the Republic of Lithuania, Registrar – SE Centre of Registers, Vilnius branch;
- value added tax payer's code – LT100005809812;
- authorised capital – EUR 175,143,931.97 divided into 603 944 593 ordinary registered shares with the nominal value of EUR 0.29 each, the ISIN code of the issue of shares being LT0000128449;
- paid up capital – EUR 175,143,931.97;
- LESTO is considered an issuer in accordance with the Law on Securities of the Republic of Lithuania, its shares are listed on the Official Trading List of NASDAQ OMX Vilnius, AB. All regulated information announced by LESTO, including the historical financial details for 2012, 2013 and 2014 as well as

interim financial information is available for familiarisation on the website of LESTO www.lesto.lt, also on the website of NASDAQ OMX Vilnius, AB www.nasdaqomxbaltic.com and in the Central Storage Facility on the website www.crib.lt;

3.2. A new legal entity ESO shall be formed after the Reorganization:

- legal entity name – AB Energijos Skirstymo Operatorius;
- legal form of the legal entity – public limited liability company;
- registered address of the legal entity – Aguonų St. 24, Vilnius, the Republic of Lithuania;
- legal entity code – to be attributed in accordance with the procedure established in the legislation of the Republic of Lithuania following the registration of ESO with the Register of Legal Entities;
- register where information about a legal entity is collected and kept – the Register of Legal Entities of the Republic of Lithuania, Registrar – SE Centre of Registers, Vilnius branch;
- the ISIN code of the issue of shares will be attributed following the registration of the issue of ESO shares with the Central Securities Depository;
- authorised capital – EUR 259,442,796.57.

## 4. MODE OF REORGANIZATION. THE COMPANIES CEASING THEIR EXISTENCE AFTER REORGANIZATION AND A NEW COMPANY TO BE ACTIVE AFTER REORGANIZATION

4.1. On the basis of the Reorganization Terms, the Companies are reorganised by way of merger, as laid down in Article 2.97 (4) of the Civil Code of the Republic of Lithuania, merging the Reorganised Companies which will cease their existence as legal entities after the Reorganization into ESO which will begin its operation after the Reorganization and will be the successor to all assets, rights and obligations of the Reorganised Companies, i.e. the new legal entity ESO will result from the Companies ceasing their existence and will continue the activities. The Reorganization may be appealed to the court under the procedure established by legal acts of the Republic of Lithuania and may be declared null and void on the grounds provided for in the legislation of the Republic of Lithuania.

4.2. The Companies ceasing their existence after Reorganization: LESTO and LD.

4.3. The new company which will be incorporated and will commence its activities after the Reorganization: ESO.

## 5. GOAL OF REORGANIZATION

5.1. The Reorganization is aimed at the reduction of operating costs as a result of operational synergies. The Reorganization of the Company is also aimed at more efficient organization of activities, process optimization, elimination of duplication of activities and at more efficient investment planning.

## 6. REORGANIZATION TERMS. LEGAL AND ECONOMIC GROUNDS OF REORGANIZATION

6.1. Legal grounds of Reorganization. The Reorganization Terms have been drafted by the Boards of the Companies upon instruction of the Companies' General Meetings of Shareholders held on 29 May 2015 (Reorganization Terms were considered and approved by the decision of LD's Board meeting held on 31 August 2015 and by the decision of LESTO's Board meeting held on 31 August 2015). The Reorganization Terms were drawn up in accordance with the provisions of the Civil Code of the Republic of Lithuania, the Law on Companies and other respective legal acts of the Republic of Lithuania.

6.2. Economic grounds of Reorganization. As indicated in paragraph 5.1 of the report, the Reorganization is aimed at the reduction of operating costs as a result of operational synergies. The conducted analysis revealed that the most savings will be achieved as a result of the following:

6.2.1. More efficient organization of activities and more convenient management - upon the merger of the Companies, their management and organization of activities will be ensured by one (rather than two) team of executives and administration. Correspondingly, a single and uniform process of approval of budget, strategy, action plans and goals will be implemented. For the above reasons, the management of ESO will be simpler and more efficient, and costs of administration will decrease.

