

Main Principles for Drawing up the Spin-Off Balance Sheet

Following the requirements of the Law on Natural Gas of the Republic of Lithuania and other legal acts, the Company has been keeping its accounting of natural gas transmission, distribution, supply and other activities separately since 2002. On 1 January 2002, based on the Description of the Accounting Procedure of the Activities, the initial separate balance sheets of the Company's activities was prepared, where the Company's assets, liabilities and equity were for the first time distributed for the relevant activities. From the drawing up of the initial separate balance sheets up to now the Company's assets, liabilities and equity, as well as revenues and expenses have been accounted by activities in accordance with the provisions of the Description of the Accounting Procedure of the Activities. The Spin-Off Balance Sheet of the New Company has been drawn up in accordance with the provisions of the Description of the Accounting Procedure of the Activities and taking into consideration the requirements of the legal acts applicable to the Spin-Off. The assets, liabilities and equity attributed to the Transmission Activity shall be transferred to the New Company. The principles for attributing the assets, liabilities and equity to the Transmission Activity are described below. The assets, liabilities and equity not attributed to the Transmission Activity shall remain in the Company, which continues the activities after the Spin-Off.

A. Non-current assets

I. Intangible assets

The following intangible assets attributed to the Transmission Activity and accounted in the Spin-Off Balance Sheet as of 31 October 2012 is attributed to the New Company:

- software licences
- business management programmes
- management programmes of technological processes
- client service programmes
- geographical information systems (GIS)
- other intangible assets

The list of intangible assets transferred to the New Company is provided in Annex No. 4 of the Terms and Conditions.

II. Property, plant and equipment

The following property, plant and equipment attributed to the Transmission Activity and accounted in the Spin-Off Balance Sheet as of 31 October 2012 is attributed to the New Company:

The main property, plant and equipment of the Transmission Activity consists of the transmission system: main gas transmission pipelines, cathodic protection installations, gas compressor stations (GCS), gas distribution stations (GDS), gas metering stations (GMS):

- main gas transmission pipelines – high-pressure (from 16 to 55 bar) pipelines and equipment the purpose whereof is to ensure uninterrupted transmission of gas up to gas distribution stations, gas metering stations, from and to the Republic of Latvia and the transit to the Kaliningrad Region. The Company operates 1.9 thousand km of main transmission pipelines.
- cathodic protection installations – a set of installations for the cathodic protection (polarisation) of the pipeline using the external electrical current. Cathodic protection installations consist of the direct current source, anode earthing, underground gas pipeline lead-out (drainage), connecting electricity cables, protective earthing of the permanent circuit source, telemetry equipment. There are 128 cathodic protection installations in the network of main gas transmission pipelines. All main gas transmission pipelines have cathodic protection.
- gas compressor stations (GCS) – a complex of buildings, other structures, engineering networks, technological, communication, alarm and other equipment the main function whereof is to increase the pressure of natural gas in the main gas transmission pipeline, thereby increasing the volume of the gas transmitted. The following technological processes take place in compressor stations: gas cleaning, compression, cooling. The Company operates 2 compressor stations –Jauniūnai and Panevėžys.
- gas distribution stations (GDS) – a complex of buildings, other structures, engineering networks, technological, communication, alarm and other equipment, the main functions whereof are the filtering, reduction, warming, accounting and odouring of gas. At GDS the pressure of natural gas is reduced to 3-16 bar and the gas further gets to the gas distribution system. The exception is the GDS of Elektrėnai and Jonava where gas under non-reduced pressure is supplied to consumers in separate technological lines. The Company operates 65 GDS at present.
- gas metering stations (GMS) – a complex of buildings, other structures, engineering networks, technological equipment, communication, alarm and other equipment. The functions of GMS are, in principle, similar to those of the GDS, however, there are no warming and reduction nodes. The Company operates 3 GMS at present in Kiemėnai, Šakiai and Mažeikiai. The purpose of Šakiai GMS is the accounting of the gas transmitted by transit to the Kaliningrad region, of Kiemėnai reverse GMS – the accounting of the gas incoming to Lithuanian from Latvia and the gas incoming from Latvia to Lithuania, of Mažeikiai GMS – the accounting of the gas transmission to Mažeikiai.

In addition to the above-indicated assets of the transmission system, other assets related to the Transmission Activity are also attributed to the Transmission Activity:

- buildings and structures, their engineering systems, engineering networks – production basis of the Main Gas Transmission Pipelines Operational Service at Gudelių str. 49 in Vilnius and at Verslo str. 11 in Maskvytiškės village, Panevėžys district.
- machinery and equipment not covered by the above-indicted systems – power machinery and equipment, warehousing and lifting – unloading machinery and equipment, machine tools, workshop and garage equipment, tractors and earth-moving machinery, other working machinery and equipment;
- vehicles – passenger cars, passenger vans, cargo carriers, all-terrain vehicles, trailers and semi-trailers, special purpose vehicles;
- other equipment, tools and devices – computers, their equipment and networks, means of communication, technological data collection and remote control equipment, safety and fire alarm systems, tools, devices;
- other non-current tangible assets – furniture, office equipment, other inventory .

The list of property, plant and equipment attributed to the Transmission Activity is provided in Annex No. 4 of the Terms and Conditions.

Units of construction in progress related to the construction and reconstruction of property, plant and equipment to be used in the Transmission Activity are attributed to the Transmission Activity. The major object of the construction in progress is the construction of the main gas transmission pipeline Jurbarkas – Klaipėda, the value whereof as of the date of the Spin-Off Balance Sheet is LTL 57,126.2 thousand.

