

AB INTER RAO Lietuva

a public limited liability company, with its registered office at A. Tumėno 4, LT-01109 Vilnius, Lithuania, and registered with the Register of Legal Entities of the Republic of Lithuania under number 126119913,

Offering of up to 4,000,000 Shares with a nominal value of LTL 1 each, and admission into trading on the main market of the Warsaw Stock Exchange of all of the Shares issued in the share capital of AB INTER RAO Lietuva

This document (the "Prospectus") has been prepared for the purpose of (i) the offering (the "Offering") of up to 4,000,000 shares with a nominal value of LTL 1 each (the "Shares") in the share capital in AB INTER RAO Lietuva (the "Issuer"), and (ii) the admission and introduction of the entire issued share capital of the Issuer (i.e. 20,000,000 Shares (as defined herein)) into trading on the main market or the parallel market, depending on the requirements fulfilled at the moment of filing an application, of the *Giełda Papierów Wartościowych w Warszawie S.A.* (the Warsaw Stock Exchange, or the "WSE"), a regulated market within the meaning of Directive 2004/39/EC of the European Parliament and of the Council. UAB Scaent Baltic (the "Selling Shareholder"), one of the Issuer's principal shareholders, will be offering up to 4,000,000 existing Shares (the "Offer Shares"). The Issuer will not receive any proceeds from the sale of the Offer Shares and the Offering, whereas the Selling Shareholder will receive the net proceeds from the sale of its Offer Shares. The Selling Shareholder will grant the Offering Agent an option, under which the Selling Shareholder will be obliged to acquire from the Offering Agent up to 500,000 Shares acquired by it in course of any stabilisation transactions.

The Offering consists solely of: (i) a public offering to retail investors in Poland and in Lithuania (the "Retail Investors"), (ii) a public offering to institutional investors in Poland and in Lithuania (the "Polish and Lithuanian Institutional Investors"), and (iii) a private placement to institutional investors in certain jurisdictions outside of Poland (the "International Investors", and together with the Polish and Lithuanian Institutional Investors, the "Institutional Investors"), in each case in accordance with applicable securities laws and regulations.

The Offer Shares offered by the Prospectus have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"), or under any securities laws of any state or other jurisdiction of the United States. The Offering is being made only outside of the United States in offshore transactions in accordance with Regulation S under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, any US persons (as defined in Regulation S), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act (see "Selling Restrictions").

The Offer Shares are being offered, as specified in the Prospectus, subject to cancellation, suspension or modification of the Offering and subject to certain other conditions.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Article 5.3 of Directive 2003/71/EC of the European Parliament and of the Council, as amended (the "Prospectus Directive") and Article 6(4) of the Lithuanian Law on Securities, and has been prepared in accordance with the Lithuanian Law on Securities and Commission Regulation (EC) 809/2004 of 29 April 2004, as amended ("Regulation 809/2004"). The Bank of Lithuania which is the Central Bank of the Republic of Lithuania (*Lietuvos Respublikos Centrinis Bankas*, the "CBRL"), in its capacity as the competent authority in Lithuania under the Lithuanian Law on Securities, has approved this document as a prospectus. The Selling Shareholder will be authorised to carry out the Offering to the public in Lithuania after the Prospectus has been made available to the public, together with the Lithuanian translation of the Prospectus summary. The Selling Shareholder will be authorised to carry out the Offering to the public in Poland once the CBRL has provided *Komisja Nadzoru Finansowego* (the Polish Financial Supervision Authority, the "PFSA"), which is the competent authority in Poland, (in accordance with Article 12 of the Lithuanian Law on Securities, Article 18 of the Prospectus Directive and Article 37 of the Polish Public Offering Act (as defined below)) with (i) a certificate of approval of the Prospectus, (ii) a copy of the Prospectus in English, and (iii) a Polish translation of the Prospectus summary, and after the Prospectus has been made available to the public, together with the Polish translation of the Prospectus summary.

AN INVESTMENT IN THE OFFER SHARES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS".

The Maximum Price is EUR 6.55. PLN equivalent of the Maximum Price is PLN 26.92.

Prior to the Offering, there has been no public market for the Offer Shares. Based on the Prospectus, the Issuer intends to apply for the entire issued share capital as at the Settlement Date as defined below (i.e., 20,000,000 Shares), including the Offer Shares, to be admitted and introduced into listing and trading on the main market or the parallel market, depending on the requirements fulfilled at the moment of filing an application, of the WSE ("Admission"). The Issuer expects that trading in the Shares on the WSE will commence on or about 18 December 2012 (the "Listing Date"). Settlement of the Offering is expected to occur on or about 13 December 2012 (the "Settlement Date"). The subscriptions by retail investors will be accepted between 27 November 2012 and 7 December 2012 (until 5 p.m. Warsaw-time) (the "Subscription Period"), and book-building and subscription period for Institutional Investors will be held between 5 December 2012 and 7 December 2012 (until 5 p.m. Warsaw-time). The final Offer Price (in EUR) will be determined by the Selling Shareholder in agreement with the Offering Agent (defined herein) after completion of book-building for the Institutional Investors not later than on or about 10 December 2012, based on interest from investors, and the final number of the Offer Shares and the final number of the Offer Shares allocated to each group of investors will be determined by the Issuer and the Selling Shareholder in agreement with the Offering Agent after lapse of the payment period for Institutional Investors, not later than on or about 12 December 2012, and will be filed with the CBRL and the PFSA and published on the websites of the Issuer and the Offering Agent.

All of the Shares are ordinary registered shares, exist in book-entry form and are electronically registered with *Lietuvos Centrinis Vertybių Popierių Depozitoriumas* (the Lithuanian Central Securities Depository, the "CSDL"). The security identification number (ISIN code) of the Shares is: LT0000128621. The Shares will be available in Poland once they have been registered with the Polish clearing and settlement institution – *Krajowy Depozyt Papierów Wartościowych S.A.* (the Polish National Depository for Securities, or the "NDS"), acting as a secondary depository for the Shares, and transferred from the CSDL. Shareholders in the Issuer may hold Shares through NDS participants, such as investment firms and custodian banks which operate in Poland and through CSDL participants, such as investment firms and custodian banks which operate in Lithuania.

Offering Agent



The date of this Prospectus is 23 November 2012

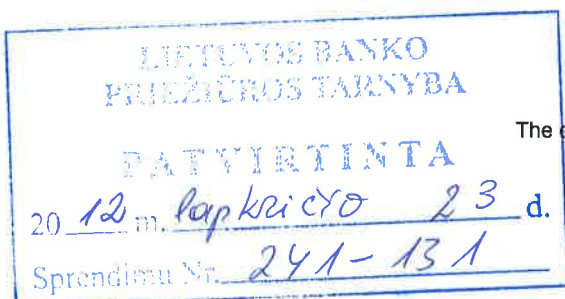


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SUMMARY

Summaries are made up of disclosure requirements known as 'Elements'. These elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of securities and Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case, a short description of the Element is included in the summary with the mention of 'not applicable'.

Section A – Introduction and Warnings

A.1	<p>This summary should be read as an introduction to the Prospectus.</p> <p>Any decision to invest in the shares should be based on consideration of the Prospectus, as a whole, by the investor.</p> <p>Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary, including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such shares.</p>
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Section B – Issuer

B.1	<i>The legal and commercial name of the Issuer</i>	AB INTER RAO Lietuva
B.2	<i>Domicile and legal form of the Issuer, its country of incorporation</i>	The Issuer is a public limited liability company with its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, Vilnius. It is registered with the Register of Legal Entities of the Republic of Lithuania under number 126119913. The Issuer is incorporated and operates under the laws of the Republic of Lithuania.
B.3	<i>Issuer's current operations and principal activities</i>	<p>The Group is an independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.</p> <p>The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with wholesalers of electricity, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the purposes of systemic services provided by the transmission system operators; cross-border electricity trading.</p> <p>The Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in cross-border electricity trading between Lithuania and other EU Member States, namely Latvia and Estonia.</p> <p>The Group sells all of the electricity it cross-border delivers to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market, including those volumes imported from the third countries and those delivered from the EU Member States, has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same price and trades are executed at the market price. Only then does the Group sell electricity to its wholesale customers in</p>

Lithuania and Latvia according to bilateral contracts. Some portion of electricity is also sold directly through Nord Pool Spot AS in Lithuania and Estonia to other market participants. Trades on the power exchange are executed at the market price.

The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules). Alternately the Group may sell electricity to its customers based on future contracts, under which the Group undertakes to sell agreed volumes of electricity on the power exchange at agreed price and its customer undertakes to purchase on the power exchange the same volumes at the same agreed price (if market price differs, the parties agree on mutual compensation of the price margin between the market price and the agreed one).

Apart from importing electricity, the Group also purchases the electricity it trades from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool Spot AS in Lithuania and Estonia based on market price.

The Group is also active in supplying electricity to end-users of electricity. As at the date of the Prospectus, the Group sells to end-users of electricity in Latvia (began during the six month period ended 30 June 2012) and Lithuania (started in July 2012). In the six month period ended 30 June 2012, the Group supplied approx. 1 GWh to end-users in Latvia.

The table below presents data on the electricity trading activities of the Group, with a breakdown on each country for the periods indicated (S - sale, P - purchase).

	For six months ended 30 June				For the year ended 31 December					
	2012		2011		2011		2010		2009	
	S	P	S	P	S	P	S	P	S	P
	GWh									
Lithuania	2,965	1,160	2,975	985	6,217	2,270	4,682	124	540	582
Lithuania*	1,907	101	2,059	69	4,089	142	4,672	114	-	-
Latvia	591	106	577	47	1,564	47	771	166	25	65
Estonia	239	37	93	19	213	38	-	-	-	-
Russia	-	2,482	-	2,571	-	5,543	3	5,113	497	410
Belarus	109	120	-	23	-	96	-	53	-	7
Total	3,905	3,905	3,645	3,645	7,994	7,994	5,456	5,456	1,062	1,064
Total*	2,846	2,846	2,729	2,729	5,866	5,866	5,446	5,446	-	-

* Excluding equivalent trades on the power exchange

Source: Group data

Finally, the Group is also present in electricity generation operations, as Vydmantai Wind Park, one of the Group Companies, owns the wind park located in Vydmantai, which it acquired in July 2011. The wind park is located in Western Lithuania, near the Baltic Sea coast. The wind park in Vydmantai consists of 15 high-quality Enercon E-70 wind turbine generators, with 2 MW of installed capacity and 85 m hub height and 3 blades each. The total generation capacity of the wind park in Vydmantai is equal to 30 MW.

The wind park in Vydmantai began operations in 2006. The Vydmantai Wind Park is eligible for state support for renewable energy generation. As a consequence, the Vydmantai Wind Park was granted a feed-in tariff, which is in place until 31 December 2020. Under the feed-in tariff, the Vydmantai Wind Park shall be paid 300 LTL/MWh (app. 87 EUR/MWh) for any electricity it sells. The feed-in tariff is fixed and not subject to inflationary adjustments.

