

**PUBLIC COMPANY
LIETUVOS ENERGIJA**

**REPORT ON PROSPECTIVE
SPIN-OFF**

*Approved 29 September 2009
By the Board Meeting of the Public Company Lietuvos energija*

TABLE OF CONTENTS

I.	DEFINITIONS	4
II.	INFORMATION REGARDING THE COMPANIES PARTICIPATING IN THE SPIN-OFF	6
III.	METHOD OF THE SPIN-OFF, WOUND-UP COMPANY AFTER THE SPIN-OFF AND COMPANIES OPERATING AFTER THE SPIN-OFF	7
IV.	PURPOSE OF THE SPIN-OFF	7
V.	TERMS OF THE SPIN-OFF, LEGAL AND ECONOMIC JUSTIFICATION OF THE SPIN-OFF	7
VI.	CONTINUATION OF ACTIVITIES AND THE SPIN-OFF TERMS	14
VII.	INFORMATION REGARDING THE PREPARATION OF THE SPIN-OFF TERMS ASSESSMENT REPORT	15

Pursuant to the spin-off terms which were prepared and approved by the decision of the Board of the Public Company LIETUVOS ENERGIJA, adopted at the Board Meeting on 29 September 2009, a part of the Public Company LIETUVOS ENERGIJA participating in the spin-off is divided off and new companies of the same legal form are formed on the basis of the assets, rights and obligations assigned to this part of the company.

The report on the prospective spin-off of the Public Company LIETUVOS ENERGIJA is prepared pursuant to Article 2.99 of the Civil Code of the Republic of Lithuania and Article 64 of the Law on Companies.

This report of the Board of the Public Company LIETUVOS ENERGIJA on the prospective spin-off of the Public Company LIETUVOS ENERGIJA was approved by the decision of the Board of the Public Company LIETUVOS ENERGIJA, adopted at the Board Meeting on 29 September 2009.

Aloyzas Koryzna

Chairman of the Board of the Public Company LIETUVOS ENERGIJA

I. DEFINITIONS

Definitions used in capital letters in this report of the Board of the Public Company LIETUVOS ENERGIJA on the prospective spin-off of the Public Company LIETUVOS ENERGIJA mean as follows:

AB Kauno HE	means a new company established on the basis of a part of Kauno HE under the Spin-Off Terms, to which the part of Kauno HE is transferred and the name of which is to be the Public Company Kaunas Hydropower Plant.
AB Kruonio HAE	means a new company established on the basis of a part of Kruonio HAE under the Spin-Off Terms, to which the part of Kruonio HAE is transferred and the name of which is to be the Public Company Kruonis Pumped Storage Plant.
Law on Companies	means the Law on Companies No VIII-1835 passed on 13 July 2000 (wording of the Law as of 11 December 2003 No. IX-1889 with amendments and complements by 24 September 2009).
Shareholder or Shareholders	severally or jointly, is shareholders of the Company.
Spin-Off Part	means the parts of Kauno HE and Kruonio HAE jointly, to be split from the Company during the spin-off, and Spin-Off Parts means such parts severally.
Spin-Off	is a split of the part of Kauno HE and the part of Kruonio HAE from the Company and the establishment of the new companies, AB Kauno HE and AB Kruonio HAE, on the basis of this Spin-Off Part, to be carried out under the Spin-Off Terms.
Spin-Off Terms	means the spin-off terms of Public Company Lietuvos Energija, prepared under the order set forth in the Law of Companies, Civil Code of the Republic of Lithuania and other relative laws of the Republic of Lithuania and approved by the decision of the Board of the Public Company Lietuvos Energija, adopted at the Board Meeting on 29 September 2009.
Completion of the Spin-Off	means the moment when the following items will be registered with the Registry of Legal Entities: (i) the new wording of the Articles of Association of the continuing Company; (ii) newly established Public Company Kaunas Hydropower Plant after the Spin-Off; (iii) newly established Public Company Kruonis Pumped Storage Plant after the Spin-Off.
Company or AB Lietuvos Energija	is the Public Company LIETUVOS ENERGIJA, registration No: 220551550, legal address: Žvejų St. 14, Vilnius, Lithuania, which is engaged in activities both prior to the completion of the Spin-Off and after the Spin-Off, dependent on the context of the Spin-Off Terms.
Company Spin-Off Decision	means a decision of the General Meeting of Shareholders of the Company on the spin-off of the Company, which approves the Spin-Off Terms, amends the Company's Articles of Association and solves other issues relating to the Spin-Off that must be or are appropriate to be solved according to the existing law.

