

REPORT
ON ASSESSMENT OF REORGANIZATION TERMS OF
AB LESTO
AND
PUBLIC LIMITED LIABILITY COMPANY LIETUVOS DUJOS

To:

*AB LESTO
Aguonų g. 26, Vilnius*

*PUBLIC LIMITED LIABILITY COMPANY LIETUVOS DUJOS
Aguonų g. 24, Vilnius*

*STATE ENTERPRISE CENTER OF REGISTERS
V. Kudirkos str. 18, Vilnius*

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**REPORT ON ASSESSMENT OF REORGANIZATION TERMS OF
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I. SCOPE AND PROCEDURES OF ASSESSMENT OF REORGANIZATION TERMS

We have conducted an assessment of the accompanying Reorganization Terms of AB LESTO, code of a legal entity is 302577612, located in Aguonų g. 26, Vilnius and public company Lietuvos dujos, code of a legal entity is 120059523, located in Aguonų g. 24, Vilnius (hereinafter – Reorganization Terms), approved on 31 August 2015 by the Boards of Reorganized Companies, as the 63rd article of the Law on Companies of the Republic of Lithuania requires.

Boards of Reorganized Companies are responsible for the preparation of these Reorganization Terms in accordance with the requirements of the Law on Companies and other legal acts of the Republic of Lithuania.

Our responsibility is to express an opinion on these Reorganization Terms based on our assessment.

We conducted our assessment under ISAE 3000 “Assurance engagements other than audits or reviews of historical financial information” as well as our professional experience.

We conducted the assessment of Reorganization Terms and prepared the report on assessment of Reorganization Terms indicating, *inter alia*, the following:

- 1) report whether the share exchange ratio is fair and justified;
- 2) methods used to determine the share exchange ratio and the conclusions on the appropriateness of these methods for and their impact on the determination of the value of the shares;
- 3) description of the difficulties encountered during the assessment.

While conducting the assessment of Reorganization Terms, we have reviewed the following documents:

- Decision of the general meeting of shareholders of AB LESTO on 29 May 2015 regarding the approval of drafting of the Reorganisation Terms.
- Decision of the general meeting of shareholders of public limited liability company Lietuvos Dujos on 29 May 2015 regarding the approval of drafting of the Reorganisation Terms.
- Table on calculation of the share exchange ratio.
- Interim condensed audited financial statements of AB LESTO for Q2 2015 and H1 2015 and condensed consolidated pre-audited financial statements of AB LESTO Group.
- Audit firm’s UAB PricewaterhouseCoopers auditor’s report on 19 August 2015 of AB LESTO H1 2015 condensed interim financial information;
- Interim condensed audited financial statements of public limited liability company Lietuvos Dujos for Q2 2015 and H1 2015.
- Audit firm’s UAB PricewaterhouseCoopers auditor’s report on 17 August 2015 of public company’s Lietuvos Dujos H1 2015 condensed interim financial information;

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- Table on calculation of the average weighted market price of shares of AB LESTO over the last 6 months (trading period from 1 January 2015 to 30 June 2015 (inclusive)).
- Table on calculation of the average weighted market price of shares of public limited liability company Lietuvos Dujos over the last 6 months (trading period from 1 January 2015 to 30 June 2015 (inclusive)).
- Table of comparison of the key performance indicators of AB LESTO and public limited liability company Lietuvos Dujos.
- Approval from the Register of Legal Entities of the Republic of Lithuania regarding the performance of the assessment of the Reorganisation Terms by the audit company common for both Companies.
- Draft Articles of Association of AB Energijos skirstymo operatorius.
- ABLESTO consolidated and Company's financial statements for the year 2014;
- Audit firm's UAB PricewaterhouseCoopers auditor's report of AB LESTO financial statements for the year 2014;
- AB LESTO consolidated and Company's financial statements for the Q1 2015;
- Report on assessment of long-term tangible assets of AB LESTO(the date of assessment is 02 February 2015);
- public company's Lietuvos Dujos Company's financial statements for the year 2014;
- Audit firm's UAB „Ernst & Young Baltic“ auditor's report of public company's Lietuvos Dujos financial statements for the year 2014;
- public company's Lietuvos Dujos pre-audited condensed financial statements for the Q1 2015;