6.2.2. Optimization of processes and elimination of duplication of activities - upon the merger of the Companies, the organization of activities will be more efficient because of the merging of administration processes of the Companies, namely, finance management, legal activities, communication, human resource management, occupational safety and office administration. After the merger of the Companies, the plan is to search for synergies in core activities and to merge certain network operation processes.

6.2.3. More efficient organization of work – more efficient organization of activities and optimizations of processes will result in the reduction of the costs of rent and maintenance of premises and vehicles, set-up of workplaces, etc.

6.2.4. One-stop shop for customers – the consolidation of the customer service function will allow serving customers more efficiently - duplication of customer service standards and of the functions of formation of quality requirements, purchase and ordering of services and service control will be avoided.

6.2.5. Economies of scale as a result of more efficient procurement procedures – joint procurement in the administration area will lead to a fewer procurement procedures and, respectively, decreased costs of services of the organization of procurement procedures.

6.2.6. More efficient investment planning – different investment planning principles and methods of the Companies will be replaced by a uniform investment planning model. In light of the needs of development of networks, investment planning process itself as well as investment project management and implementation control will be improved.

6.3. Authorised capital and establishment of share exchange ratio.

6.3.1. As of the day of drawing up the Reorganization Terms the authorized capital of LD is EUR 84,298,864.6 and is divided into 290,685,740 ordinary registered shares of EUR 0.29 nominal value each.

6.3.2. As of the day of drawing up the Reorganization Terms the authorized capital of LESTO is EUR 175,143,931.97 and is divided into 603,944,593 ordinary registered shares of EUR 0.29 nominal value each.

6.3.3. The authorized capital of ESO to be active after Reorganization will be equal to EUR 259,442,796.57, i.e. the authorized capitals of LD and LESTO will be aggregated. The authorized capital of ESO will be divided into 894,630,333 ordinary registered shares of EUR 0.29 nominal value each.

6.3.4. The calculation of the exchange ratio of LD and LESTO shares for the shares of ESO was based on the values of the Companies' shares. The Boards of the Companies sought to establish true values of both Companies' shares and while assessing the Companies took into account the financial situation of the Companies in Half 1 of 2015 as well as the valuation of the Companies on the market because both Companies are public interest companies whose shares are traded on AB NASDAQ OMX Vilnius Stock Exchange. For the purposes of establishing the exchange ratio of shares of LD and LESTO for the shares of ESO two methods were employed: (i) book value of net assets as of 30 June 2015, and (ii) average weighted price of the Companies' shares over the last 6 months on the market (the value of shares calculated using the data of the trading period from 1 January 2015 to 30 June 2015 (inclusive)) where LD and LESTO securities are traded.

6.3.5. The method of net assets book value was chosen for the following reasons: this method is based on the latest audited interim financial statements of the Companies drawn up in accordance with International Financial Reporting Standards as of 30 June 2015. Tangible fixed assets of LESTO and LD correspond to its true value:

6.3.5.1. tangible fixed assets of LESTO are accounted for at revalued amounts in accordance with International Accounting Standard (IAS) 16 "Property, Plant and Equipment". In pursuance of the provision of Article 31 of IAS 16, LESTO had the valuation of tangible fixed assets carried out on 31 December 2014 by way of receipts and expenditure (R&E) method of valuation on the basis of report on valuation of tangible fixed assets provided by Ernst & Young Baltic, UAB. More details are available in 2014 consolidated financial statements of LESTO online at: http://www.nasdaqomxbaltic.com/upload/reports/les/2014_ar_lt_ltl_con_ias.pdf.

6.3.5.2. Before 31 December 2014, all tangible fixed assets of LD were accounted for by way of cost approach. Following the change of accounting policy of LD according to the accounting policy of the group of companies of Lietuvos Energija, UAB, as of 31 December 2014, part of LD's tangible fixed assets, namely, distribution pipelines and their facilities, gas technology equipment and buildings, computer, communications and other organisational technology as well as incomplete construction, have continued to be accounted for by way of cost approach, meanwhile, the remaining part of the assets has been accounted for by way of revaluation method. Having accounted part of the assets by revaluation method, a more accurate and true view of the economic value of tangible fixed assets is presented. LD applied the exception provided for in IAS 8, namely, to account for any changes in accounting estimates on a prospective basis rather than retrospectively.