Draft Balance Sheets	refers to draft Balance Sheets drawn up on the basis of the rules laid down in Annex 3 of the Spin-Off Terms, which will determine the final capital, assets and liabilities designated to the Company and the New Spin-Offs after the Spin-Off.
Part of Kauno HE	refers to the activities of the Company, in particular electricity production and storage of reserve capacity at the Kaunas Hydropower Plant, to be split from the Company during the Spin-Off, i.e. such a part of the activities of the Company as a total of assets, rights and liabilities which, in organisational terms, makes up an independent economic entity engaged in activities and capable of functioning by its own means, and which serves as the basis for the establishment of AB Kauno HE under the Spin-Off Terms.
Part of Kruonio HAE	means the activities of the Company, in particular electricity production and storage of reserve capacity at the Kruonis Pumped Storage Plant, to be split from the Company during the Spin-Off, i.e. such a part of the activities of the Company as a total of assets, rights and liabilities which, in organisational terms, makes up an independent economic entity engaged in activities and capable of functioning by its own means, and which serves as the basis for the establishment of AB Kruonio HAE under the Spin-Off Terms.
Remaining Part	refers to a total of the Company's assets, rights and liabilities which is not transferred to the AB Kauno HE and AB Kruonio HAE.
New Spin-Offs	means AB Kauno HE and AB Kruonio HAE jointly, to be established on the basis of the part of Kauno HE and of the part of Kruonio HAE, under the Spin-Off Terms.
New Spin-Off	means the newly established AB Kauno HE or AB Kruonio HAE.
Acceptance and Transfer Report	is a report of acceptance and transfer of an appropriate spin-off part (in particular the part of Kauno HE and the part of Kruonio HAE) made between the Company, which continues its activities after the Spin-Off, and an appropriate New Spin-Off under the Spin-Off Terms, which report serves as the basis for transfer of all such spin-off part (in particular the part of Kauno HE and the part of Kruonio HAE) to an appropriate New Spin-Off. In the event that several acceptance and transfer reports are made regarding transfer of an appropriate spin-off part, Acceptance and Transfer Report refers to all such acceptance and transfer reports jointly.
Draft Balance Sheets of 30 June 2009	is the Balance Sheets drawn up on the basis of the rules laid down in Annex 1 to the Company Balance Sheet of 30 June 2009 and to the Spin-Off Terms. The draft Balance Sheets of 30 June 2009 are provided in Annex 2 of the Spin-Off Terms.
Agreement	refers to the Agreement on the Establishment of the National Investor made between the Republic of Lithuania and UAB NDX Energija on 29 April 2008.
Report of the Board	means this report of the Board of the Company on prospective spin-off of AB Lietuvos Energija.
Companies in	jointly means the New Spin-Offs and the Company continuing its activities

operation

after the Spin-Off.

II. INFORMATION REGARDING THE COMPANIES PARTICIPATING IN THE SPIN-OFF

2.1. Company participating in the Spin-Off:

- legal entity name – Public Company LIETUVOS ENERGIJA;
- form of legal entity – Public Company;
- legal address – Žvejų St. 14, Vilnius, the Republic of Lithuania;
- legal entity code – 220551550;
- registry collecting and storing data about the legal person – Registry of Legal Entities of the Republic of Lithuania, manager – State Enterprise Centre of Registers Vilnius Branch.
- subscribed capital – LTL 689 515 435;
- paid-up subscribed capital – LTL 689 515 435.

2.2. Company continuing its activities after the Spin-Off:

- legal entity name – Public Company LIETUVOS ENERGIJA;
- form of legal entity – Public Company;
- legal address – Žvejų St. 14, Vilnius, the Republic of Lithuania;
- legal entity code – 220551550;
- registry collecting and storing data about the legal person – Registry of Legal Entities of the Republic of Lithuania, manager – State Enterprise Centre of Registers Vilnius Branch.
- subscribed capital – LTL 566 057 704;
- paid-up subscribed capital – LTL 566 057 704.

2.3. Newly established companies after the Spin-Off:

- legal entity name – Public Company Kruonis Pumped Storage Plant;
 - form of legal entity – Public Company;
 - legal address – Kruonis Village, Kaišiadorys distr. Municipality, the Republic of Lithuania;
 - legal entity code – will be granted under the order set forth in the laws of the Republic of Lithuania after the registration of the company;
 - registry collecting and storing data about the legal person – Registry of Legal Entities of the Republic of Lithuania, manager – State Enterprise Centre of Registers Vilnius Branch.
 - subscribed capital – LTL 99 675 696, which will be formed under the order set forth in the Spin-Off Terms.
-
- legal entity name – Public Company Kaunas Hydropower Plant;
 - form of legal entity – Public Company;
 - legal address – T. Masiulio St. 22A, Kaunas, the Republic of Lithuania;
 - legal entity code – will be granted under the order set forth in the laws of the Republic of Lithuania after the registration of the company;
 - registry collecting and storing data about the legal person – Registry of Legal Entities of the Republic of Lithuania, manager – State Enterprise Centre of Registers Vilnius Branch.
 - subscribed capital – LTL 23 782 035, which will be formed under the order set forth in the Spin-Off Terms.