In the six month period ended 30 June 2012 and 2011 respectively, the Vydmantai Wind Park sold 30.55 MWh and 32.38 MWh. In the financial years ended 31 December 2011, 2010 and 2009 respectively, the Vydmantai Wind Park sold 70.25 MWh, 54.54 MWh and 57.44 MWh (however, the Group acquired the wind park in Vydmantai in July 2011).

Competitive Strengths and Advantages

Reliable supplier of a significant volume of electricity at competitive prices

The Group has developed a strategic partnership with its ultimate parent company, the Russian energy holding company, INTER RAO UES, which allows the Group to purchase a vast majority of the electricity it trades from its Russian partner. Having its own substantial generation assets, INTER RAO UES has a significant amount of electricity supply capabilities and is the leading exporter and importer of electricity from/to Russia. The Management believes that INTER RAO UES is a reliable and credible partner that can supply the Group with a significant volume of electricity at competitive prices. The Group concluded a number of agreements with INTER RAO UES on the sale and purchase of electricity. Part of the agreements is long-term; their validity expires at the end of 2020 and shall be automatically renewed for another year in the event neither of the parties wishes to terminate the agreement at expiration.

One of the leading players in wholesale electricity markets in Lithuania, Latvia and Estonia

The Group is the leading wholesale supplier of electricity in Lithuania in terms of the volume of delivered electricity. In the year ended 31 December 2011, the Group's market share of wholesale electricity trading on the power exchange in Lithuania amounted to 44%, according to the National Control Commission for Prices and Energy. Management believes that the Group is also the second wholesale electricity supplier, after the state-owned electricity suppliers, in Latvia and Estonia. Market leadership allows the Group to capitalize on its increased scale of operations, as well as an increase in its client base. Thanks to its market position and breadth of experience, the Group can exploit market opportunities in a more efficient and cost effective manner.

Highly competent, experienced and growth-oriented management with extensive knowledge of the market

Management has extensive technical and business experience in the area of electricity trading. Moreover, throughout their careers, the members of Management were engaged in the electricity trading business in Lithuania and other Baltic States as well as Scandinavia and therefore, have gained unique experience, knowledge and know-how, which is essential for success in the electricity trading market in this region. In particular, Management's strength lies in its experience working as an independent supplier in the liberalizing electricity markets of the region.

Established relationships with largest customers in the region, which positions the Group as a reliable partner with outstanding track record

The Group has been operating in the electricity trading market since 2002. Throughout this period, the Group has managed to build relations with the largest wholesale clients in the Baltic States. The Group cooperates with Lietuvos energija (Lithuanian state-owned energy holding company), Latvenergo (Latvian state-owned energy holding company), as well as Energijos tiekimas (an independent supplier wholly-owned by Lietuvos energija) and SBE Energy (private independent electricity supplier). Furthermore, since 2010, the Group has been supplying electricity to the largest electricity consumer in the Baltic States, ORLEN Lietuva AB.

Since starting its business operations, the Group has always fulfilled its electricity supply commitments by delivering the required volume of electricity to its counterparties. Thanks to this, the Group has been perceived as a reliable, trustworthy and reputable supplier of electricity.

Sound financial results support further development of the Group

In the six month period ended 30 June 2012, the Group had consolidated revenue of LTL 453.35 million and net profit of LTL 30.78 million (net profit margin of 6.8%), as compared to consolidated revenue of LTL 419.68 million and net profit of LTL 31.17 million (net profit margin of 7.4%) in the six month period ended 30 June 2011. In the financial year ended 31 December 2011, the Group had consolidated revenue of LTL 919.08 million and net profit of LTL 61.20 million (net profit margin of 6.7%), as compared to consolidated revenue of LTL 750.39 million and net profit of LTL 59.06 million in the financial year ended 31 December 2010 (net profit margin of 7.9%), and consolidated revenue of LTL 104.54 million and net profit of LTL 14.95 million (net profit margin of 14.3%) in the financial year ended 31 December 2009.

Strategy

- Consolidating the leading wholesale electricity market position in Lithuania,
- Increasing market share in the Latvian and Estonian electricity markets,

		<ul style="list-style-type: none">– Expanding the Group's presence in electricity generation from renewable sources and increasing generation capacity,– Expanding the Group's presence in the end-user segment of electricity market and building more diversified consumer base in the Baltic States,– Entering Polish electricity market.																																
B.4a	Significant recent trends affecting the Issuer and its industries	<p>The Group and its industries has recently been influenced and the Management expects that the Group will continue to be influenced in the foreseeable future by the following trends and events:</p> <ul style="list-style-type: none">– moderate growth of electricity prices in the Baltic States;– continuous growth of electricity demand in the Baltic States; and– change in the sale structure as a result of the liberalization of electricity markets in the Baltic States, enabling the Group to attract more end-users of electricity.																																
B.5	The Issuer's group	<p>The following chart sets out the Issuer's subsidiaries and interests in those subsidiaries, as well as the structure of the Group, in each case as at the date of the Prospectus.</p> <div><div>AB INTER RAO Lietuva ("Issuer")</div><div><div>IRL Polska Sp. z o.o. (100% directly-owned subsidiary)</div><div>INTER RAO Eesti OU (100% directly-owned subsidiary)</div><div>SIA INTER RAO Latvia (100% directly-owned subsidiary)</div><div>UAB Alproka (49.99% owned joint venture)</div><div>UAB IRL Wind (100% directly-owned subsidiary)</div></div><div><div>UAB Vydmantai wind park (100% indirectly-owned subsidiary)</div></div></div>																																
B.6	Major shareholders in the Issuer	<p>As of the date of the Prospectus, 51% of the outstanding share capital of the Issuer is held directly by RAO Nordic OY, a company organised and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at Tammasaarekatu 1, FIN-00180, Helsinki, the Republic of Finland ("Majority Shareholder"). The Majority Shareholder is a wholly-owned subsidiary of OJSC INTER RAO UES ("INTER RAO UES"), a company incorporated under Russian law.</p> <p>As of the date of the Prospectus, 49% of the outstanding share capital of the Issuer is held directly by UAB Scaent Baltic, a company organised and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at A. Tumėno 4, LT-01109, Vilnius, the Republic of Lithuania ("Selling Shareholder", together with the Majority Shareholder – the "Principal Shareholders").</p> <p>The tables below indicate the Issuer's shareholding structure as at the date of the Prospectus and after the Offering:</p> <table><tr><th colspan="2"></th><th colspan="2">Shares owned prior to the Offering</th><th colspan="2">Shares owned after the Offering⁽¹⁾</th><th colspan="2">Shares owned after the Offering⁽²⁾</th></tr><tr><th colspan="2">Shareholder</th><th>Number of shares</th><th>%</th><th>Number of shares</th><th>%</th><th>Number of shares</th><th>%</th></tr><tr><td>RAO</td><td>Nordic OY</td><td>10,200,000</td><td>51.0</td><td>10,200,000</td><td>51.0</td><td>10,200,000</td><td>51.0</td></tr><tr><td>UAB</td><td>Scaent</td><td>9,800,000</td><td>49.0</td><td>6,300,000</td><td>31.5</td><td>5,800,000</td><td>29.0</td></tr></table>			Shares owned prior to the Offering		Shares owned after the Offering ⁽¹⁾		Shares owned after the Offering ⁽²⁾		Shareholder		Number of shares	%	Number of shares	%	Number of shares	%	RAO	Nordic OY	10,200,000	51.0	10,200,000	51.0	10,200,000	51.0	UAB	Scaent	9,800,000	49.0	6,300,000	31.5	5,800,000	29.0
		Shares owned prior to the Offering		Shares owned after the Offering ⁽¹⁾		Shares owned after the Offering ⁽²⁾																												
Shareholder		Number of shares	%	Number of shares	%	Number of shares	%																											
RAO	Nordic OY	10,200,000	51.0	10,200,000	51.0	10,200,000	51.0																											
UAB	Scaent	9,800,000	49.0	6,300,000	31.5	5,800,000	29.0																											

Baltic						
Public	-	-	3,500,000	17.5	4,000,000	20.0
Total	20,000,000	100.0	20,000,000	100.00	20,000,000	100.0

(1) Assuming complete sale of the Offer Shares and with maximum amount (i.e. 500,000) of Shares purchased by the Offering Agent during stabilisation transactions.

(2) Assuming complete sale of the Offer Shares and without any stabilisation transactions executed by the Offering Agent.

The voting rights of the Majority Shareholder and the Selling Shareholder with respect to their shares in the Issuer's shares capital do not differ in any respect from the rights attaching to the Offer Shares. The Principal Shareholders will not have other voting rights from other shareholders, other than the greater or lesser voting power inherent in its percentage ownership in the Company's share capital.

As at the date of this Prospectus, so far as the Issuer is aware, there is no arrangement that might result in the change of control over the Issuer.

On 19 July 2012, the Selling Shareholder and Majority Shareholder signed a Shareholders' Agreement that replaced the previous shareholders' agreement dated 16 May 2008. The Shareholders' Agreement is valid for 10 years. The Shareholders' Agreement contains certain provisions on the transfer of the Issuer's shares held by the Principal Shareholders, except for the Offer Shares. First of all, pursuant to the Shareholders' Agreement the Principal Shareholders granted each other a pre-emptive right, allowing each of them to acquire all of the Issuer's shares offered for sale by one of the Principal Shareholders before they may be sold to any third party. It is thus expected that one of the Principal Shareholders shall inform other Principal Shareholders whenever it intends to sell its shares in the Issuer to a third party and shall offer other Principal Shareholders the option to purchase its shares at the same price, terms and conditions as agreed with any potential buyer.

Moreover, pursuant to the Shareholders' Agreement, the Principal Shareholders agreed to a tag-along right granted to the Selling Shareholder. Namely, in case the Majority Shareholder receives an offer to sell all or any of its shares in the Issuer, and such offer is intended to be accepted by the Majority Shareholder, the Selling Shareholder shall have the right to: (i) exercise its pre-emptive right as described in the paragraph above, or (ii) sell all or any of its shares in the Issuer, together with the Majority Shareholder.

Additionally, the Shareholders' Agreement provides for appointment of members of the Supervisory Board, the Management Board and the CEO nominated by the Selling Shareholder and Majority Shareholder, non-compete undertakings, lock-up arrangements (see E.5) and dividend policy (see C.7).

B.7 Selected historical key financial information

Significant changes to historical key financial information

The following tables set out selected consolidated financial information of the Group for the years ended 31 December 2011, 2010 and 2009, respectively, and for the six months ended 30 June 2012 and 2011, respectively. Such information is extracted without material adjustment from the audited Consolidated Financial Statements and reviewed Interim Consolidated Condensed Financial Statements.