LD determined the value of buildings, related structures and machinery owned by LD on 31 December 2014 in accordance with the value determined by independent property appraisers Corporation Matininkai, UAB and Ober-Haus Nekilnojamas Turtas, UAB. To carry out the valuation, the constant price method was applied. The value of LD's vehicles was determined by carrying out an internal valuation using the average market prices announced in a publicly announced publication Emprekis. The value of other groups of assets was determined applying the cost method and correcting it against the value calculated in accordance with the discounted cash flow (DCF) method.

More details are available in 2014 financial statements of LD online at: http://www.nasdaqomxbaltic.com/upload/reports/ldj/2014_ar_lt_ltl_con_ias.pdf.

The value of tangible fixed assets of both LD and LESTO provided in financial statements present the true value of the assets as the Companies have carried out impairment tests of tangible fixed assets by means of DCF method.

6.3.6. The calculation of the average weighted market price of the Company's shares over the last 6 months (the value of shares was calculated using the data of the trading period from 1 January 2015 to 30 June 2015 (inclusive)) was chosen for the following reasons: this method reflects the value of LD and LESTO shares on the market, reflects the expectations of investors and the information held about the Companies, including their regulatory environment, as it comprises the most recent trade data of AB NASDAQ OMX Vilnius Stock Exchange.

6.3.7. In the opinion of the Boards of the Companies, the application of two methods presents the values of LD and LESTO shares more objectively. As a result of fluctuations of the market price of the Companies' shares (on AB NASDAQ OMX Vilnius Stock Exchange), also due to the changes in the energy sector as well as other factors which are likely to affect the market price of the Companies' shares at a certain moment, it was decided to use the average weighted market price of the Companies' shares using the data of the trading period from 1 January 2015 to 30 June 2015 (inclusive) rather than market capitalization of LESTO and LD on a specific day.

6.3.8. According to the book values of net assets of LD Company and LESTO Group of 30 June 2015 recorded in interim financial statements dated 30 June 2015, the total value of LD and LESTO shares is EUR 145,386 thousand and EUR 425,388 thousand respectively. By decisions of the Boards of the Companies dated 31 August 2015, extraordinary general meetings of shareholders of the Companies are to be convened, which are aimed at offering the shareholders of the Companies to allocate dividends for the period shorter than the financial year. The offer is to allocate dividends in the amount of EUR 21,742 thousand to LESTO shareholders and EUR 10,348 thousand to LD shareholders. Given the aforementioned decisions and offers and seeking to determine the value of LESTO and LD shares as accurately as possible, the amounts specified in this paragraph for the allocation of dividends to shareholders have been removed from the total value of LD and LESTO shares which is presented according to the Companies' book value of net assets on 30 June 2015. In this way, the adjusted value of shares of LD and LESTO is EUR 135,038 thousand and EUR 403,646 thousand, accordingly. Given the capitalisation of the Companies on the market over the trading period from 1 January 2015 to 30 June 2015 (inclusive) and the average weighted market price of the Companies' shares (the value of shares was calculated using the data of the trading period from 1 January 2015 to 30 June 2015 (inclusive)), the total value of shares of LD and LESTO is EUR 222,535 thousand and EUR 599,569 thousand, respectively.

6.3.9. In establishing the final exchange ratio of LD and LESTO shares for shares of ESO, the arithmetic mean of the results provided in paragraph 6.3.8 was used. Thus the obtained total value of all LD and LESTO shares is EUR 178, 787 thousand and EUR 501, 608 thousand respectively, and the ratio between the values of all LD and LESTO shares is 26.276942:73.723058.

6.3.10. Different values of the Companies' shares have been determined by significant differences in their financial indicators as well as different regulatory environment of the Companies. According to the data of interim financial statement of Half 1 2015 of the Companies, LESTO's EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) in Half 1 2015 amounted to EUR 71,024 thousand, whereas LD's EBITDA of the same period amounted to EUR 13,444 thousand. At the end of Half 1 2015, total assets of LESTO amounted to EUR 832, 806 thousand, meanwhile, total assets of LD for the same period amounted to EUR 195,849 thousand. The afore-specified financial indicators considerably affected the differences between the values of the Companies' shares during the valuation of the shares of the Companies.