The list of assets of construction in progress attributed to the Transmission Activity is provided in Annex No. 6 of the Terms and Conditions.

III. Non-current financial assets

640,000 shares of UAB GET Baltic (company code 302861178, registered office: Aguonų str. 24, Vilnius), total par value - LTL 640,000, amounting to 32 % of the authorised capital of UAB GET Baltic, owned by the Company under the ownership right and managed jointly with the Finnish Company Gasum Oy, are attributed to the Transmission Activity. UAB GET Baltic is engaged in the activity of the natural gas exchange operator.

B. Current assets

I. Inventories and prepayments

I.1. Inventories

The list of inventories attributed to the Transmission Activity is provided in Annex No. 8 of the Terms and Conditions.

The main part of the natural gas inventories of the Transmission Activity consists of the natural gas reserves in the gas transmission pipeline to maintain the pressure of gas. The inventories of the emergency reserve of the gas transmission pipelines and other inventories intended for the repairs and maintenance of the transmission system have also been attributed to the Transmission Activity.

I.2. Prepayments

Prepayments include the expenses of the future periods and prepayments for the goods and services related to the Transmission Activity.

II. Accounts receivable

II.1. Trade receivables

The Transmission Activity includes the debts for the transportation of gas through the transmission network from non-household customers having concluded natural gas transportation service contracts, i.e. those consuming above 1 million m³ gas per year.

The Transmission Activity also includes the debt for the transportation of natural gas by transit to Kaliningrad area of the Russian Federation.

The part of the debt attributed to the Supply Activity for the transportation of natural gas by the transmission network from other customers having concluded the general contract for the purchase-sale of natural gas and for provision of services, i.e. consuming up to 1 million m³ gas per year, has been assessed in the balance sheet and accounted in accordance with the provisions of the Description of the Accounting Procedure of the Activities.

II.2. Other receivables

The biggest amount of other receivables attributed to the Transmission Activity as of 31 October 2012 is the amount of LTL 6,678.7 thousand receivable, i.e. the European financial support for the construction works of the Main Gas Transmission Pipeline Jurbarkas – Klaipėda under the trilateral Financing and Administration Contract No. S-VP2-4.1-ŪM-02-V-01-001 for the Project "Construction of Main Gas Transmission Pipeline Jurbarkas – Klaipėda", Project Ref. No. VP2-4.1-ŪM-02-V-01-00 signed on 21 December 2011 by the Ministry of Economy of the Republic of Lithuania, the Public Institution Lithuanian Business Support Agency and AB Lietuvos Dujos.

V. Cash and cash equivalents

The amount of cash recorded in the Transmission Activity reflects the historical result of the Transmission Activity.

C. Equity

When drawing up the initial separate balance sheets of activities on 1 January 2002, the authorised capital, reserves and retained earnings were distributed for the activities. Later the changes in the equity have been accounted for in accordance with the provisions of the Description of the Accounting Procedure of the Activities. The equity attributed to the Transmission Activity had been formed on the basis of the aforementioned principles.

D. Liabilities

I. Non-current liabilities

I.1. Non-current borrowings

The loan from Swedbank, AB under the Credit Agreement No. 12-042561-IN signed on 22 October 2012 equal to LTL 160 million is attributed to the Transmission Activity. Taking into consideration the need for financing of the Transmission Activity and investments into the natural gas transmission systems, the loan amount under the Credit Agreement may be increased up to LTL 248.6 million (EUR 72 million).

I.2. Grants (deferred revenue)

The Transmission Activity includes the grants (deferred revenue) related to the assets attributed to the Transmission Activity. The major object of grants of the Transmission Activity is the financing of the construction of the main gas transmission pipeline from Pabradė to Visaginas from the funds of Ignalina Power Plant Decommissioning Fund, the residual value as of 31 October 2012 is LTL 46,599.5 thousand.

I.3. Non-current employee benefits

The Transmission Activity includes the part of the non-current employee benefits resulted from payments to employees leaving the Company at the retirement age related to the employees moving to the New Company.

I.4. Deferred income tax liability

The Transmission Activity includes part of the deferred income tax assets and liabilities related to the difference between the book value and the tax basis of the asset and liability attributed to the Transmission Activity.

The deferred income tax liability attributed to the Transmission Activity is mostly related to the increase in the value of the revaluated property, plant and equipment attributed to the Transmission Activity.

The deferred income tax asset attributed to the Transmission Activity is primarily related to the liability of vacation accruals and non-current benefits to employees moving to the New Company, as well as to the balance of the unused investments into the transmission systems, to which the incentive provided for in the Law on Corporate Income Tax applies.

The deferred income tax liability is netted with deferred tax asset; in this way the difference has been calculated – the deferred income tax liability will be attributed to the Transmission Activity.

II. Current liabilities

II.1. Current portion of non-current borrowings

The loan from the European Investment Bank, the repayment term whereof is 20 October 2013, is attributed to the Transmission Activity, since this loan was used for the financing of the construction of the main gas transmission pipelines.

II.2. Trade payables

The Transmission activity includes trade payables under the contracts for services, goods and works directly related to the Transmission Activity.

II.4. Payroll related liabilities

Payroll related payment liabilities of the employee positions moving to the New Company are attributed to the Transmission Activity, taking into consideration the requirements of the legal acts.

II.5. Other payables and current liabilities

Other payables and current liabilities not covered above include liabilities under agreements and other liabilities calculated according to the requirements of legal acts, directly related to the Transmission activity.