Statement of Comprehensive Income

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
	<i>LTL in thousand</i>				
Sales	453,350	419,678	919,080	750,389	104,539
Cost of sales	(406,015)	(375,166)	(827,115)	(670,927)	(78,877)
Gross profit	47,335	44,512	91,965	79,462	25,662
General and administrative expenses	(9,082)	(8,982)	(18,710)	(10,932)	(9,307)
Other operating income	89	-	11	1	-
Other operating expenses	(5)	-	(2)	-	-
Profit from operations	38,337	35,530	73,264	68,531	16,355
Finance income	195	348	482	445	450

Finance expenses	(2,350)	-	(2,432)	(8)	(6)
Share of profit of joint venture	(16)	217	286	100	680
Profit before tax	36,166	36,095	71,600	69,068	17,479
Income tax	(5,389)	(4,924)	(10,400)	(10,007)	(2,526)
Net profit	30,777	31,171	61,200	59,061	14,953
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year, net of tax	30,777	31,171	61,200	59,061	14,953

Source: Financial Statements

Statement of Financial Position

	As at 30 June	As at 31 December		
	2012	2011	2010	2009
<i>LTL in thousand</i>				
Non-current assets	137,611	139,393	6,718	8,930
Current assets	68,940	86,049	150,715	37,175
Total assets	206,551	225,442	157,433	46,105
Total Equity	30,904	64,150	63,745	33,666
Total non-current liabilities	99,880	103,660	801	1,087
Total current liabilities	75,766	57,632	92,887	11,352
Total equity and liabilities	206,551	225,442	157,433	46,105

Source: Financial Statements

Statement of Cash Flows

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
<i>LTL in thousand</i>					
Net cash flows from (to) operating activities	41,032	1,490	28,874	101,011	18,900
Net cash flows from (to) investing activities	(3,101)	2,735	(67,407)	(9,883)	(12,849)
Net cash flows from (to) financing activities	(44,036)	(28,645)	(9,514)	(28,982)	(17,660)
Net increase (decrease) in cash and cash equivalents	(6,105)	(24,420)	(48,047)	62,146	(11,609)
Cash and cash equivalents at the beginning of the period	33,885	81,932	81,932	19,786	31,395
Cash and cash equivalents at the end of the period	27,780	57,512	33,885	81,932	19,786

Source: Financial Statements

Significant changes to the Group's sales for the six month periods ended 30 June 2012 and 2011, and the financial years ended 31 December 2011, 2010 and 2009

For the six month period ended 30 June 2012, the Group's sales were LTL 453.35 million, and increased by 8.02% as compared to LTL 419.68 million in Group sales for the six month period ended 30 June 2011. The increase was primarily due to an increase in volume of electricity purchased and sold by the Group, an increase in the electricity market price and the pricing policy of the Group, as well as the acquisition of wind park in

Vydmantai and, as a consequence, an introduction of a new revenue source.

For the financial year ended 31 December 2011, the Group's sales were LTL 919.08 million and increased by 22.48% as compared to the LTL 750.39 million of the Group's sales for the financial year ended 31 December 2010. The increase was attributable to an increase in the volume of electricity sold by the Group, which was fuelled by further liberalization of the electricity market in Lithuania. Furthermore, the Group increased the volume of electricity sold to Latvia and Estonia. The increase in revenue was also caused by an increase in the electricity market price, as well as the acquisition of wind park in Vydmantai and, as a consequence, an introduction of a new revenue source.

For the financial year ended 31 December 2010, the Group's sales were LTL 750.39 million and increased by 617.81% as compared to the LTL 104.54 million of the Group's sales for the financial year ended 31 December 2009. The increase was primarily due to an increase in the volume of electricity sold by the Group that was fuelled by: (i) liberalization of the electricity market in Lithuania starting from 2010, (ii) decommissioning of the second unit of the Ignalina NPP at the end of 2009, which increased demand for electricity imports to Lithuania, and (iii) an increase in the volume of electricity sold to Latvia. The increase in revenue during the period under review was also fuelled by an increase in the regulated prices of electricity in Lithuania and a general increase in the market prices of electricity on the Lithuanian market as a consequence of the decommissioning of the Ignalina NPP.

Significant changes to the Group's cost of sales for the six month periods ended 30 June 2012 and 2011, and the financial years ended 31 December 2011, 2010 and 2009

For the six month period ended 30 June 2012, the Group's recorded cost of sales was LTL 406.02 million and increased by 8.22% as compared to LTL 375.17 million of the Group's cost of sales for the six month period ended 30 June 2011. The increase was primarily due to an increase in the volume and prices of electricity purchased and imported by the Group.

In the financial year ended 31 December 2011, the Group's cost of sales was LTL 827.12 million and increased by 23.28% as compared to LTL 670.93 million of the Group's cost of sales for the financial year ended 31 December 2010. This was primarily due to an increase in the cost of purchase of electricity by 22.76% from LTL 659.07 million in the financial year ended 31 December 2010, to LTL 809.08 million in the financial year ended 31 December 2011. The increase in the cost of purchase of electricity was fuelled by an increase in the volume of electricity purchased. Furthermore, the increase in costs of sales during the period under review was caused by an increase in transmission network service cost (i.e., input fee) by 22.51% from LTL 11.86 million in the financial year ended 31 December 2010, to LTL 14.53 million in the financial year ended 31 December 2011. This increase in the transmission network service cost was caused by an increase in the volume of electricity imported from Russia and Belarus, as well as a change in the input fee applied for cross-border flows of electricity from and to the third countries, which was increased from 0.7 EUR/MWh in the financial year ended 31 December 2010 to 0.8 EUR/MWh in the financial year ended 31 December 2011. The increase in the cost of sales was also caused by an inclusion of depreciation of the wind park in Vydmantai into the cost of sales.

In the financial year ended 31 December 2010, the Group's recorded cost of sales was LTL 670.93 million and increased by 750.60% as compared to LTL 78.88 million of the Group's cost of sales for the financial year ended 31 December 2009. This was due to an increase in the cost of purchase of electricity of 736.38% from LTL 78.80 million in the financial year ended 31 December 2009, to LTL 659.07 million in the financial year ended 31 December 2010. An increase in cost of purchase of electricity was fuelled by an increase in the volume of electricity purchased. Furthermore, the increase in costs of sales during the period under review was caused by an increase in the transmission network service cost from LTL 75 thousand in the financial year ended 31 December 2009, to LTL 11.86 million in the financial year ended 31 December 2010. The increase in the transmission network service cost fuelled by a sharp increase in the volume of imported electricity was partially offset by a decrease in the input fee on imported electricity from 1.4 EUR/MWh in the financial year ended 31 December 2009, to 0.7 EUR/MWh in the financial year ended 31 December 2010.

Significant changes to the Group's financial position

In July 2011, the Group acquired an operational wind park in Vydmantai, Western Lithuania, with an installed capacity of 30 MW. This transaction impacted the Group's financial position and results in the financial year ended 31 December 2011, in the following manner:

– of the LTL 225.44 million of the Group's total non-current and current assets as at 31

		<p>December 2011, LTL 142.36 million was attributable to the Vydmantai Wind Park;</p> <ul style="list-style-type: none"> – of the LTL 161.29 million of the Group's non-current and current liabilities as at 31 December 2011, LTL 105.28 million was attributable to the Vydmantai Wind Park; – of the LTL 2.43 million of the Group's finance expenses as at 31 December 2011, LTL 2.31 million was attributable to the Vydmantai Wind Park; – as at 15 July 2011, goodwill equal to LTL 9.93 million was recognized and further impaired in amount of LTL 3 million by recording loss in the general and administrative expenses for the financial year ended 31 December 2011; – as at 31 December 2011, depreciation of property, plant and equipment attributable to the Vydmantai Wind Park amounted to LTL 2.66 million and was included in the cost of sales; and – as at 31 December 2011, amortization of intangible assets attributable to the Vydmantai Wind Park amounted to LTL 1.87 million and was included in the general and administrative expenses.
B.8	Selected key pro forma financial information	Not applicable. The Prospectus does not contain pro forma financial information.
B.9	Profit forecast	Not applicable. The Issuer does not present profit forecast in the Prospectus.
B.10	Qualifications in the audit report on the historical financial information	Not applicable. The audit report on the historical financial information does not contain qualifications.
B.11	Explanation in case working capital is not sufficient for present requirements	Not applicable. The Management is of the opinion that the working capital available to the Group is sufficient to meet its present requirements for at least the next 12 months following the date of the Prospectus.

Section C – Securities

C.1	Type and class of securities and identification number	<p>The Shares (including Offer Shares) are ordinary registered shares with a nominal value of LTL 1 each. The security identification number (ISIN code) of the Shares is: LT0000128621.</p> <p>On the basis of this Prospectus, the Selling Shareholder is offering up to 4,000,000 Offer Shares.</p>
C.2	Currency of the Shares	The nominal value of the Shares (including the Offer Shares) is LTL 1.
C.3	Number of Shares issued, payment,	As of the date of the Prospectus, the issued and outstanding share capital of the Issuer amounts to LTL 20,000,000, divided into 20,000,000 ordinary registered shares with a nominal value LTL 1 each. As of the date of this Prospectus, all of the issued and outstanding Shares are fully paid up and there is no other authorised class of Shares.

	par value	
C.4	Rights attached to the Shares	<p>All of the Shares (including the Offer Shares) give equal rights to its holders. In particular the shareholders in the Issuer have the following rights:</p> <ul style="list-style-type: none"> – A right to attend the General Meetings, ask questions and vote (each Share entitles its holder to one vote at the General Meeting); – Shareholder or shareholders holding at least 1/20 of the share capital of the Issuer have a right to supplement the agenda of the General Meeting; – A right to ask questions regarding items on the agenda of the General Meeting in advance; – Shareholder or shareholders holding at least 1/20 of the share capital of the Issuer have a right to propose candidates for the Supervisory Board; – A right to file a claim in order to invalidate in court decision of the General Meeting if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association, or violates the principles of reasonableness and good faith; – A right to apply to the competent court in Lithuania for the compensation of damages to the Issuer caused by members of the Management Board or the CEO by non-performance or improper performance of their duties as prescribed by the Lithuanian laws and the Articles of Association, as well as in other cases laid down by the Lithuanian laws; – A right to dividends <i>pro rata</i> to the number of Shares held by each shareholder; – A right to receive funds in case of reduction of the share capital of the Issuer; – A right to receive new shares (in proportion to the nominal value of the Shares owned by each shareholder on the rights record day), if the Issuer's share capital is increased from the Issuer's own funds by issuing new shares; – A pre-emptive right with respect to all new share issuances or convertible bonds, in proportion to the number of Shares held by each shareholder; – Shareholder or shareholders holding at least 1/10 of the share capital of the Issuer, have an inquiry right; – A right to request and review certain documents, including the Articles of Association, annual and interim financial statements and reports of the Issuer, audit statements and reports, minutes of the General Meeting, lists of the shareholders, other documents of the Issuer which must be public as long as they do not contain any commercial (industrial) secret or confidential information of the Issuer; – In the event of liquidation of the Issuer, all shareholders are entitled to the Issuer's surplus assets remaining, after satisfaction of all claims of the creditors of the Issuer, in proportion to the aggregate sum of the nominal value of the Shares held by those shareholders.
C.5	Restrictions on the free transferability of the Shares	Not applicable. There are no restrictions on transfer of the Shares, other than those described in applicable laws. The Principal Shareholders are subject to certain lock-up arrangements (see E.5).
C.6	Trading on regulated market	As at the date of the Prospectus no securities of the Issuer are listed on any market. The Issuer intends to make an application to the Warsaw Stock Exchange for the admission of all of the Shares for listing on the main market or the parallel market, depending on the requirements fulfilled at the moment of filing an application, of the WSE.
C.7	Dividend policy	According to the Shareholders' Agreement, the Principal Shareholders shall cause their respective nominees in the Supervisory Board and Management Board to support the distribution of no less than 70% of the relevant year net profit as dividends to shareholders. The Principal Shareholders shall vote their Shares at the General Meeting to ensure such distribution of the net profit, unless the Management Board, in acting in the best interests of the Issuer by approving the annual investment program, decides that