6.4. Rules of distribution of shares among shareholders.

6.4.1. In view of the ratio between the values of all LD and LESTO shares, which is 26.276942:73.723058, LESTO shares will be exchanged for the shares of ESO, the company to be active after the Reorganization, at the following ratio: 1 LESTO share will equal to 1.09206846 ESO share, rounding as follows:

6.4.1.1. if a fractional part of the total number of shares per shareholder equals to or is more than 0.5, the number of ESO shares issued to a shareholder of LESTO after the Reorganization will be rounded up to the whole number;

6.4.1.2. if a fractional part of the total number of shares per shareholder is less than 0.5, the number of ESO shares issued to a shareholder of LESTO after the Reorganization will be rounded down to the whole number (in such a case, any difference occurring between the whole number and its fractional part will not be compensated).

6.4.2. In view of the ratio between the values of all LD and LESTO shares, which is 26.276942:73.723058, LD shares will be exchanged for the shares of ESO, the company to be active after the Reorganization, at the following rate: 1 LD share will equal to 0.80871354 ESO shares, rounding as follows:

6.4.2.1. if a fractional part of the total number of shares per shareholder equals to or is more than 0.5, the number of ESO shares issued to a shareholder of LD after the Reorganization will be rounded up to the whole number;

6.4.2.2. if a fractional part of the total number of shares per shareholder is less than 0.5, the number of ESO shares issued to a shareholder of LD after the Reorganization will be rounded down to the whole number (in such a case, any difference occurring between the whole number and its fractional part will not be compensated).

6.4.3. In case the number of shares calculated to shareholders in accordance with paragraphs 6.4.1. and 6.4.2. exceeds the authorized capital of ESO, the company to be active after the Reorganization, the number of shares calculated to a shareholder who will get the biggest number of shares in accordance with paragraphs 6.4.1. and 6.4.2. will be decreased by the number equal to the difference between the number of shares calculated to shareholders in accordance with paragraphs 6.4.1. and 6.4.2. and the authorized capital of ESO, the company to be active after the Reorganization.

6.4.4. Solely the persons who are the shareholders of LD and LESTO on the day when the Registrar of the Register of Legal Entities registers a newly incorporated company, i.e. ESO, shall have the right to obtain ESO shares.

6.4.5. For at least 5 (five) working days after the general meetings of shareholders of LD and LESTO, considering the approval of the Reorganisation Terms, trading of LD and LESTO shares will not be suspended in order for the shareholders of LD and LESTO to assess the reorganisation terms and conditions and take the decision, whether to sell or not to sell the shares of LESTO and LD held by them.

6.4.6. Upon the lapse of the term specified in paragraph 6.4.5 the trading of LD and LESTO shares will be terminated in the Official Trading List of NASDAQ OMX Vilnius, AB and these shares will be removed from the mentioned trading list.

6.4.7. After the Reorganization, an application will be filed with AB NASDAQ OMX Vilnius for inclusion of ESO shares into trading on AB NASDAQ OMX Vilnius Stock Exchange.

## 7. CONTINUITY OF ACTIVITIES, REORGANIZATION TERMS AND CONDITIONS

7.1. The main activities of LESTO are distribution and public supply of electrical energy according to the procedure prescribed by laws.

7.2. When performing the activities indicated in paragraph 7.1, LESTO shall:

7.2.1. be responsible for distribution networks owned by LESTO from the point of connection of transmission network equipment to the point of connection of consumer or producer equipment, as well as safety, reliability, operation, maintenance, management and development thereof pursuant to the needs of distribution network users; also, for the transmission of electrical energy via distribution networks to the customers in the territory indicated in the electrical energy distribution licence issued to LESTO, for the quality of the electrical energy transmitted, the accounting of electrical energy transmitted and its installation;

7.2.2. be obliged to supply electrical energy under the procedure defined by legal acts to the consumers in the territories indicated in the electrical energy public supply licence issued to LESTO, also to the objects of customers who requested the public supply of electrical energy, and to ensure guarantee supply of electrical energy to customers who have not selected an independent electrical energy supplier, or in cases where their existing independent supplier does not perform its obligation to supply electrical energy under conditions agreed upon with the customer;

7.2.3. perform other functions related to the distribution and public supply of electrical energy.