III. METHOD OF THE SPIN-OFF. WOUND-UP COMPANY AFTER THE SPIN-OFF AND COMPANIES OPERATING AFTER THE SPIN-OFF

3.1. The procedures of the Spin-Off are executed under the Article 71 of Law on Companies. On the basis of the Spin-Off Terms, which were prepared and approved by the decision of the Board of the Company, adopted at the Board Meeting on 29 September 2009, a part of AB Lietuvos Energija is divided off and new companies of the same legal form – AB Kauno HE and AB Kruonio HAE – are formed on the basis of the assets, rights and obligations assigned to this part of the Company.

3.2. There are no wound-up companies after the Spin-Off.

3.3. The company to continue its activities after the Spin-Off shall be AB Lietuvos Energija, also AB Kauno HE and AB Kruonio HAE shall be established and shall start operating.

IV. PURPOSE OF THE SPIN-OFF

4.1. The purpose of the Spin-Off is the implementation of point 4.1 of the Agreement and the legal and functional unbundling of the parts of Kauno HE and Kruonio HAE from AB Lietuvos Energija, and the establishment of two public companies on the basis of assets, rights and liabilities designated thereto (one on the basis of assets, rights and liabilities of Kauno HE, and the other on the basis of assets, rights and liabilities of Kruonio HAE).

V. TERMS OF THE SPIN-OFF. LEGAL AND ECONOMIC JUSTIFICATION OF THE SPIN-OFF

5.1. The Spin-Off Terms have been drawn up by the Board of the Company, pursuant to the decisions of the Extraordinary General Meetings of Shareholders of the Company of 4 December 2008 and 8 September 2009. The Spin-Off shall be carried out pursuant to the Civil Code of the Republic of Lithuania, the Law of Companies and other relative provisions of the laws of the Republic of Lithuania.

5.2. Justification of the Spin-Off. The Spin-Off shall be carried out to implement Article 4 of the Agreement which stipulates that a legal and functional unbundling from AB Lietuvos Energija of the parts of Kauno HE and Kruonio HAE and of the part of assets, rights and liabilities designated thereto shall be carried out, based on which two public companies shall be established (one on the basis of assets, rights and liabilities of Kauno HE, and the other on the basis of assets, rights and liabilities of Kruonio HAE), pursuant to the principles laid down in Annexes 1 and 3 to the Agreement and to other provisions, as specified in Annexes 1 and 3 of the Spin-Off Terms.

5.3. The order of the exchange of shares and the establishment of the ratio.

5.3.1. The Company, upon transfer of the part of Kauno HE and the part of Kruonio HAE to the newly-established AB Kauno HE and AB Kruonio HAE during the Spin-Off, taking into account the structure of the Spin-Off Part as a total of assets, rights and liabilities and of the Remaining Part, shall reduce its subscribed capital by an appropriate amount used for the formation of the subscribed capitals of AB Kauno HE and AB Kruonio HAE.

5.3.2. Taking into account the Spin-Off Part according to the Company's Balance Sheet as of 30 June 2009, the subscribed capital of the Company shall be reduced to LTL 566 057 704 (five hundred sixty-six million fifty-seven thousand seven hundred and four litas), by cancelling

123 457 731 (one hundred twenty-three million four hundred fifty-seven thousand seven hundred thirty-one) ordinary registered shares of the Company respectively. The subscribed capitals of AB Kauno HE and of AB Kruonio HAE will equal LTL 23 782 035 (twenty-three million seven hundred eighty-two thousand and thirty-five litas) and LTL 99 675 696 (ninety-nine million six hundred seventy-five thousand six hundred ninety-six litas), respectively.