		<p>the Issuer should make investments with the relevant year's net profit.</p> <p>On 20 July 2012 the Principal Shareholders adopted resolution on the increase of the share capital from the Issuer's own funds from LTL 1,000,000 to LTL 20,000,000. As a consequence the net profit for distribution for the financial year ending 31 December 2012, will be reduced by the amount of the share capital increase.</p>
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Section D – Risks

D.1	<p>Key information on the key risks that are specific to the issuer or its industry</p>	<p>Risks related to the Group's industry are as follows:</p> <ul style="list-style-type: none"> – The Group operates in a highly regulated sector. – Changes in the regulatory environment may have an adverse effect on the Group's operations. – The Group operates in sector exposed to geopolitical risk that may have an adverse material effect on the business of the Group or create obstacles to further expansion and may negatively influence the Group's financial results. – The price of electricity traded, as well as the supply of and demand for electricity, fluctuates which may have an adverse effect on the Group's operations and financial results. – Volume of electricity traded by the Group may decrease, which may have an adverse effect on the Group's operations and financial results. – Decrease in demand for electricity imports to the region where the Group operates may have an adverse effect on the Group's financial results. – Failure to build or delays in building interconnections between electricity grids may limit the Group's ability to implement its strategy, threaten its further growth and have an adverse effect on its operations and financial results. – Inability to trade on the power exchange may have an adverse effect on the Group's operations and financial results. – Discontinuation or unfavourable changes to renewable energy support schemes could impede the Group's strategy and growth. <p>Risks related to the Group's business operations are as follows:</p> <ul style="list-style-type: none"> – Increase in price of imported electricity may have an adverse effect on the Group's financial results. – The Group is dependent on a single supplier for a vast majority of the electricity it imports. – Technical failure, disruption, damage or decrease in transmission capacity of electricity transmission lines between electricity grids within the BRELL system may have an adverse effect on the Group's operations and financial results. – Volume of electricity generated by the wind park in Vydmantai fluctuates depending on the wind resource. – Technical failure, disruption, breakdown or damage may have an adverse effect on operations and financial results of Vydmantai Wind Park. – Expanding the Group's presence in the end-user segment of the electricity market may require additional operational resources and costs. – The Group has relatively limited experience in the field of renewable energy sources, which may have a negative influence on its development, future growth and operations in this sector. – Increased competition could reduce the Group's revenue and profits, and constrain the Group's growth. – The Issuer may be recognized as having a dominant position on the electricity sales market in Lithuania and be subject to fines and behavioral conditions. – Liquidity risk could limit the Group's ability to engage in desired activities and growth of
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		<p>its business.</p> <ul style="list-style-type: none"> – The Group's ability to obtain additional debt financing may depend on the performance of its business and market conditions. – The Group's financing facilities are subject to certain covenants and restrictions. – Shares of IRL Wind and Vydmantai Wind Park are pledged. – The Group is exposed to currency exchange risk. – The Group is exposed to interest rate risk. – The Group has a significant concentration of trading counterparties. – Failure of the Group's supervision over a team of traders may have a significant negative impact on the Group's operations and financial results. – The Group's reputation in the communities in which it operates could deteriorate. – The Group may not be able to grow or effectively manage its growth. – Expansion through acquisitions entails certain risks, which could have adverse consequences for the Group's business. – The Group is dependent on its key personnel. – Intellectual property of the Group may not be properly secured. – The Group's insurance coverage may be insufficient for any incurred losses. <p>Risks related to the Baltic States are as follows:</p> <ul style="list-style-type: none"> – Changes in macroeconomic environment could negatively impact the Group. – Pegged currency may have an adverse impact on Lithuanian and/or Latvian economy, and therefore, materially adversely influence the Group. <p>Risks related to the Issuer are as follows:</p> <ul style="list-style-type: none"> – The rights of Lithuanian company shareholders differ from the rights of the shareholders of Polish listed companies. – Judgments of Polish courts against the Issuer and the Group may be more difficult to enforce than if the company and its management were located in Poland. – The Issuer has been, and will continue to be, controlled by principal shareholders. – The Issuer may not pay dividends.
D.3	Key information on the key risks that are specific to the Shares	<p>Risks related to Shares, Listing and Trading on the WSE are as follows:</p> <ul style="list-style-type: none"> – There has been no prior public trading market for the Shares and therefore liquidity as well as trading price of the Shares could be materially and adversely affected. – The price of the Shares may fluctuate significantly. – Turmoil in emerging markets could cause the value of the Shares to suffer. – The market value of the Shares may be adversely affected by future sales or issues of substantial amounts of Shares. – The marketability of the Issuer's Shares may decline and the market price of the Issuer's Shares may fluctuate disproportionately and decline below the Offer Price in response to adverse developments that are unrelated to the Group's operating performance. – The Offering may be delayed, suspended or cancelled. – The Issuer is established and organised under Lithuanian law, while the Shares will be listed on a regulated market in Poland. – The public offering will be also conducted in Lithuania while the Shares will be listed on a regulated market in Poland.

		<ul style="list-style-type: none"> – Tax treatment for non-Lithuanian investors in a Lithuanian company may vary. – The Issuer may be unable to list the Shares on the regulated market in Poland, or the Issuer may be delisted from the regulated market in Poland. – The Issuer may be unable to list the Shares on the main market of the WSE. – Trading in the Shares on the WSE may be suspended. – The Issuer may have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares. – The Issuer has no experience in complying with requirements for publicly-listed companies.
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Section E – Offer

E.1	<i>The total net proceeds, estimate of the total expenses of the offer, estimated expenses charged to the investor by the Issuer or the offeror</i>	<p>The Offering consists solely of the sale of the existing Shares held by the Selling Shareholder. As a result of the Offering, the Issuer will not receive any proceeds from the sale of the Offer Shares. All net proceeds from the Offering shall accrue to the Selling Shareholder.</p> <p>The Issuer and the Selling Shareholder estimate that the expenses from the Offering and costs related to introduction of the Shares to trading on the WSE will amount to approximately EUR 2.2 million and/or its equivalent, and that the total net proceeds from the Offering will amount to approximately EUR 24 million and/or its equivalent, assuming all the Offer Shares are sold for the Maximum Price. The expenses and costs related to the Offering and Admission will be borne by the Issuer and the Selling Shareholders, as both entities will benefit from the transaction. It is forecasted that the Issuer will incur expenses of up to EUR 1.1 million and/or its equivalent, whereas the Selling Shareholder will cover the remaining part of expenses (approximately EUR 1.1 million and/or its equivalent).</p> <p>The Issuer nor the Selling Shareholder does not intend to charge any expenses to the investors.</p>
E.2a	<i>Reasons for the offer, use of proceeds, estimated net amount of the proceeds</i>	<p>The Selling Shareholder decided to sell the Offer Shares to provide a number of benefits to itself, as well as to the Issuer. First of all, transparency associated with companies listed on regulated markets could provide the Group with possibilities for various market opportunities and further growth, which will increase the value of the Issuer and, as a result, will increase the value of the remaining stake in the Issuer held by the Selling Shareholder after the Offering.</p> <p>The Offering and the Admission are expected to provide a number of benefits to the Issuer, such as:</p> <ul style="list-style-type: none"> – providing the Issuer access to the capital markets as a potential new source of financing for development in the future; – increasing the profile of the Issuer and its reliability among its customers, financial institutions, investors and potential employees (in particular in foreign markets); – aiding the Issuer's growth in the end-user segment as well as in the Polish electricity trading market by increasing corporate profile and visibility of the Issuer; – providing the Issuer possibility to participate in extensive energy sector projects as a counterparty in joint ventures with other companies through increasing the Issuer's reliability; – providing the Issuer possibility to use the Issuer's shares to settle future acquisitions.
E.3	<i>Description of the terms and conditions of the offer</i>	<p>The Offering consists of both (i) a public offering to retail investors in the Republic of Poland and the Republic of Lithuania and institutional investors in the Republic of Poland and the Republic of Lithuania; and (ii) a private placement to institutional investors outside the United States (excluding the Republic of Poland and the Republic of Lithuania) in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act").</p> <p>The Offer Price will be determined by the Selling Shareholder in agreement with the Offering Agent (UAB FMI Orion Securities) and will not be higher than the Maximum Price (EUR 6.55 and its PLN 26.92 equivalent per one Offer Share). The Offer Price</p>

will be determined based on: (i) the volume and price sensitivity of the demand estimated in the book-building process; (ii) the current and forecast situation in the capital markets; and (iii) development outlook, risk factors and other information concerning the Issuer's business. The Offer Price will be the same for both Retail Investors and Institutional Investors. The PLN equivalent of the Offer Price will be established based on the average EUR/PLN exchange rate as quoted by the European Central Bank on the business day preceding the day of determination of the Offer Price.

During the book-building process amongst Institutional Investors invited by the Offering Agent, such Institutional Investors subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, not higher than the Maximum Price, they will be willing to pay. Retail Investors will not participate in the book-building process.

The final number of the Offer Shares allotted to the investors will be set by the Selling Shareholder in agreement with the Issuer and the Offering Agent after the Offer Price is determined, but will not be higher than 4,000,000 Shares.

The timetable below lists key dates related to the Offering. All times and dates referred to in this timetable are based on Warsaw local time:

27 November to 7 December 2012 (until 5 p.m. Warsaw-time)	Subscription period for Retail Investors ("Subscription Period")
27 November to 4 December 2012	Roadshow
5 December to 7 December 2012 (until 5 p.m. Warsaw-time)	Book-building and subscription period for Institutional Investors
Not later than on or about 10 December 2012	Determination and announcement of the Offer Price and the preliminary allotment of the Offer Shares
11 December 2012	Payment for the Offer Shares by Institutional Investors
12 December 2012	Determination and announcement of the final number of the Offer Shares and the allotment between the Retail Investors and the Institutional Investors (the "Allotment Date")
On or about 13 December 2012	Delivery of the Offer Shares to investors and closing of the Offering ("Settlement Date")
On or about 18 December 2012	Start of trading on the WSE ("Listing Date")

After consultation with the Offering Agent, the Issuer, together with the Selling Shareholder, may decide to amend the above dates.