7.3. The main activities of LD are distribution of natural gas and, in cases provided for by laws, guarantee supply of natural gas.

7.4. When performing the activities indicated in paragraph 7.3, LD shall:

7.4.1. be responsible for a long-term capacity of the natural gas distribution system to meet reasonable natural gas distribution needs, while operating, maintaining and developing safe, reliable and efficient natural gas distribution system in a cost-effective manner considering environmental requirements and the efficiency of energy consumption;

7.4.2. ensure guarantee supply of natural gas to customers within the territory established in the distribution licence issued thereto in cases and in accordance with the procedure prescribed by laws;

7.4.3. perform other functions related to natural gas distribution and guarantee supply of natural gas.

7.5. The terms of activities in the electrical energy sector are governed by the European Union legislation (Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, Directive No 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC, etc.), and national legislation (the Law on Energy of the Republic of Lithuania, the Law on Electrical Energy of the Republic of Lithuania, the Law on Energy from Renewable Sources of the Republic of Lithuania, resolutions of the Government of the Republic of Lithuania, orders of the Minister of Energy of the Republic of Lithuania, decisions of National Commission for Energy Control and Prices, and other legislation).

7.6. The terms of activities in the natural gas sector are governed by the European Union legislation (Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC, Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005, Directive of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC, etc.) and national legislation (the Law on Natural Gas of the Republic of Lithuania, Law on the Territorial Administrative Units of the Republic of Lithuania and their Boundaries, resolutions of the Government of the Republic of

Lithuania, orders of the Minister of Energy of the Republic of Lithuania, decisions of National Commission for Energy Control and Prices, and other legislation).

7.7. ESO, the company to be active after Reorganization, will take over all the Transferred Assets, Rights and Obligations of LESTO and LD on the Date of Transfer and will continue the activities of the Reorganized Companies indicated in paragraphs 7.1 and 7.3 of this report on intended Reorganization of the Board of LD. ESO will also ensure the compliance of the conducted activities with the requirements of applicable laws, including but not limited to: (i) the requirement to provide to the users of electricity distribution networks the services of transmission of electrical energy via distribution networks and to the users of natural gas distribution system - the services of natural gas distribution (transportation) via distribution networks, (ii) to technically operate, maintain, manage and develop the electricity distribution networks and natural gas distribution system, (iii) to ensure reliable functioning of energy equipment and objects, (iv) to conduct the activities of the public supplier ensuring safe and reliable supply of electrical energy to end-users and guarantee supply of natural gas and electrical energy in cases and in accordance with the procedure prescribed by laws, (v) to comply with environmental protection requirements, (vi) to ensure the independence of the activities of the operator of electricity distribution networks and natural gas distribution system, (vii) to guarantee the protection of customer interests and carry out other functions established by legislation.

7.8. ESO will take over all the Transferred Assets, Rights and Obligations from the Companies, and all transactions of LESTO and LD will be included in the accounting of ESO on the Date of Transfer. Accordingly, as of this moment the Transferred Assets, Rights and Obligations will be considered as those of ESO including the rights and obligations under employment contracts. In addition, as of the moment of registration of ESO, on the basis of the Reorganization Terms, ESO shall be granted the right to use all the assets and enjoy all the rights and other resources of LESTO and LD (including human resources) free of charge to the extent it is necessary for obtaining the Licences and any other authorisations, certificates, licences as required for the activities of ESO, their coming into effect, and fulfilment of the related obligations and compliance with the related requirements laid down in legal acts as well as for ensuring uninterrupted and high-quality public supply of electrical energy, distribution of electrical energy and natural gas as well as provision of other services to consumers.

7.9. The prices of services provided by the Companies are regulated through price caps imposed by the National Commission for Energy Control and Prices.

7.10. Seeking to ensure the continuity and stability of LESTO and LD activities, transactions with third parties and other legally significant actions in relation to the activities of LESTO and LD until the Date of Transfer will be concluded and performed on behalf of LESTO and (or) LD unless a specific situation requires otherwise, and later they will be transferred to ESO along with the Transferred Assets, Rights and Obligations.

