

Lietuvos Energija AB in the Reformation of Electricity Sector Information for investors

August 19, 2010



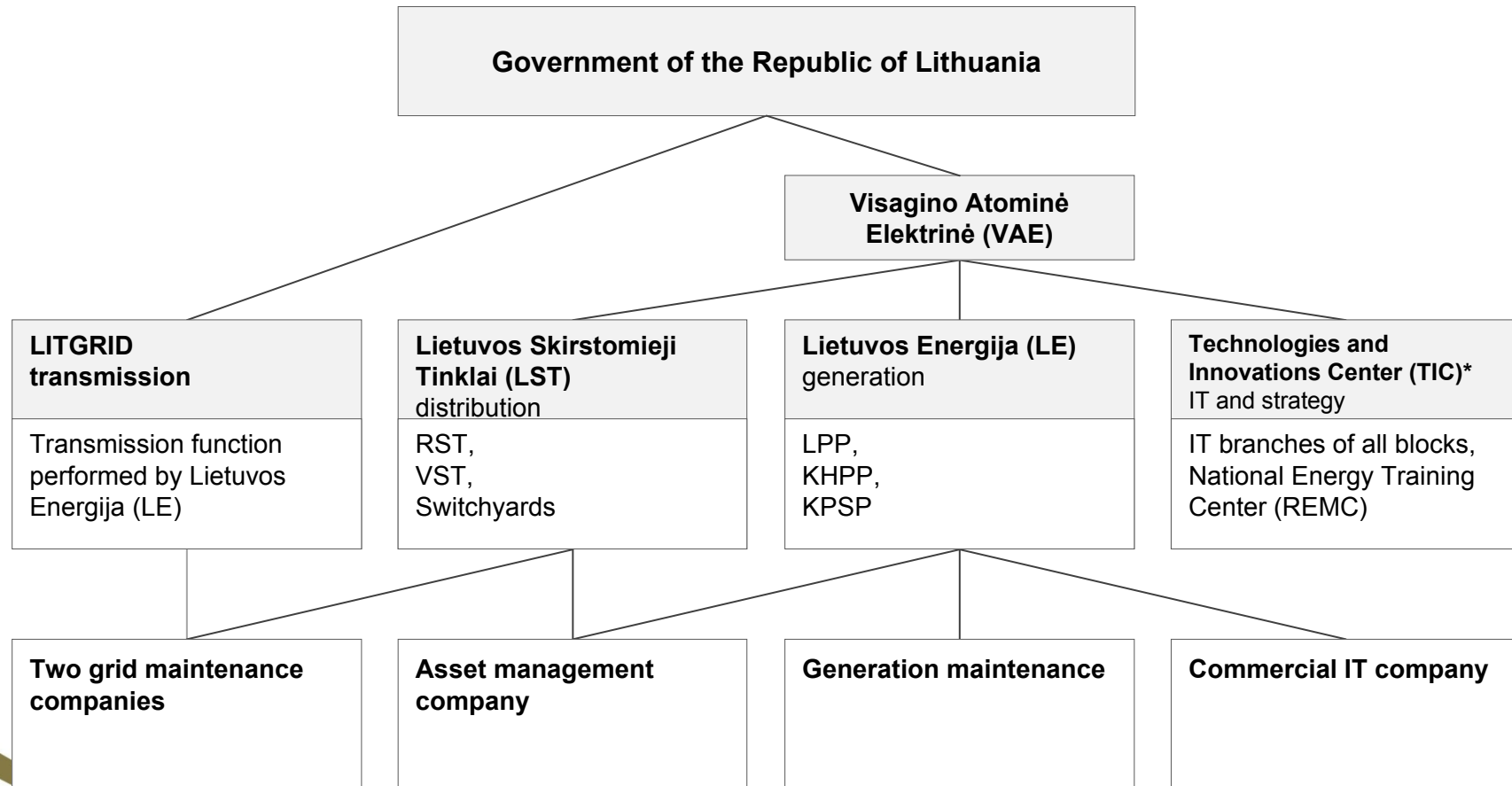
Goals of electricity reorganization project

1. To ensure energy independence of the country.
2. To increase overall efficiency of the system and create synergies.
3. To separate and purify activities.
4. To organize electricity economy under the EU practice and requirements of directives.

Parts of reorganization

- I. Separation of transmission activity from Lietuvos Energija AB.
- II. Concentration of generation block.
- III. Merging of distribution networks.
- IV. Establishment of TIC (Technologies and Innovation Center).
- V. Establishment of companies in the maintenance block.

Structure of electricity economy after the reorganization in 2011



* VAE, LITGRID, LST and LE holds TIC shares



I. Separation of transmission activity from Lietuvos Energija AB

GOALS

- To separate and purify activity.
- To meet requirements of the EU Third Energy Package.
- To form a strong enterprise, capable of interconnecting Lithuania with ENTSO-E / ECN, starting with links to Poland and Sweden.
- To liberalize electricity market.

II. Concentration of generation block

GOALS

- To concentrate generation capacities in a single group of companies while increasing efficiency of activity and financial potential;

This goal is achievable by transferring shares of Lietuvos Elektrinė AB to Lietuvos Energija AB.

- To transfer auxiliary functions to maintenance companies.

Benefits of concentration of generation block

- Purification of activity by orienting to core activity – electricity generation;
- Synergy of concentrating generation and maintenance resources;
- Improving efficiency of activity;
- Better possibilities to compete in free electricity market;

- Increasing of energy security – construction of Unit 9 of LPP;
- Promotion of use of renewable energy sources – construction of Unit 5 of Kruonis PSP.