Placement of Subscription Orders

The subscription order placed by an investor must be given with respect to at least one Offer Share. Orders may be withdrawn (and new orders placed) at any time until the end of the Subscription Period. All investors have the right to place multiple subscription orders. Subscription orders from the same investor for a number of Offer Shares greater than 999,999 Shares shall be considered to be orders for 999,999 Shares.

Subscriptions and payment by Retail Investors in Poland

If an investor in Poland wishes to subscribe for the Offer Shares, such investor must have a securities account opened with the Offering Agent or with other entity of investor's choice, licensed to provide such services within the territory of the Republic of Poland (e.g., Polish brokerage house). Retail Investors may place their subscriptions in EUR at the Maximum Price or in PLN at the PLN equivalent of the Maximum Price, indicating the number of the Offer Shares they are willing to buy. Subscription orders must be paid in full on the day when the subscription order is placed or not later than at the end of the Subscription Period, or their order will be deemed null and void. The amount of the payment should be equal to the multiple of the number of Offer Shares for which the investor is placing the subscription order and the Maximum Price or the PLN equivalent of the Maximum Price. The payment is considered as made, if the

required amount is credited in the bank account of the Offering Agent indicated in the subscription order form or if the required amount is available for blocking in the investor's investment account held by the Offering Agent.

Subscription orders for the Offer Shares must be placed by Retail Investors using the subscription order forms made available by the Offering Agent. The subscription form will be made available on the website of the Offering Agent (www.orion.lt).

By placing subscription orders in PLN at the PLN equivalent of the Maximum Price, each prospective investor will be deemed to have consented to being allotted a lower number of the Offer Shares than the number specified in such investor's order (also as a result of a shortfall in funds paid in due to the PLN equivalent of the Maximum Price being lower than the PLN equivalent of the Offer Price). Should there be any shortfall of funds due to the PLN equivalent of the Maximum Price being lower than the PLN equivalent of the Offer Price, the Offering Agent will adjust the number of the Offer Shares allocated to such investor to ensure his/her full payment for the Offer Shares at the Offer Price.

For information on detailed rules governing the placing of subscription orders, Retail Investors should contact a customer service centre at the Offering Agent. Contact details for the Offering Agent will be published on the Issuer's website (www.interrao.lt) and on the website of the Offering Agent (www.orion.lt) no later than at the beginning of the Subscription Period.

Subscriptions and payment by Retail Investors in Lithuania

If an investor in Lithuania wishes to subscribe for the Offer Shares, an investor must have a securities account opened with the Offering Agent or may subscribe through other entity of investor's choice, licensed to provide such services within the territory of the Republic of Lithuania (e.g., Lithuanian brokerage house). An investor wishing to subscribe for the Offer Shares should submit a subscription order for the Offer Shares using the subscription order forms made available by the Offering Agent. Retail Investors will place their subscriptions in EUR at the Maximum Price, indicating the number of the Offer Shares they are willing to buy.

Payments for the Offer Shares by the Retail Investors in Lithuania must be made in EUR in full on the day when the subscription order is placed. The amount of the payment should be equal to the multiple of the number of Offer Shares for which the investor is placing the subscription order and the Maximum Price. The payment is considered as made, if the required amount is credited in the bank account of the Offering Agent indicated in the subscription order form or if the required amount is available for blocking in the investor's investment account held by the Offering Agent.

Subscriptions by Institutional Investors

The Offering Agent will invite Institutional Investors to participate in the book-building process and subscribe for the Offer Shares. After being informed on the preliminary allotment of the Offer Shares by the Offering Agent the Institutional Investors will be required to pay for the Offer Shares in a manner agreed with the Offering Agent in the amount equal to the multiple of a number of the Offer Shares preliminary allotted to them and the Offer Price in EUR or the PLN equivalent of the Offer Price. If an investor does not pay-up in full for the Offer Shares preliminary allotted to such investor, its subscription shall be valid for the number of Shares corresponding to the amount paid by the investor, ignoring fractional entitlements. Payments may be done in EUR or PLN and should be transferred to such accounts as indicated by the Offering Agent. No paying agent has been established for the purpose of the Offering.

Allotment of the Offer Shares

The total number of the Offer Shares allotted to the Retail Investors and the Institutional Investors will be determined by the Issuer and the Selling Shareholder and at their discretion. The allotment of the Offer Shares to Retail Investors will be made by the Offering Agent. In the event of an oversubscription, the Offer Shares shall be allotted to the Retail Investors participating in the Offering pro rata to the size of each order placed. Fractional allocations (after the proportional reduction, if any) will be rounded down to the nearest integer value, and the remaining Offer Shares will be allocated to the Retail Investors who subscribed for the largest number of the Offer Shares.

Offer Shares shall be allotted to those Institutional Investors who have been invited by the Offering Agent to participate in the book-building and have submitted subscription order, have been included in the preliminary allotment list prepared by the Issuer and the Selling Shareholder based upon the recommendation and with the agreement of the

		<p>Offering Agent, and have paid-up in full for the Offer Shares preliminary allotted to them. The allocation of the Offer Shares to particular Institutional Investors participating in the Offering will be determined by the Offering Agent, at its discretion, subject to the consent of the Issuer and the Selling Shareholder.</p> <p>Settlement</p> <p>All Shares are in book-entry form and, therefore, shareholders may only hold them through their respective securities accounts opened with and maintained by investment firms and custodians that are NDS or CSDL participants.</p> <p>In order to deliver Offer Shares to the NDS, the Issuer's Custody Manager on behalf of the Selling Shareholder will give instruction to the CSDL to deliver a respective amount of Shares to the NDS. The delivery of the Offer Shares will be made in accordance with instructions made by the investors in the subscription orders, through the facilities of CSDL, and onward through the facilities of the NDS in accordance with standard NDS procedures applicable to the settlement of public offerings of shares. Delivery of the Offer Shares is expected to take place on or around 13 December 2012, barring unforeseen circumstances. The exact delivery dates will depend on the timing of the Share transfer from the CSDL to NDS system.</p> <p>Stabilisation</p> <p>In connection with the Offering, the Offering Agent may engage in transactions on the WSE with the aim of supporting the market price of the Shares at a level higher than that which might otherwise prevail for a period of 30 calendar days following the Listing Date. There is no obligation on the Offering Agent or its affiliates or agents to undertake stabilisation transactions and thus, no assurance can be given that stabilisation transactions will be effected. If stabilisation measures are undertaken, they may be discontinued at any time without prior notice, and must be brought to an end 30 days after the Listing Date. The stabilisation transactions, if any, may result in a market price of the Shares that is higher than the price that would otherwise prevail. Stabilisation of the Shares will not, in any circumstances, be executed above the Offer Price.</p> <p>The Selling Shareholder will grant the Offering Agent an option, under which the Selling Shareholder will be obliged to acquire from the Offering Agent up to 500,000 Shares acquired by the latter in course of any stabilisation transactions.</p>
E.4	<p>Description of any interest that is material to the issue/offer, including conflicting interests</p>	<p>In connection with the Offering, the Issuer has agreed to pay the Offering Agent a combined management and placing commission of EUR 1.1 million and/or its equivalent, as well as to reimburse it for reasonable expenses incurred in connection therewith.</p> <p>The Offering Agent and its respective affiliates may, in the future, engage in investment banking or other financial services and other commercial dealings with the Issuer and its affiliates. The Offering Agent or its related parties may acquire financial instruments issued by the Issuer, its related parties, or financial instruments related to the financial instruments issued by any of these entities.</p> <p>In connection with the Offering, the Offering Agent or its affiliates may also, acting as an investor on his own account, purchase the Offer Shares in the Offering, and either hold, sell or otherwise dispose of them. The Offering Agent will be obliged to deliver information regarding the purchase of the Offer Shares or performance of the transactions described above in the event the obligation to disclose such information arises under general binding laws or regulations.</p> <p>The Offering Agent is an affiliate of the Selling Shareholder. The Selling Shareholder ultimately owns 50% and 1 share in the share capital of the Offering Agent. The remaining 49% share stake is owned by Dutch investment holding.</p>
E.5	<p>Name of the person or entity offering to sell the security</p> <p>Lock-up agreements</p>	<p>The Offer Shares are offered by UAB Scaent Baltic, a company organised and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at A. Tumėno 4, LT-01109, Vilnius, the Republic of Lithuania.</p> <p>In accordance with the Shareholders' Agreement, neither the Majority Shareholder, nor the Selling Shareholder will have the right to sell or otherwise transfer its Shares in the Issuer or any part thereof, except for the Offer Shares, to any third party or create any other third party rights to the Shares or any part thereof, until 31 December 2015, except upon receiving the prior written consent of the other Principal Shareholders.</p> <p>In addition, pursuant to the Lock-up Agreement, entered into between the Principal</p>

		<p>Shareholders and the Offering Agent on or about the date of the Prospectus, the Principal Shareholders have agreed to certain restrictions regarding the Shares once they are sold in the Offering. Such restrictions include, but are not limited to: (i) an undertaking not to offer, sell, transfer, vote in favour of, or otherwise dispose of, or publicly announce the issuance, offering, sale or disposal of any Shares (or any other securities convertible into, exercisable for, or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares); and (ii) an undertaking not to enter (or announce a plan to enter) into any swap or other transaction (such as the granting of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options, without the prior written consent of the Offering Agent for a period of a year following the admission and introduction of Shares to trading on the WSE. Furthermore, pursuant to the Lock-up Agreement the Principal Shareholders authorised the Offering Agent to perform all necessary actions in order to limit disposal of the Shares, the accounting of which is managed by the Offering Agent acting as a custodian, by applying restrictions on disposal of the Shares at the custodian's level, except for certain exemptions.</p>
E.6	<i>The amount and percentage of immediate dilution resulting from the offer</i>	<p>Assuming that all the Offer Shares are sold in the Offering, the free float of Shares held by the public could be no more than up to 4,000,000 Shares of 20,000,000 outstanding Shares or up to 20% of the Issuer's share capital.</p>
E.7	<i>Estimated expenses charged to the investor by the Issuer or the offeror</i>	<p>Not applicable. The Issuer nor the Selling Shareholder does not intend to charge any expenses to the investors.</p>

RISK FACTORS

Prospective investors in the Offer Shares should carefully consider the following risks and uncertainties, as well as other information contained in the Prospectus, before deciding to invest in any of the Offer Shares. The Group's business, financial condition and results of operations have been, and could be, materially adversely affected by the following risks. If any of the following risks ac

tually occurs, the value and trading price of the Shares could decline and investors could lose all or part of their investment. Described below are the risks and uncertainties the Issuer believes are material, but these risks and uncertainties may not be the only ones the Group faces. Additional risks and uncertainties, including those the Issuer is not currently aware of or deems immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Offer Shares.

Risks Related to the Group's Industry

The Group operates in a highly regulated sector.