7.11. After the Date of Transfer, on the basis of the Reorganization Terms, LESTO and LD shall be granted the right to use all the assets and enjoy the rights and other resources of ESO (including human resources) free of charge to the extent that it is necessary for the fulfilment of the obligations and compliance with the requirements laid down in legal acts in connection with the Licenses as well as for uninterrupted and high-quality provision of services to consumers.

7.12. After the registration with the Register of Legal Entities, ESO shall immediately apply for Licences according to the procedure prescribed by laws. After the effective date of the Licences becomes known, on the Date of Transfer (i.e. on a certain day before the effective date of the Licenses) separate deeds of transfer and acceptance of LESTO and LD assets, rights and obligations (including the rights and obligations under employment contracts) will be signed between ESO and LESTO, and ESO and LD. The mentioned deeds of transfer and acceptance as well as the Reorganization Terms shall be the legal basis for ESO, entered into the Register of Legal Entities, to take over the Transferred Assets, Rights and Obligations, and register the Transferred Assets, Rights and Obligations with the Real Estate Register or any other institutions or organisations in case ESO's title to the Transferred Assets, Rights and Obligations should be recorded in particular registers or other documents.

7.13. While ESO seeks to obtain the Licences and any other authorisations, certificates, licences and other permits required for the activities and to ensure uninterrupted distribution of electrical energy and natural gas as well as public supply of electrical energy, the situation may occur where certain assets, rights and obligations of LESTO and (or) LD will have to be transferred to ESO before the transfer of other assets, rights and obligations. In such event, specific deeds of transfer and acceptance of assets, rights and obligations will be executed defining the peculiarities of transfer of specific assets, rights and obligations.

7.14. ESO, the company to be active after the Reorganization, shall be granted the right to manage, use and dispose of funds in LESTO and LD bank accounts and their bank accounts or the aforementioned accounts shall be closed and their funds shall be transferred to the bank accounts of ESO.

7.15. During the reorganization of the companies operating in the energy sector of the Republic of Lithuania, it is planned to dispense with some assets or functions which are not related to the core activities of LD, in particular, the assets which are not technologically directly related to the distribution of gas carried out by LD and which will be sold or transferred in any other manner. Due to the mentioned dispensing with assets and functions, LD may transfer part of the assets, rights and obligations held during the preparation phase of the Reorganization Terms. In any case, the assets are planned to be transferred in exchange for remuneration (by selling, in exchange for shares or in any other way). Should the aforementioned changes in activities of LD be made before the decision of the shareholders to reorganize LESTO and LD and approve the Reorganization Terms is taken and should these changes be deemed material changes of assets, rights and obligations of LESTO and (or) LD, the managers of LESTO and LD shall draw up and deliver the notices stipulated in Article 65(5) of the Law on Companies of the Republic of Lithuania.

7.16. Given the fact that LESTO and LD activities are regulated, following the approval of the Reorganization Terms in the Boards and the date of the first public announcement, the Boards of the Companies will assess the legal acts adopted by the National Commission for Energy Control and Prices which might affect the value of the tangible fixed assets of the Reorganized Companies and, accordingly, the value of the Companies' shares. Should the aforementioned legal acts have a considerable effect on the value of fixed assets of one or both Companies, the terms of the reorganization of the Companies (including but not limited to the exchange ratio of the Reorganized Companies' shares) may be amended in accordance with the procedure, terms and conditions established in legislation. Any changes shall be reported to the shareholders by LESTO and LD in accordance with the procedure and on the terms established in legislation.

7.17. The intended commencement of ESO's activities after the takeover of the Transferred Assets, Rights and Obligations from LESTO and LD is 1 January 2016.

## 8. INFORMATION ABOUT DRAFTING OF THE REPORT ON ASSESSMENT OF REORGANIZATION TERMS

The Reorganization Terms will be assessed and a report on the assessment of the Reorganization Term will be drawn up by a common expert, namely, the audit company Grant Thornton Rimess, UAB (code 300056169, address A. Goštauto St. 40B, Vilnius, auditor's licence number 001332) and auditor Genadij Makušev (auditor's licence No 000162) approved by the Registrar of the Register of Legal Entities of the Republic of Lithuania SE Centre of Registers on 1 July 2015. The report on assessment of the Reorganization Terms will be completed and submitted not later than on the first day of public announcement about the prepared Reorganization Terms.