- 5.3.3. The capital and shareholders' equity of the newly-established AB Kauno HE and AB Kruonio HAE shall be determined on the basis of the book values of the assets and liabilities of the Spin-Off Part according to the Company's Balance Sheet as of 30 June 2009, as specified in Annexes 1 and 2 of the Spin-Off Terms.
- 5.3.4. The number of shares of AB Lietuvos Energija held by each Shareholder of AB Lietuvos Energija after the Spin-Off of AB Lietuvos Energija shall be calculated by multiplying the number of shares of AB Lietuvos Energija held by the Shareholder by a factor of 0.8209500113 and by rounding the sum as follows:
 - 5.3.4.1. Where the fraction of a number is equal to or more than 0.5, the number of shares of AB Lietuvos Energija granted after the Spin-Off will be rounded up to the nearest whole number;
 - 5.3.4.2. Where the fraction of a number is below 0.5, the number of shares of AB Lietuvos Energija granted after the Spin-Off will be rounded down to the nearest whole number (in this case, the difference between the whole number and its fractions will not be subject to compensation by cash).
- 5.3.5. Shareholders of the Company who, pursuant to the rules of exchange of the shares specified in point 5.3.4 hereof, will hold less than 1 share of AB Lietuvos Energija after such rounding will each receive 1 share of the Company.
- 5.3.6. Upon determining that the number of shares calculated for the Shareholders under points 5.3.4 and 5.3.4.1 exceeds the subscribed capital of AB Lietuvos Energija reduced after the Spin-Off, the number of shares for the Shareholder who, pursuant to points 5.3.4 and 5.3.4.1, will receive the largest number of the shares of AB Lietuvos Energija after the Spin-Off, will be reduced by a number equal to the difference between the number of shares calculated for the Shareholders under points 5.3.4 and 5.3.4.1 and the amount of the subscribed capital of AB Lietuvos Energija reduced after the Spin-Off.
- 5.3.7. Upon determining that the number of shares calculated for the Shareholders under points 5.3.4 and 5.3.4.1 is lower than the subscribed capital of AB Lietuvos Energija reduced after the Spin-Off, the number of shares for the Shareholder who, pursuant to points 5.3.4 and 5.3.4.1, will receive the largest number of the shares of AB Lietuvos Energija after the Spin-Off, will be increased by a number equal to the difference between the number of shares calculated for the Shareholders under points 5.3.4 and 5.3.4.1 and the amount of the subscribed capital of AB Lietuvos Energija reduced after the Spin-Off.
- 5.3.8. The number of shares of AB Kauno HE held by each shareholder of AB Kauno HE after the Spin-Off of AB Lietuvos Energija shall be calculated by multiplying the number of shares of AB Lietuvos Energija held by the Shareholder by a factor of 0.0344909390 and by rounding the sum as follows:
 - 5.3.8.1. Where the fraction of a number is equal to or more than 0.5, the number of shares of AB Kauno HE granted will be rounded up to the nearest whole number;
 - 5.3.8.2. Where the fraction of a number is below 0.5, the number of shares of AB Kauno HE granted will be rounded down to the nearest whole number (in this case, the

difference between the whole number and its fractions will not be subject to compensation by cash).

- 5.3.9. Shareholders of AB Kauno HE who, pursuant to the rules of exchange of the shares specified in point 5.3.7 hereof, will hold less than 1 share of AB Kauno HE after such rounding will each receive 1 share of AB Kauno HE.
- 5.3.10. Upon determining that the number of shares calculated for the Shareholders under points 5.3.8 and 5.3.8.1 exceeds the subscribed capital of AB Kauno HE, the number of shares for the Shareholder who, pursuant to points 5.3.8 and 5.3.8.1, will receive the largest number of the shares of AB Kauno HE, will be reduced by a number equal to the difference between the number of shares calculated for the shareholders under points 5.3.8 and 5.3.8.1 and the amount of the subscribed capital of AB Kauno HE.
- 5.3.11. Upon determining that the number of shares calculated for the Shareholders under points 5.3.8 and 5.3.8.1 is lower than the subscribed capital of AB Kauno HE, the number of shares for the Shareholder who, pursuant to points 5.3.8 and 5.3.8.1, will receive the largest number of the shares of AB Kauno HE, will be increased by a number equal to the difference between the number of shares calculated for the Shareholders under points 5.3.8 and 5.3.8.1 and the amount of the subscribed capital of AB Kauno HE.
- 5.3.12. The number of shares of AB Kruonio HAE held by each shareholder of AB Kruonio HAE after the Spin-Off of AB Lietuvos Energija shall be calculated by multiplying the number of shares of AB Lietuvos Energija held by the Shareholder by a factor of 0.1445590497 and by rounding the sum as follows:
- 5.3.12.1. Where the fraction of a number is equal to or more than 0.5, the number of shares of AB Kruonio HAE granted will be rounded up to the nearest whole number;
- 5.3.12.2. Where the fraction of a number is below 0.5, the number of shares of AB Kruonio HAE granted will be rounded down to the nearest whole number (in this case, the difference between the whole number and its fractions will not be subject to compensation by cash).
- 5.3.13. Shareholders of AB Kruonio HAE who, pursuant to the rules of exchange of the shares specified in point 5.3.11 hereof, will hold less than 1 share of AB Kruonio HAE after such rounding will each receive 1 share of AB Kruonio HAE.
- 5.3.14. Upon determining that the number of shares calculated for the Shareholders under points 5.3.12 and 5.3.12.1 exceeds the subscribed capital of AB Kruonio HAE, the number of shares for the Shareholder who, pursuant to points 5.3.12 and 5.3.12.1, will receive the largest number of the shares of AB Kruonio HAE, will be reduced by a number equal to the difference between the number of shares calculated for the shareholders under points 5.3.12 and 5.3.12.1 and the amount of the subscribed capital of AB Kruonio HAE.
- 5.3.15. Upon determining that the number of shares calculated for the Shareholders under points 5.3.12 and 5.3.12.1 is lower than the subscribed capital of AB Kruonio HAE, the number of shares for the Shareholder who, pursuant to points 5.3.12 and 5.3.12.1, will receive the largest number of the shares of AB Kruonio HAE, will be increased by a number equal to the difference between the number of shares calculated for the Shareholders under points 5.3.12 and 5.3.12.1 and the amount of the subscribed capital of AB Kruonio HAE.
- 5.3.16. For the minimum of 5 (five) working days after the General Meeting of Shareholders of the Company wherein the Shareholders of the Company will discuss the approval of the Spin-Off and of the Spin-Off Terms and other issues, trading in the shares of AB Lietuvos Energija will