The Group's business operations are carried out in the electricity sector in Lithuania and other countries. Companies operating in the electricity sector are subject to various regulations, both at a nationwide, as well as at the EU level. The Group is subject to constant supervision by state authorities and faces continuous reporting obligations. The highly regulated environment in which the Group operates may limit its ability to adapt to changing economic conditions.

The business operations and activities undertaken by the Group Companies are subject to regulatory requirements imposed by law, including requirements to obtain certain licenses and permits. The Group's business depends on the continuing validity of a number of licenses and/or permits granted to the Group Companies and the Group Companies' compliance with the terms of such licenses, permits, etc. Such licenses and permits may be revoked due to, *inter alia*, non-compliance to their particular terms. Several licenses and permits are granted for a defined period of time, and after expiry of their term, should be renewed. However, the Group may not be able to renew its licenses and/or permits. Moreover, as the Group's business and operations are expanding, the Group may be required to obtain additional licenses and permits. The Group cannot assure that it will be able to obtain such additional licenses and/or permits as required by law. As of the date of the Prospectus, the Group has all required licenses and permits to carry on its present activities, though it cannot assure that in the future any of the events described above would not occur. If any of those factors occurs, it may have a material adverse impact on the Group's operations, business strategy, prospects and financial results.

Furthermore, any breaches of conditions for activities in the electricity sector undertaken by the Group, whether set by law or imposed by competent regulatory authorities, as well as incompliance with specific requirements for regulated activities or operations in the electricity sector, or any malpractice thereof, may result in an imposition of administrative sanctions, including fines or withdrawal of licenses and/or permits necessary to carry on operations, which could have an adverse material impact on the Group's operations, business strategy, prospects and financial results. See: "*Regulatory Overview*" for more information on regulations related to the electricity sector.

Changes in the regulatory environment may have an adverse effect on the Group's operations.

The Group operates in the electricity sector, which is highly regulated and therefore, there are substantial uncertainties embedded in the operations of this sector. The legal framework in Lithuania or other countries where the Group already operates or will operate could change in an unpredictable way, including on the EU level. New laws may be unfavourable to the operations of the Group or may require necessary adjustments to operations. The Group Companies may be unable to implement new regulations in the prescribed period or at all. Consequently, the Group's operations may have to be altered, causing an inability to use common solutions or implement the Group's strategy.

All factors mentioned above may have an adverse material effect on the business of the Group or create obstacles to further expansion.

The Group operates in sector exposed to geopolitical risk that may have an adverse material effect on the business of the Group or create obstacles to further expansion and may negatively influence the Group's financial results.

The Group operates in the electricity sector and imports electricity from Russia and, as a result, is exposed to significant geopolitical risk. The electricity sector is of great importance to each country, and as such, is subject to government policies and regulations. One of the aims of such policies is to provide energy security by, e.g., decreasing imports from particular third countries. Furthermore, the electricity sector is part of the geopolitical environment between neighbouring countries or in a region. As a consequence, the electricity sector may be subject to changes driven by developments in the geopolitical environment rather than by economic factors.

Group operations may be affected by unpredictable changes in the geopolitical situation in Lithuania, other Baltic States or other countries in the region, namely Russia and/or Belarus. Changes in the geopolitical situation may lead to an embargo, ban and/or any other restriction on imports, exports and/or transit of

electricity from, to and/or through certain countries and/or on imports of electricity generated by particular power plants, e.g., nuclear power plants. Changes in the geopolitical environment may also have a negative impact on the Group's publicity and be a detriment to the public's reception of the Group's business operations.

All of factors mentioned above may have an adverse material effect on the business of the Group or create obstacles to further expansion and, as a consequence, may negatively influence the Group's financial results.

The price of electricity traded, as well as the supply of and demand for electricity, fluctuates which may have an adverse effect on the Group's operations and financial results.

The price of electricity is subject to fluctuations that cannot be predicted. The price of electricity depends on numerous factors, including, but not limited to: electricity supply, electricity demand, source of electricity generation and prices of energy resources (e.g., coal, natural gas, crude oil), regulatory framework, price control policies implemented by market regulator, as well as the stage of development of the electricity market in a particular country/region.

Electricity supply depends on various factors, including, *inter alia*: generation capacities in a particular country/region, existing electricity transmission lines and/or interconnections between electricity grids of countries/regions, as well as their capacities, volume of imports and exports of electricity, structure of energy sources (i.e., fossil fuel, nuclear energy or renewable sources), as well as seasonality and weather conditions (e.g., influence of spring and autumn thaws, as well as level of rainfall on hydro generation; influence of wind power on generation in wind parks; influence of temperature on transmission capacities of power grids). Any increase in electricity supply may cause a decrease in electricity prices. Such circumstances may have an adverse material impact on the Group's financial results and prospects.

Electricity demand depends on, among others: the stage of economic development, macroeconomic situation, industrial production, use of electricity by households, as well as environmental policy. Furthermore, technological innovations may cause development of energy saving technologies in various spheres of human activity, which may substantially decrease electricity demand. Any decrease in electricity demand may cause a decrease in electricity prices. Such circumstances may have an adverse material impact on the Group's financial results and prospects.

As the Group is involved in electricity trading, there is no assurance that future fluctuations in prices of electricity, demand for and supply of electricity, will not have an adverse effect on the Group's operations. The above mentioned factors can not be controlled by the Group and, as a consequence, may have an adverse material impact on the Group's prospects and financial results.

Volume of electricity traded by the Group may decrease, which may have an adverse effect on the Group's operations and financial results.

The volume of electricity traded by the Group depends on various factors, including, among others: the pricing policy of the Group, electricity demand, the ability to purchase the required volume of electricity, capacities of electricity transmission lines and/or interconnections between electricity grids, provisions of contracts with the Group's clients, as well as market share and competitive strengths of the Group.

Not all of the factors mentioned above can be controlled by the Group. As a consequence, the volume of electricity traded by the Group may decrease. Any such decrease in the volume of electricity traded by the Group will decrease Group revenue. Such circumstances may have an adverse negative effect on the Group's financial results and prospects.

Decrease in demand for electricity imports to the region where the Group operates may have an adverse effect on the Group's financial results.

The Group concentrates its activities on supplying its clients with electricity that is imported by the Group, primarily from Russia, to Lithuania and the other Baltic States. Demand for electricity imports may decrease if a region where the Group operates experiences a substantial increase in its electricity supply, the cost of which is competitive with the price of imported electricity, or overall demand for electricity will decrease.

Electricity supply may be increased by the commissioning and operation of a nuclear power plant in the Baltic States. There is a plan to construct a nuclear power plant in Lithuania in the Visaginas municipality, close to the site of the closed Ignalina NPP. As of the date of the Prospectus, construction has not yet begun, but it is intended to start operation of the Visaginas NPP by 2022. However, the results of the consultative (deliberative) referendum held on 14 October 2012 regarding the construction of a new nuclear power plant may negatively affect the plans of Visaginas NPP construction. Potential commissioning and operation of the Visaginas NPP will substantially increase electricity supply in Lithuania and the region. Moreover, if and when Visaginas NPP is commissioned, the price of electricity generated at the Visaginas NPP could be considerably lower than electricity generated by thermal power stations and renewable sources of energy. Furthermore, if and when Visaginas NPP is commissioned, but planned interconnections between electricity grids of Lithuania and its neighbours are not built, or there are delays in their construction, Lithuania and the Baltic States in general may face an oversupply of electricity. As a consequence, the commissioning and operation of the Visaginas NPP may substantially decrease demand for electricity imports by the Group and may have an adverse material impact on the Group's operations, prospects and financial results.

The electricity supply in Lithuania may also increase if Lithuania expands its generation capacities. Construction and commissioning of new generation capacity may substantially decrease the demand for electricity imports. For instance, Lietuvos energija has recently launched a new 455 MW unit in the Lithuanian PP. According to Lietuvos energija, the unit will produce sufficient electricity to cover 20-25% of Lithuanian domestic demand. Moreover, the amount of natural gas used to produce the same amount of energy will be reduced by up to 30%. However, the Management believes that the high natural gas prices will make it unprofitable to operate the Lithuanian PP at full capacity.

Demand for electricity imports to Lithuania and the region may also decrease as a consequence of lower electricity prices due to a decrease in prices of energy resources used for electricity generation in conventional power plants (especially the price of natural gas). Prices of natural gas may decrease as a consequence of increasing supply, namely, Lithuania plans to construct an LNG terminal in Klaipėda that would allow importing liquefied natural gas. Additionally, Lithuania plans to explore shale gas deposits located in its territory. Any of these factors may bring about a decrease in demand for electricity imports to Lithuania and the region and, as a consequence, may have an adverse material impact on the Group's operations, prospects and financial results.

Furthermore, demand for electricity imports to Lithuania and the region may decrease as a consequence of an increase in electricity generation from renewable sources. Although electricity generated from renewable sources may be more expensive than electricity generated by nuclear and conventional power plants, there is an increasing focus on the development of the use of renewable energy sources at the EU level. Therefore, the development of power plants generating electricity from renewable sources of energy is being promoted and subsidised, which increases the volume of energy generated by such plants and their competitiveness comparing to other power plants using conventional fuels (e.g., fossil fuels). As a consequence, an orientation toward generation of electricity from renewable sources may decrease the demand for electricity imports by the Group and may have an adverse material impact on the Group's operations, prospects and financial results.

Failure to build or delays in building interconnections between electricity grids may limit the Group's ability to implement its strategy, threaten its further growth and have an adverse effect on its operations and financial results.

One of the aims of the Baltic States is to integrate themselves with the EU power system which would allow Lithuania, Latvia and Estonia to decrease their dependence on electricity imported from Russia, would increase market competition among energy suppliers, and would provide the possibility to export electricity generated primarily at the planned Visaginas NPP. It is intended to achieve this aim by constructing interconnections between the electricity grids of the Baltic States and other EU Member States. Four cross-border interconnections are scheduled to come online over the coming 10 years: the Lithuanian-Swedish link ("NordBalt"), as well as a new cross-border interconnection between Estonia and Finland ("Estlink 2"), Lithuanian-Polish Link 1 ("LitPol Link 1") and Lithuanian-Polish Link 2 ("LitPol Link 2"). For further information, please see: "Market Overview - Cross-border transmission lines and interconnections".

Failure to build or any delays in building the planned interconnections between Lithuania and Poland may have a significant adverse influence on the Group's strategy and growth potential. Namely, the Group's strategy comprises the development of cross-border electricity trading with Poland. The Group intends to supply Polish clients with energy imported from Russia via Lithuania, especially after and if the Baltiiskaya NPP plant will be constructed, commissioned and operating in Kaliningrad Oblast. The Group is also interested in exporting electricity generated by the Visaginas NPP to Poland, if and when this NPP is constructed and commissioned.

Failure to build or any delays in building the interconnections linking Baltic States electricity grids with grids of other EU Member States may limit the Group's ability to implement its strategy, threaten its future growth and, as a consequence, have an adverse effect on its operations and financial results.