When assessing the Reorganization Terms the following procedures were performed:

- We assessed the compliance of Reorganization Terms with the requirements of the 63rd article of the Law on Companies of the Republic of Lithuania;
- We assessed the methods, used to determine the share exchange ratio, in respect to their suitability and influence on determining the value of the shares; the mathematical correctness of the calculations, presented by the management, the application of the chosen valuation methods and the suitability of the assumptions used;
- We have assessed the correctness and validity of the share exchange ratio given in the Reorganization Terms.

Conducting the assessment we considered the following:

- 1) Companies' business specifics and history;
- 2) Companies' historical financial position, earnings and volumes of cash flows;
- 3) Tendencies of prices of Companies' shares in AB NASDAQ OMX Vilnius Stock Exchange.

This report on assessment of Reorganization Terms cannot be used for any other purposes except the reorganization of AB LESTO and public company Lietuvos dujos.

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II. METHODS USED TO DETERMINE THE SHARE EXCHANGE RATIO

On the basis of the Reorganization Terms, the Companies are reorganized by way of merger, as laid down in Section 2.97 (4) of the Civil Code of the Republic of Lithuania, merging the Reorganized Companies which will cease their existence as legal entities after Reorganization into a new legal entity AB Energijos skirstymo operatorius that will begin its operation after Reorganization and will be the successor to all assets, rights and obligations of the Reorganized Companies.

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

As of the day of these Reorganization Terms the authorized capital of public company Lietuvos dujos is EUR 84,298,864.60 and is divided into 290,685,740 ordinary registered shares of EUR 0.29 nominal value each.

The authorized capital of AB Energijos skirstymo operatorius to be active after Reorganization will be equal to EUR 259,442,796.57, i.e. the authorized capitals of Reorganized Companies will be aggregated. The authorized capital of AB Energijos skirstymo operatorius will be divided into EUR 894,630,333 ordinary registered shares of EUR 0.29 nominal value each.

The calculation of the rate of conversion of AB LESTO and public company's Lietuvos dujos shares into AB Energijos skirstymo operatorius shares was based on two methods – the book value of net asset as of 30 June 2015 and average weighted market price of the Companies' shares over the last 6 months on the market where AB LESTO and public company's Lietuvos dujos securities are traded.

The method of book value of net asset was chosen for the following reasons: this method is based on the latest financial statements audited by the auditors and prepared in accordance with International Financial Reporting Standards as of 30 June 2015

The calculation of the average weighted market price of the Reorganized Companies' shares over the last 6 months (the value of shares is calculated using market prices for the period since 1 of January 2015 to 30 of June 2015) was chosen for the following reasons: this method reflects the value of AB LESTO and public company's Lietuvos dujos shares on the market, reflects the expectations of investors and the information held about the Companies, including their regulatory environment, as it comprises the recent data of AB NASDAQ OMX Vilnius Stock Exchange.

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 power sector, as well as other factors which are likely to affect the market price of the Companies' shares at a certain moment, the boards of the Companies decided to use not the market capitalization of AB LESTO and public company Lietuvos dujos on a certain particular day but the average weighted market price of the Reorganized Companies' shares over the last 6 months.

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III. SHARE EXCHANGE RATIO

In view of the book values of Reorganized Companies' net asset as of 30 June 2015, the allocation of dividends to shareholders have been removed from the total value of LD and LESTO shares and the values of all shares of public company Lietuvos dujos and AB LESTO Group were EUR 135,038 thousand and EUR 403,646 thousand respectively.

In view of average weighted market price of the Reorganized Companies' 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)), the total value of public company's Lietuvos dujos and AB LESTO shares is EUR 222,535 thousand and EUR 599,569 thousand respectively.

Therefore, for the purposes of establishing the final ratio of conversion of public company's Lietuvos dujos and AB LESTO shares into AB Energijos skirstymo operatorius shares the arithmetic mean of values of shares calculated using the methods mentioned above was used. Thus the obtained total value of all public company's Lietuvos dujos and AB LESTO shares is EUR 178,787 thousand and EUR 501,608 thousand respectively, and the proportion of all AB Lietuvos dujos and AB LESTO shares is 26.276942 : 73.723058.