not be suspended with a view to allowing the shareholders of AB Lietuvos Energija to sell, at their discretion, their shareholdings in AB Lietuvos Energija to other persons.

- 5.3.17. Prior to the submittal of documents to the manager of the Registry of Legal Entities for registration of the newly-established companies, AB Kauno HE and AB Kruonio HAE, trading in the shares of AB Lietuvos Energija will be suspended. Trading in the shares of AB Lietuvos Energija will be suspended not longer than by the date on which the manager of the Registry of Legal Entities will register the newly-established companies, AB Kauno HE and AB Kruonio HAE, and the Central Securities Depository of Lithuania will make the necessary entries in the securities accounts of the shareholders of the New Spin-Offs.

5.4. Distribution of the shares for the Companies in operation after the Spin-Off.

- 5.4.1. As a result of the reduction of the subscribed capital of the Company due to the Spin-Off, the Shareholders of the Company will receive shares in AB Kauno HE and AB Kruonio HAE, which will be distributed pro rata to the number of shares held by each Shareholder in the subscribed capital of the Company. The right to receive shares in AB Kauno HE and AB Kruonio HAE will be granted to those persons who are the Shareholders of the Company on the date of suspension of trading in the Company's shares with a view to allowing the manager of the Registry of Legal Entities to register the newly-established companies, AB Kauno HE and AB Kruonio HAE.
- 5.4.2. From registration at the Registry of Legal Entities of a new version of the Articles of Association of the Company continuing operation after the spin-off the Shareholders shall be forfeited a corresponding number of the Company shares due to decrease of its share capital. From registration at the Registry of Legal Entities of the New spin-off companies the Shareholders as per Spin-off Terms and Conditions shall acquire shares of the New spin-off companies.
- 5.4.3. Shares of each Company in operation shall be non-material and after the Spin-off basing on the Spin-off Terms and Conditions each of the Companies in operation or corresponding administrators of accounts shall make corresponding records certifying the forfeiture of the Company shares due to the decrease of the share capital and the records certifying the ownership right of AB Lietuvos energija Shareholders to shares of AB Kauno HE and AB Kruonio HAE not later than after the Central Securities Depository of Lithuania will have opened securities accounts of AB Kauno HE and AB Kruonio HAE.
- 5.4.4. After the Spin-off the shares of AB Kauno HE and AB Kruonio HAE are planned to be introduced for trade at AB NASDAQ OMX Vilnius stock exchange as it is provided for in the clause 8.3 of the Spin-off Terms.
- 5.5. The subscribed capital of AB Lietuvos energija. 100% (one hundred percent) of the shares of the Company continuing its activities after the Spin-Off will consist of 566 057 704 (five hundred sixty-six million fifty-seven thousand seven hundred and four) ordinary registered shares of the nominal value of LTL 1 (one litas), and the nominal value of all these shares and the subscribed capital of the Company will equal LTL 566 057 704 (five hundred sixty-six million fifty-seven thousand seven hundred and four litas).
- 5.6. The subscribed capital of AB Kauno HE. 100% (one hundred percent) of the shares of AB Kauno HE established during the Spin-Off will consist of 23 782 035 (twenty-three million seven hundred eighty-two thousand and thirty-five) ordinary registered shares of the nominal value of LTL 1 (one litas), and the nominal value of all these shares and the subscribed capital of AB Kauno HE will equal LTL 23 782 035 (twenty-three million seven hundred eighty-two thousand and thirty-five litas).