Inability to trade on the power exchange may have an adverse effect on the Group's operations and financial results.

The Group actively trades on the power exchange that is currently operated by Nord Pool Spot AS. Furthermore, under the Lithuanian law, all electricity cross-border delivered to or from the Lithuanian internal electricity market, i.e. imported to or exported from Lithuania, including those volumes cross-border traded with the EU Member States, must be sold and purchased on the power exchange. Consequently, the Group's business operations are highly dependent on the proper functioning of the power exchange and its trading platform, as well as the Group's ability to be a participant of the power exchange and to freely trade on it.

Any technical failure, disruption or shutdown of the power exchange and/or its systems may lead to an inability to trade on the power exchange on a regular basis, if at all. As a consequence, the Group may not be able to conduct its usual operational activity. This may have an adverse material effect on the Group's operations and financial results.

Furthermore, as a participant of the Nord Pool Spot AS, the Group is subject to its various rules and regulations. In accordance with terms and rules of Nord Pool Spot AS, a participant may be suspended from trading on the power exchange or the participation agreement may be terminated, if the participant is, *inter alia*, in breach of trading and clearing rules, as well as any applicable laws.

In the Management's opinion, as of the date of the Prospectus the Group is in compliance with various terms and rules of Nord Pool Spot AS and there is no basis for the Group to be suspended or in any other way restricted from trading on the power exchange or for participation agreement with the Group to be terminated. There is no guarantee, however, that any such circumstance will not arise in the future. As a consequence, the Group may not be able to trade on the power exchange on a usual basis or at all. In such case, the Group may not be able to conduct its usual operational activity. This may have an adverse material effect on the Group's operations and financial results.

Discontinuation or unfavourable changes to renewable energy support schemes could impede the Group's strategy and growth.

Lithuania has designed and implemented various instruments to promote the generation of energy from renewable energy sources. Renewable energy support schemes applied in Lithuania cover several privileges guaranteed for renewable electricity producers targeted to improve their competitiveness in the market compared to other electricity producers using conventional fuels. Such support mechanisms include, e.g., feed-in tariffs. For more information on energy support schemes, please see: "*Regulatory Overview – Generation of electricity – Specific regulatory regime*".

There is no guarantee that renewable energy support schemes for new projects will not be changed in an unfavourable way or even discontinued completely. For instance, under a previous regulatory regime, wind farms were granted a fixed amount of feed-in tariff for every MWh produced. The feed-in tariff was granted starting from the first operational day of such wind farm. The situation changed in 2011 however, when a new scheme for feed-in tariffs was developed. Under the new scheme, all new wind energy projects or projects already developed, but without granted feed-in tariffs under previous support scheme, have to participate in auctions in order to be granted with feed-in tariffs. Auction participants shall bid for feed-in tariffs specifying the lowest price at which they are willing to generate electricity. The auction is won by wind farms ready to generate electricity for the lowest price. Such wind farms shall receive the feed-in tariff for a period of 12 years starting from their first operational day. The new scheme does not influence the Vydmantai Wind Park that operates under the old scheme.

As the Group plans to further develop its activities in the renewable energy sector, any discontinuation or unfavourable changes to renewable energy support schemes for new projects could impede the Group's strategy and growth, which may have an adverse material impact on the Group's financial results.

Risks Related to the Group's Business Operations

Increase in price of imported electricity may have an adverse effect on the Group's financial results.

As the primary area of the Group's activity is trading imported electricity, any increase in the price of imported electricity will have an adverse effect on the Group's financial results. The price of electricity imported by the Group depends on various factors which cannot be controlled by the Group. For instance, the price of imported electricity depends on the costs of generation of electricity in the exporting country, which may fluctuate due to, *inter alia*, changes in the prices of energy resources (e.g., coal, natural gas or crude oil) and changes in the supply and demand structure. The price of imported electricity also depends on various transmission tariffs, including any tariffs levied on electricity imports from third countries (non-EU members). Furthermore, the price of imported electricity may increase due to an increase in or imposition of new taxes (including transit taxes levied by transit countries or excise taxes) and/or custom duties.

The price of imported electricity is also influenced by foreign exchange rate fluctuations. However, as of the date of the Prospectus, the Group purchases most of its imported electricity based on arrangements denominated in EUR, and the LTL is pegged to the EUR. Therefore, the Group's exposure to currency risk is limited.

The price of electricity imported by the Group may increase due to the occurrence of various factors presented above. Any increase in the price of imported electricity due to, *inter alia*, factors mentioned above cannot always be passed on to clients by increasing their prices for delivered electricity and therefore, may have an adverse material impact on the Group's gross profit margins. As a consequence, the Group may experience an adverse material impact on its financial results and prospects.

Moreover, any increase or imposition of new taxes and/or custom duties may cause a significant increase in the price of imported electricity and render electricity imports economically unreasonable. As a consequence of such circumstances, the Group may experience an adverse material impact on its financial results and future prospects.

The Group is dependent on a single supplier for a vast majority of the electricity it imports.

The Group purchases a vast majority of its electricity from INTER RAO UES, the ultimate parent company of the Group. For instance, in the financial year ended 31 December 2011, the Group purchased from INTER RAO UES 94.49% of its total volume of purchased electricity (after elimination of equivalent transactions on the power exchange). Although the Group concluded a number of long-term agreements with INTER RAO UES on the sale and purchase of electricity (for more information, please see: "*Business Overview – Material Contracts – Electricity trading agreements – Agreements with INTER RAO UES*"), there is no guarantee that the Group

will continue to purchase electricity from INTER RAO UES under current terms, or at all. If INTER RAO UES ceases to supply the Group with energy under current terms, or at all, the Group may not be able to find a suitable counterparty to replace INTER RAO UES.

Moreover, any embargo, ban and/or any other restriction on electricity imports/exports from Russia to Lithuania, or other EU Member States or the EU as a whole, may prevent the Group from importing electricity from Russia in the volumes, at the prices and on the terms it does now, if at all.

As a consequence, the Group may not be able to trade electricity in the volumes, at the prices and on the terms it does now. This may lead to a loss of market share, as well as a decrease in revenue and margins. All the factors may have an adverse material influence on the Group's strategy, growth potential, operations and financial results.

In addition, since INTER RAO UES is included in a list of strategic companies of the Russian Federation, it may be subject to additional requirements and/or limitations resulting from Russian regulations that may impact the relationships with the Group and indirectly influence the Group's operations and financial results.

Furthermore, significant transactions with INTER RAO UES, as the ultimate parent company of the Group, may be subject to increased scrutiny by the authorities. If it is determined that the Group is in breach of any applicable regulations, it may be subject to fines, administrative penalties and/or public charges. The above mentioned factors may have an adverse material impact on the Group's operations, prospects and financial results.

Technical failure, disruption, damage or decrease in transmission capacity of electricity transmission lines between electricity grids within the BRELL system may have an adverse effect on the Group's operations and financial results.

The electricity that the Group imports and exports is transmitted through electricity transmission lines between the electricity grids of the countries within the BRELL system. In the event of any technical failure, disruption, damage, decrease in transmission capacity or other *force majeure* event concerning electricity transmission lines should occur, electricity may not be transmitted between electricity grids in the planned volumes, if at all. In such case, the Group may not be able to import or export the planned volume of electricity and may fail to deliver the contracted volume of electricity to its clients or may be forced to purchase electricity for higher prices on the power exchange. If the Group fails to deliver or receive contracted electricity, it may be liable for contractual penalties or may be forced to buy electricity from other market participants or on the power exchange on less favourable terms.

Failure to deliver or receive contracted electricity may have a negative impact on client relations, may lead to a loss of clients, and may damage the Group's credibility.

The Group does not hold insurance that may cover potential losses arising from the occurrence of any of the factors described above. As a consequence, any of these factors may have an adverse material impact on the Group's operations, prospects and financial results.

Volume of electricity generated by the wind park in Vydmantai fluctuates depending on the wind resource.

The volume of electricity generated by the wind park in Vydmantai depends primarily on the wind resource available at the site. The ultimate wind resource depends on various factors including, among others, wind speed and seasonality. As a consequence, the wind resource available at a wind farm may fluctuate. Such fluctuations have a direct influence on the volume of electricity generated at a wind farm. Any decrease in wind resource will lead to a decrease in electricity generation. Such decrease in electricity generation will bring about a decrease in revenue received from the sale of generated electricity, which may have an adverse effect on the Group's financial results.

Technical failure, disruption, breakdown or damage may have an adverse effect on operations and financial results of Vydmantai Wind Park.

The generation of electricity in wind farms embodies the operational risks of, among others, technical failure, disruption, breakdown, accident or damage to generation and transmission equipment. Occurrence of any such factor may cause interruptions to the operation of a wind farm. Any interruptions to the proper functioning of a wind farm may cause a decrease or discontinuation in the generation of electricity, as well as an inability to transmit generated electricity to the grid. As a consequence, any technical failure, disruption, breakdown or damage to the wind park owned by Vydmantai Wind Park may have a negative impact on the Group's revenues and financial results.

Furthermore, any technical failure, disruption, breakdown, accident or damage to the site of the wind park owned by Vydmantai Wind Park may cause a loss of equipment and/or other assets, as well as injuries to the Group's personnel and/or third parties. Such unexpected circumstances may have a negative impact on the Group's operations, credibility, financial position, revenues and financial results.

Although Vydmantai Wind Park carries a broad spectrum of insurance coverage (including business interruption, property and civil liability insurance), there is no guarantee that this insurance will cover any

potential losses, costs or loss of revenues arising from any breakdowns, accidents, damages and/or injuries to the company, its assets, personnel and/or third parties. Accordingly, any circumstances which adversely affect operations and assets of Vydmantai Wind Park may have an adverse impact on its prospects and financial results. Please also see the risk factor: *"The Group's insurance coverage may be insufficient for any incurred losses"*.

Expanding the Group's presence in the end-user segment of the electricity market may require additional operational resources and costs.

The Group's strategy comprises expanding its presence in the end-users segment of the electricity market and building a solid retail consumer base in the Baltic States. Execution of this strategy will require additional operational resources such as, among others, launching a new IT system, implementing a customer relationship management system, receivables management system, and employing new staff. Furthermore, the Group will have to develop additional risk management strategies, as well as balancing activities.

All activities required for proper implementation of the Group's strategy may increase operating costs and investments of the Group, which may have a negative influence on its financial results. Furthermore, there is no guarantee that all new operational measures will be developed and implemented in a proper manner and on time, if at all. As a consequence, the Group's operations may be disrupted. This may have an adverse material effect on the Group's strategy, growth, as well as financial position and results.

The Group has relatively limited experience in the field of renewable energy sources, which may have a negative influence on its development, future growth and operations in this sector.