The calculation of the ratio of conversion of public company's Lietuvos dujos and ABLESTO shares into AB Energijos skirstymo operatorius shares is given below:

	Public company Lietuvos dujos	AB LESTO
Value of shares calculated using the method of book value of net asset in 30 June, 2015	EUR 135,038 thousand	EUR 403,646 thousand
Value of shares calculated using the method of average weighted market price of the Reorganized Companies' shares over the last 6 months	EUR 222,535 thousand	EUR 599,569 thousand
The arithmetic mean of value of shares calculated using the methods mentioned above	EUR 178,787 thousand	EUR 501,608 thousand
Ratio of values of shares	26.276942 : 73.723058	
AB Energijos skirstymo operatorius authorised capital	EUR 259,442,797	
Proportional share of AB Energijos skirstymo operatorius authorised capital attributable to the Company	EUR 68,173,633	EUR 191,269,164
Proportional share of AB Energijos skirstymo operatorius shares attributable to the Company	235,081,494	659,548,839
Number of shares	290,685,740	603,944,593
1 share exchange ratio	0.80871354	1.09206846

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In view of the ratio of values of public company's Lietuvos dujos and AB LESTO shares, which is 26.276942 : 73.723058, AB LESTO shares will be converted into the shares of AB Energijos skirstymo operatorius, the company to be active after Reorganization, at the following ratio: 1 share of AB LESTO will equal to 1.09206846 AB Energijos skirstymo operatorius share, rounding as follows:

- If a fractional part of the total number of shares per shareholder equals to or is more than 0.5, the number of AB Energijos skirstymo operatorius shares issued to a shareholder of AB LESTO after Reorganization will be rounded up to the whole number;
- If a fractional part of the total number of shares per shareholder is less than 0.5, the number of AB Energijos skirstymo operatorius shares issued to a shareholder of AB LESTO after 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 in money).

In view of the ratio of values of public company's Lietuvos dujos and AB LESTO shares, which is 26.276942 : 73.723058, public company's Lietuvos dujos shares will be converted into the shares of AB Energijos skirstymo operatorius, the company to be active after Reorganization, at the following ratio: 1 share of public company Lietuvos dujos will equal to 0.80871354 AB Energijos skirstymo operatorius share, rounding as follows:

- If a fractional part of the total number of shares per shareholder equals to or is more than 0.5, the number of AB Energijos skirstymo operatorius shares issued to a shareholder of public company Lietuvos dujos after Reorganization will be rounded up to the whole number;
- If a fractional part of the total number of shares per shareholder is less than 0.5, the number of AB Energijos skirstymo operatorius shares issued to a shareholder of public company Lietuvos dujos after 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 in money).

IV. DESCRIPTION OF THE DIFFICULTIES ENCOUNTERED DURING THE ASSESSMENT

Assessment of Value of the Companies' Net Asset

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 AB LESTO shareholders and EUR 10,348 thousand to public company Lietuvos dujos shareholders. Given the aforementioned decisions and offers and seeking to determine the value of AB LESTO and public company Lietuvos dujos 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 public company Lietuvos dujos and AB LESTO shares which is presented according to the book value of net assets on 30 June 2015.

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The book value of the assets of Reorganized Companies was set taking into consideration the dividends expected to be paid. If the company's shareholders does not approve the rate of payment of dividends, the share exchange rate will change.

V. REPORT ON FAIRNESS AND JUSTIFICATION OF SHARE EXCHANGE RATIO

In our opinion, except for the possible effects of the matters mentioned in the section No. IV, the methods used to assess the exchange ratio of the shares are in all material respects suitable and the calculated exchange ratio of the shares provided in the Reorganization Terms, is fair and justified.

Director Auditor
Genadij Makušev
Auditor's certification No. 000162



31 August, 2015
A. Goštauto 40B, Vilnius

UAB „Grant Thornton Rimess”
Audit company's certification No. 001410