- 5.7. 100% (one hundred percent) of the shares of AB Kruonio established during the Spin-Off will consist of 99 675 696 (ninety-nine million six hundred seventy-five thousand six hundred ninety-six) ordinary registered shares of the nominal value of LTL 1 (one litas), and the nominal value of all these shares and the subscribed capital of AB Kruonio HAE will equal LTL 99 675 696 (ninety-nine million six hundred seventy-five thousand six hundred ninety-six litas).
- 5.8. Transfer of property, rights and duties to the New Spin-Offs.
- 5.8.1. During spin-off the Kaunas Hydroelectric Power Plant part shall be transferred to AB Kauno HE, and the Kruonis Pumped Storage Plant part shall be transferred to AB Kruonio HAE.
- 5.8.2. The activities pertaining to production of electricity and power storage at the Kaunas Hydroelectric Power Plant performed by the Company, i.e. a part of the Company activities part as entirety of the property, rights and duties, which organizationally composes an autonomous economic entity performing activity and being capable of functioning at its own discretion basing on these principles, shall be transferred to AB Kauno HE, unless stipulated otherwise in the Spin-off Terms and Conditions or in the Company Spin-Off Decision:
- 5.8.2.1. Defining AB Kauno HE assignable current and non-current assets and liabilities on 30 June 2009 the principles of composition of the draft balance sheets of 30 June 2009 provided for in Annex 1 to the Spin-off Terms and Conditions are followed as well as the draft balance sheets of 30 June 2009 attached in Annex 2 to the Spin-off Terms and Conditions, composed on the basis of the Company Interim Financial Accountability of 30 June 2009 and the principles of composition of the draft balance sheets of 30 June 2009 provided for in Annex 1 to the Spin-off Terms and Conditions;
- 5.8.2.2. The right to rent the land lot indicated in the agreement on rent of state land No N19/2001-0074 of 23 February 2001 shall be transferred to the AB Kauno HE;
- 5.8.2.3. All rights and duties assumed under agreements concluded by Lietuvos energija branch Kauno HE as well as the agreements concluded by the Company listed in Annex 4 to the Spin-off Terms and Conditions as indicated in clause 5.8.10 of this Report below shall be transferred to AB Kauno HE;
- 5.8.2.4. All other property belonging to the Company by right of ownership or any other property at legal disposition by the Company related to the Kauno HE part, however which by any reasons is not directly indicated in the Spin-off Terms and Conditions, as well as any other property related to the Kauno HE part that can be purchased by the Company before signing of the Acceptance Report and that will be specified in the Acceptance Report shall be transferred to AB Kauno HE. The property mentioned in this clause shall be defined following the principles of composition of the Final draft balance sheets provided for in Annex 3 to the Spin-off Terms and Conditions as well as the Final draft balance sheets that will be attached to the Acceptance Report;
- 5.8.2.5. All other rights and duties of the Company related to the Kauno HE part and to the property transferred under the Spin-off Terms and Conditions belonging to the Company by right of ownership or to any other property at legal disposition by the Company entitled by the Company during preparation of the Spin-off Terms and Conditions, which however by any reasons are not directly indicated in the Spin-off Terms and Conditions, as well as any other rights and duties related to the Kauno HE part and the property transferred under the Spin-off Terms and Conditions that can be entitled before signing of the Acceptance

Report and that will be specified in the Acceptance Report shall be transferred to AB Kauno HE. The rights and duties mentioned in this clause shall be defined the principles of composition of the Final draft balance sheets provided for in Annex 3 to the Spin-off Terms and Conditions as well as the Final draft balance sheets that will be attached to the Acceptance Report.

- 5.8.3. The activities pertaining to production of electricity and power storage performed by the Kruonis Pumped Storage Plant, i.e. a part of the Company activities as entirety of property, rights and duties, which organizationally composes an autonomous economic entity performing activity and being capable of functioning at its own discretion basing on these principles, shall be transferred to AB Kruonio HAE, unless it is stipulated otherwise in the Spin-off Terms and Conditions or in the Company Spin-Off Decision:

5.8.3.1 Defining AB Kruonio HAE assignable current and non-current assets and liabilities on 30 June 2009 the principles of composition of the draft balance sheets of 30 June 2009 provided for in Annex 1 to the Spin-off Terms and Conditions are followed as well as the draft balance sheets of 30 June 2009 attached in Annex 2 to the Spin-off Terms and Conditions, composed on the basis of the Company Interim Financial Accountability of 30 June 2009 and the principles of composition of the draft balance sheets of 30 June 2009 provided for in Annex 1 to the Spin-off Terms and Conditions;

5.8.3.2 The right to rent the land lots indicated in the agreement on rent of state land No N49/06-0035 of 21 June 2006 and in the agreement on rent of state land No N49/06-0036 of 21 June 2006 shall be transferred to the AB Kruonio HAE;