Determination of share prices

Selection of methods to determine the share price of LIETUVOS ELEKTRINĖ AB (1)

- Key methods to determine the value of any company:
 - Method of comparative value;
 - Method of discounted cash flows;
 - Method of replacement value.
- In the evaluation of LPP methods of **comparative value** and **discounted cash flows** were used.

Selection of methods to determine the share price of LIETUVOS ELEKTRINĖ AB (2)

- LPP – **listed company**, generating positive cash flows for shareholders.
- **Comparative value method** is the main method to determine the share value, when shares of an enterprise are listed and the specifics of the company are directly comparable to similar companies (*peers*).
- The comparable value shows the extent to which the company shares are overvalued / undervalued, compared to the accurate market evaluation. Statistically, accurate market evaluation is considered to be indicators of more than 30 similar companies.
- Typically to the determination of comparative value are applied discounts of liquidity or size. In this case to LPP shares is applied a 10% liquidity discount as average turnover-ability of LPP shares in the market is very low.
- By following the method of comparable value, the investor may know what the fair value of the share is according to the already performed similar transactions.

Selection of methods to determine share price of LIETUVOS ELEKTRINĖ AB (3)

- LPP – listed company, **generating positive cash flows for shareholders.**
- **Discounted cash flows method** is applied to companies generating positive cash flows. Company shareholders are eligible to cash flows generated in the future through core activity after investments, interests and cash flows (return of loans).
- The main presumption of this method – fundamental value of the company is equal to the sum of cash flows, forecast in the future. The forecast cash flows are discounted as the current value of money in the future will decrease.
- By applying the discounted cash flows method, an investor can predict how much money within its lifetime the company can pay the investor which is equal to the fair price of the share.

Selection of methods of determining the share price of LIETUVOS ELEKTRINĖ AB (4)

- **Method of replacement value** shows the amount of money which should be invested in order to recreate an object with the same characteristics.
- In case of LPP appraisal this method was not applied as the replacement value does not show an economic value of the company, i.e. how much an individual investor would agree to pay for one share of the company, expecting a return on this investment.

Selection of evaluation weights of LIETUVOS ELEKTRINĖ AB

- Both the comparative value and discounted cash flows methods are equally important in determination of the company value.
- The fair price of a share is the one which an investor would be ready to pay for a company since the company should cost as much as investors already pay in similar transactions.
- However, it is also important to consider specific aspects of company activity and fundamental value of the company, i.e. how much money an investor would receive in case of buying one share of the company.
- Therefore in the evaluation by both methods equal 50% weight is given.

Appraisal results of LIETUVOS ELEKTRINĖ AB

100% of shares value by
comparative indexes method

LTL 735 341 thousand

100% of shares value by
discounted free cash flows
method

LTL 519 258 thousand

50%

50%

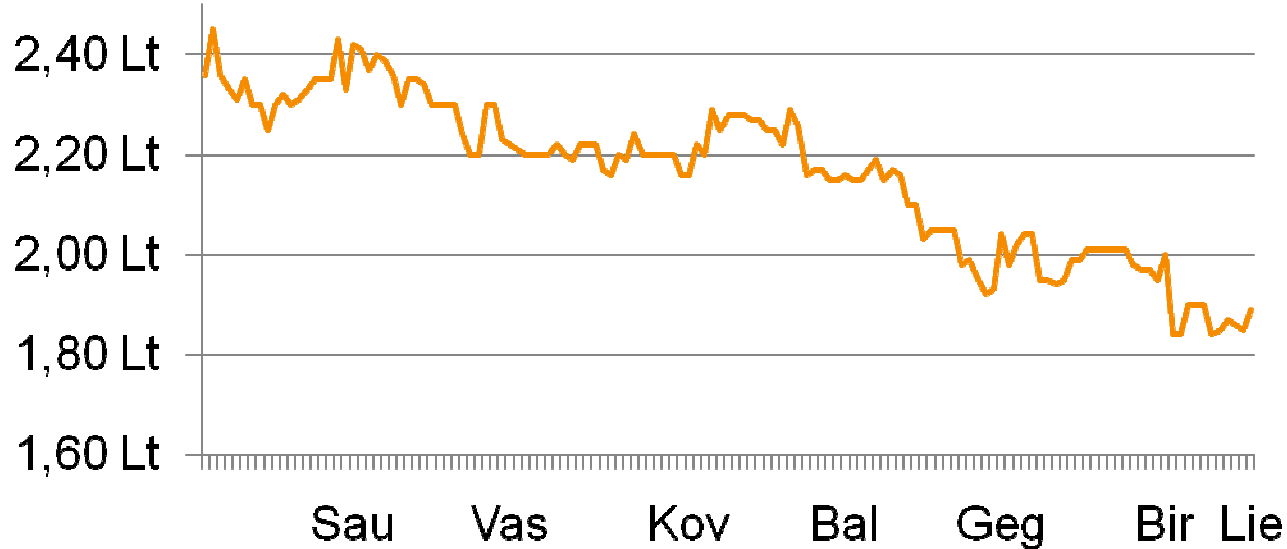
100% of ordinary registered shares
value is equal to
LTL 627 299 thousand
or **LTL 4.30 per share**

91.27% of shares package of Lietuvos Elektrinė AB, 133 065 125
shares. ORS market value

LTL 572 180 037.50

Determination of shares issue price of Lietuvos Energija AB

- LPP shares price at the stock market fluctuates due to influence of various criteria.



- In order to eliminate the influence of momentary fluctuations, the price of shares issue of LEN is determined by considering weighted average share market price of 6 months.

LTL 2.07

Thank you for your attention!