5.8.3.3 All rights and duties assumed under agreements concluded by Lietuvos energija branch Kruonio HAE as well as the agreements concluded by the Company listed in Annex 4 to the Spin-off Terms and Conditions as indicated in clause 5.8.10 of this Report below shall be transferred to AB Kruonio HAE;

5.8.3.4 All other property belonging to the Company by right of ownership or any other property at legal disposition by the Company related to the Kruonio HAE part, however which by any reasons is not directly indicated in the Spin-off Terms and Conditions, as well as all other property related to the Kruonio HAE part that can be purchased by the Company before signing of the Acceptance Report and that will be specified in the Acceptance Report shall be transferred to AB Kruonio HAE. The property mentioned in this clause shall be defined following the principles of composition of the Final draft balance sheets provided for in Annex 3 to the Spin-off Terms and Conditions as well as the Final draft balance sheets that will be attached to the Acceptance Report;

5.8.3.5 All other rights and duties of the Company related to the Kruonio HAE part and to the property transferred under the Spin-off Terms and Conditions belonging to the Company by right of ownership or any other property at legal disposition by the Company entitled by the Company during preparation of the Spin-off Terms and Conditions, which however by any reasons are not directly indicated in the Spin-off Terms and Conditions, as well as any other rights and duties related to the Kruonio HAE part and the property transferred under the Spin-off Terms and Conditions that can be entitled before signing of the Acceptance Report and that will be specified in the Acceptance Report shall be transferred to AB Kruonio HAE. The rights and duties mentioned in this clause shall be defined the principles of composition of the Final draft balance sheets provided for in Annex 3 to the Spin-off Terms and Conditions as well as the Final draft balance sheets that will be attached to the Acceptance Report.

- 5.8.4. Composition of the property, rights and duties transferred to the new spin-off companies at the moment of actual transfer shall be defined by Acceptance Reports according to actual condition on the day of concluding the Acceptance Reports or another day indicated in the Acceptance Report following the principles of composition of the Final draft balance sheets and the Final draft balance sheets that shall be attached to the Acceptance Report.
- 5.8.5. According to the Spin-off Terms and Conditions after separation from the Company of a Spin-off part and its transfer to the New Spin-off companies (or as appropriate, to a New Spin-off company), the Company that continues operation after the Spin-off shall preserve the property, rights and duties that have not been specifically assigned to the Spin-off part (i.e. the Remaining part), unless otherwise provided for in the Spin-off Terms and Conditions or in the Company Spin-Off Decision.
- 5.8.6. In case if the Company's rights and duties arising from one transaction (or in other cases, when corresponding rights and duties cannot be divided for the Companies in Operation) have to be assigned to several Companies in Operation, those Companies in Operation shall exert all reasonable efforts (e.g., conclude new transactions setting rights and duties as close as possible by content and financial effect to the rights and duties in the original transaction, which can be assigned to the Companies in Operation), so that a corresponding Company in Operation acquire rights and duties assignable to the spin-off part.
- 5.8.7. In case if consents/permissions by the other parties of transactions or by state or municipal institutions are necessary for transfer of corresponding rights and duties under the transactions or other rights and duties, the Company before completion of the Spin-off and the Companies in Operation after completion of the Spin-off shall exert all reasonable efforts in order to obtain such consents/permissions. If such consents are not obtained before signing the Acceptance Report, the Company and a corresponding New spin-off company shall exert all reasonable efforts for the New spin-off company to acquire rights and duties as close as possible by content and financial effect to the part of the rights and duties that cannot be obtained instead (e.g., conclude a new transaction setting similar rights and duties or obtain a corresponding permission or license).
- 5.8.8. During the Spin-off a corresponding New spin-off company shall take over (unless imperative legal acts stipulate otherwise) or as established by the law shall renew or obtain all licenses, permissions or consents that are necessary to perform its activity.
- 5.8.9. During the Spin-off employees of the Company employed at AB Lietuvos energija branch Kauno hidroelektrinė (except for elective staff) shall be transferred to AB Kauno HE, and the employees employed at AB Lietuvos energija branch Kruonio HAE (except for elective staff) shall be transferred to AB Kruonio. A corresponding New spin-off company shall take over labour contracts of such employees as well as all rights and duties of the employer from the moment of signing the Acceptance Report. Labour relationships of the Company employees, who are transferred during the Spin-off to a corresponding New spin-off company, shall not be terminated, rights and duties of the employees under their labour contracts shall remain including their job experience.
- 5.8.10. During the Spin-off all contracts previously concluded by AB „Lietuvos energija“ branch Kauno hidroelektrinė while performing its activities shall be transferred to AB Kauno HE, and all contracts previously concluded by AB „Lietuvos energija“ branch Kruonio HAE shall be transferred to AB Kruonio HAE. The contracts concluded by the Company listed in Annex 4 to the Spin-off Terms and Conditions shall also be transferred to AB Kauno HE and AB Kruonio HAE. A corresponding New spin-off company shall take over rights and duties arising from the contracts indicated in this clause from the moment of signing the Acceptance Report.

- 5.8.11. Should any ambiguities arise with regard to the property, rights and duties transferred to AB Kauno HE and AB Kruonio HAE, the Contract provisions shall be referred to first. If the arisen ambiguities cannot be solved by reference to the Contract provisions, then the documents below shall be referred to in the corresponding order: (i) principles indicated in Annex 3 of the Spin-off Terms and Conditions, (ii) principles indicated in Annexes 1 and 2 of the Spin-off Terms and Conditions, (iii) the report on technical inspection provided for in clauses 3 of Annexes 3 and 4 of the Contract.

VI. CONTINUATION OF ACTIVITIES AND THE SPIN-OFF TERMS

- 6.1. Pursuant to the Spin-Off Terms the company to continue its activities after the completion of the Spin-Off shall be AB Lietuvos Energija. Also AB Kauno HE and AB Kruonio HAE shall be established and shall start operating.
- 6.2. The Spin-Off shall be deemed completed upon: (i) registration of the amended Articles of Association of AB Lietuvos Energija continuing after the Spin-Off with the Registry of Legal Entities, (ii) registration of the New Spin-Offs with the Registry of Legal Entities.
- 6.3. Following reorganisation of Lietuvos Energija AB by establishing AB Kruonio HAE and AB Kauno HE from Lietuvos Energija AB by way of division, both Lietuvos Energija AB which will continue its activities and the newly-established companies, AB Kruonio HAE and AB Kauno HE, will have financial capability to carry out their activities:
- 6.3.1. The major part of income of Lietuvos Energija AB will consist of income from the electricity transmission service the price of which is subject to regulation. At present, the price of the electricity transmission service makes up 2.2 ct/kWh. The price was significantly lower (by about 45 pct) than the cap on the price of transmission approved earlier and effective at present.
- 6.3.2. On 23 September 2009, a new *Methodology for setting prices and caps on prices for electricity transmission and distribution* was adopted. According to the calculations of the new cap on the price for transmission under this methodology, based on preliminary assessment, this cap will stay higher than the tariff effective at present, which, according to our calculations, could make up between 2.7 and 2.8 ct/kWh.
- 6.3.3. Upon the spin-off of AB Kauno HE and AB Kruonio HAE, Lietuvos Energija AB will have to purchase electricity intended for covering the technological losses in the networks at a market price (presently, electricity generated at Kauno HE is used for this purpose). This will result in an increase of about LTL 60 million in the costs of Lietuvos Energija AB, which were not included when setting the price for the transmission service. However, point 30 of the new Methodology for setting prices and caps on prices for electricity transmission and distribution stipulates the following: "30. In calculating the costs of purchasing electricity used for its transmission in technological installations, an assumption is made that electricity intended for this purpose is purchased in the market at a price which is not higher than the expected price on the exchange (at auction)". A higher cap on the price of the transmission service will allow the company to apply for a review of the effective price for transmission, by covering the said additional costs, while AB Kauno HE will have an opportunity to operate under market conditions.

- 6.3.4. On the other hand, the Company implements programmes for optimising its operations that will enable the Company to balance its cash flows even without increasing the transmission tariff.
- 6.3.5. AB Kruonio HAE will earn income from the sale of peak electricity and the storage of reserve capacity. The price for the service of the secondary storage of reserve capacity is also subject to regulation. The new draft *Procedure for the regulation of electricity and active reserve capacity prices for producers and independent suppliers who control more than 25 percent of the market* establishes that the setting of the price for the secondary storage of reserve capacity may include relatively fixed costs necessary for maintaining the secondary reserve capacity and the regulatory profit not to exceed 5 percent of non-current tangible assets used to carry out activities subject to regulation.
- 6.3.6. AB Kauno HE will earn income from the sale of electricity in the market. It is estimated that the electricity price in Lithuania after the decommissioning of the Ignalina Nuclear Power Plant will be not lower than 14 or 15 ct/kWh, i.e. several times higher than the cost price of electricity produced at Kauno HE.
- 6.4. The Spin-Off is planned to be completed on 31 March 2010 at the latest.

VII. INFORMATION REGARDING THE PREPARATION OF THE SPIN-OFF TERMS ASSESSMENT REPORT

- 7.1. Pursuant to the provisions of Article 63 of Law on Companies, the Spin-Off Terms shall be evaluated and the assessment report shall be prepared by the Private Company “ERNST & YOUNG BALTIC“. The assessment report of the Spin-Off Terms shall be accomplished and submitted not later than on the first day of publication of the prepared Spin-Off Terms of AB Lietuvos Energija.