The Group entered the renewable energy sector in 2011 by acquiring the wind park in Vydmantai. Prior to this acquisition, the Group had no experience in this field. The Group's limited experience in the field of renewable energy sources may impede its further expansion in this sector. The Group may not be able to discover, assess and/or exploit potential opportunities for further expansion of its business in the field of renewable energy. The Group may not be able to find suitable acquisition targets or launch greenfield investments. Moreover, the Group may not be able to properly value potential acquisition targets or greenfield projects, or properly assess any potential risks connected therewith. Although the Group cooperates with consultants and advisors who have expertise in the field of renewable energy, there is no guarantee that any of the factors described above, if any, will not have an adverse material effect on the Group's strategy, growth potential and financial results.

Furthermore, due to its relatively short track record in operating wind farm plants, the Group may not be able to operate the wind park in Vydmantai in the most effective way. This may increase costs, as well as lead to a decrease in revenue and profit. Furthermore, the Group's operation in the field of wind energy may be exposed to additional risks, including operational or legal, arising from its relatively limited experience.

All of the factors mentioned above may create obstacles to further expansion of the Group, and/or have an adverse material effect on the Group's strategy, operations, as well as financial results.

Increased competition could reduce the Group's revenue and profits, and constrain the Group's growth.

The Group faces competition from other electricity traders and importers that are active in Lithuania and other Baltic States (e.g., Latvenergo or Eesti Energia). There is no guarantee that the Group will be able to compete effectively against current and future competitors, in particular, those with greater electricity supply capacities than the Group. Competition from other electricity traders and importers may increase due to further integration of electricity markets in the region, which is possible due to the development of electricity grid interconnections. Any new entrants to, or other changes in, the competitive environment may result in price reductions, reduced margins or loss of market share, any of which could materially and adversely affect the Group's profit margins.

There is no guarantee that competition from new or existing competitors who operate in the electricity trading industry in Lithuania and the Baltic States will not have an adverse material effect on the Group's operating results. In addition, there is no guarantee that any future development or investment by the Group will not be matched or surpassed by its competitors. The inability of the Group to compete effectively could have a material adverse effect on the Group's business, prospects, operations, financial condition or the price of the Shares.

The Issuer may be recognized as having a dominant position on the electricity sales market in Lithuania and be subject to fines and behavioral conditions.

The Issuer may be recognized as having a dominant position on the market of electricity sales in Lithuania, as it holds more than 40% of the relevant market. The holding of the dominant position attracts special responsibility for a company to ensure fair competition in the market. Namely, a company holding dominant position in the market is prohibited from applying discriminatory pricing or other trading conditions, from applying predatory pricing, refusing supplies without an objective justification, or imposing any non-compete obligations on the customers. Moreover, future acquisitions of companies competing, or which may potentially compete, with a company having a dominant market position may be restricted by the competition authorities by prohibiting acquisitions or by imposing structural or behavioral conditions on such company for the

implementation of any acquisition. However, the Issuer has internal rules which ensure compliance with competition laws currently in force.

If competition authorities determine that the Issuer has abused its dominant position, it will be subject to fines of up to 10% of the Issuer's annual revenues, as well as to behavioral conditions. The exact amount of fine will depend on a number of factors, including, but not limited to, income received in connection with an infringement and its severity, as well as duration of an infringement. This may have an adverse material impact on the Group's credibility, operations, prospects and financial results. In addition, the CEO of the Issuer may be subject to prohibition from 3 to 5 years from taking management position within any company (private or public).

Liquidity risk could limit the Group's ability to engage in desired activities and growth of its business.

The Group's trading activities employ significant amounts of working capital to fund purchases of electricity for future delivery to its clients. Continued funding of and access to working capital is critical for the Group to maintain its historic levels of trading activity and to increase such levels in the future. Therefore, liquidity, or ready access to funds, is essential to the Group's business. Liquidity risk is the risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured or secured basis at an acceptable price to fund actual or proposed commitments. A lack of liquidity may mean that the Group will not have funds available to maintain or increase its trading activities or take advantage of other opportunities that may arise during its business activities.

Prudent liquidity risk management requires the Group to maintain sufficient cash and cash equivalents through the accumulation of retained earnings and to have ready sources of committed funding available to meet anticipated and unanticipated funding needs. While the Group adjusts its minimum internal liquidity targets in response to changes in market conditions, its liquidity may be impaired due to circumstances it is unable to control, such as general market disruptions, increases in the prices of electricity or an operational problem that affects its suppliers, customers or the Group itself.

As a consequence, any of the factors presented above may have an adverse material impact on the Group's operations, prospects and financial results.

The Group's ability to obtain additional debt financing may depend on the performance of its business and market conditions.

As of the date of the Prospectus, the Group has bank credit that was used to purchase the wind park in Vydmantai (for more information please see: "*Business Overview - Material Contracts - Financing Agreements*"). In the future, the Group may require additional debt financing to, *inter alia*, expand its operations or execute acquisitions. The actual or perceived credit quality of the Group's business and market conditions affecting the electricity sector and the credit markets may materially affect the Group's ability to obtain the additional capital resources that may be required, or may significantly increase the Group's costs of obtaining such capital. The Group's inability to obtain additional financing at all or at a higher than anticipated cost may have an adverse material impact on the Group's operations, business strategy, prospects and financial results.

The Group's financing facilities are subject to certain covenants and restrictions.

The operating and financial restrictions and covenants in existing and any future financing agreements could adversely affect the Group's ability to finance future operations or capital needs, or to pursue and expand its business activities. For example, any loan and/or finance lease agreements require providing the bank with regular financial statements prepared by specified accountants, which inform on the borrower's business activity, the fulfilment of certain financial covenants, the refrain from making investments into other entities and becoming shareholder of other companies, and the refrain from paying any dividends, fees to shareholders or persons related to shareholders.

Failure to comply with the above mentioned requirements and failure to pay any principal, interest, fees, expenses or other amounts when due, as well as any deterioration of the borrower's financial condition, entitles the bank to suspend the loan facilities or to accelerate repayment of respective loans, and grants other rights to the bank, determined by the agreements and applicable laws. Though the Group believes that it is in compliance with the conditions of the credit facilities in all material respects and this fact was also confirmed by the financing bank, there is no guarantee that the Group will not be required to repay such facilities in the future with limited advance notice and possibly when not provided for in the Group's planned budget. See: "*Business Overview – Material Contracts – Financing Agreements*" for more information about the Group's existing financing facilities.

A default under financing agreements could also result in foreclosure on any of the Group's assets securing related loans, e.g., could result in execution of the pledge over shares of certain Group Companies (see risk factor: "*Shares of IRL Wind and Vydmantai Wind Park are pledged*"). The occurrence of any of these events may have an adverse material impact on the Group's operations, prospects and financial results.

Shares of IRL Wind and Vydmantai Wind Park are pledged.

On 13 July 2011, IRL Wind entered into a credit agreement with Swedbank AB. The amount of credit was EUR 12.6 million and it was used for partial financing of the acquisition of the Vydmantai Wind Park. The credit

maturity date is 13 July 2013. The credit agreement with Swedbank AB is secured by, *inter alia*, a pledge of 100% of the shares of IRL Wind, held by the Issuer, in favour of Swedbank AB and a pledge of 100% of the shares of Vydmantai Wind Park, held by IRL Wind, in favour of Swedbank AB.

In case of failure to fulfill the credit agreement, Swedbank AB would have a right to satisfy its outstanding claims by sale of the pledged shares in IRL Wind and Vydmantai Wind Park. The occurrence of such event may have an adverse material impact on the Group's operations, prospects and financial results.

The Group is exposed to currency exchange risk.

As of the date of the Prospectus, the Group generates most of its revenues in LTL and most of the costs of purchased electricity are borne in EUR. The LTL is pegged to the EUR. However, it should be noted that the Group plans expansion into other countries. As such, it may begin receiving a substantial portion of its revenues in currencies other than the LTL, EUR or other currencies pegged to the EUR. Furthermore, there is no guarantee that the Group will continue to purchase most of its electricity based on EUR-denominated contracts.

Even though the LTL is pegged to the EUR, there is no guarantee that this cannot change in the future. Moreover, expansion into other markets and an increase of sales denominated in currencies other than the LTL, EUR or other currencies pegged to EUR, as well as any switch to electricity purchase contracts denominated in a currency other than the LTL, EUR or other currencies pegged to the EUR, might increase the Group's exposure to currency exchange risk. If this is the case, any unfavourable fluctuations in currency exchange rates, if not hedged, may have an adverse material impact on the Group's operations, prospects and financial results.

The Group is exposed to interest rate risk.

As of the date of the Prospectus, the Group's financing facility is at variable interest rates, but interest rate risk is hedged using, e.g., interest rate swaps. However, there is no guarantee that in the future, the Group will be able to hedge any interest rate risks arising from obtained debt financing. Furthermore, there is no guarantee that hedging arrangements implemented by the Group will not result in additional losses. As a result, the Group may be subject to the effects of interest rate fluctuations on its indebtedness. Therefore, any adverse interest rate fluctuations may have an adverse material effect on the Group's results of operations, prospects and financial results.

The Group has a significant concentration of trading counterparties.

The Group's financial performance and position are dependent, to a certain extent, on the creditworthiness of its customers. Trade receivables from its three primary customers amounted to anywhere from 82% to 100% of the Group's total trade receivables as of 31 December 2011, 2010 and 2009. As a consequence, the Group is exposed to counterparty risk.

The Group has introduced specific procedures to ensure on a permanent basis that sales are made to customers with an appropriate credit history and/or state-owned entities. However, if there are any unforeseen circumstances affecting the Group's customers' ability or willingness to pay, the Group may experience payment delays or non-payment. Any of these factors may have an adverse material impact on the Group's operations, prospects and financial results.

Failure of the Group's supervision over a team of traders may have a significant negative impact on the Group's operations and financial results.

The Group's electricity trading is partially executed based on orders submitted by a team of traders on a daily basis in response to market conditions, based upon considerations of the Group's contractual obligations and market demand. While the Group has introduced respective written procedures to supervise trader activity, there is no guarantee that the Group's policy will be appropriate or that the procedures in place will limit the influence of human error on the Group's operations and financial results. Any failure with respect to risk management or inappropriateness of procedures in place may adversely impact the Group's business, financial condition and results of operations.

The Group's reputation in the communities in which it operates could deteriorate.

The Group operates a wind farm and plans to further develop activities in the renewable energy sector. As a consequence, some of its current and potential activities are located in or near communities that may regard such operations as having a detrimental effect on their safety, environmental, economic or social circumstances. The consequences of any negative community reaction could also have an adverse impact on the cost, profitability, and ability to finance or even the viability of an operation. Such events could lead to disputes with local communities, national governments and give rise to material reputational damage.

If the Group's operations are delayed or shut down as a result of any political and community instability, its earnings may be constrained and the long-term value of its business could be adversely impacted. Even in cases where no action adverse to the Group is actually taken, the uncertainty associated with such political or community instability could negatively impact the perceived value of the Group's assets and investments and, consequently, have a material adverse effect on the Group's financial condition. Furthermore, if it is perceived

that the Group is not respecting or advancing the economic and social progress and safety of the communities in which it operates, the Group's reputation and shareholder value could be damaged, which could have a negative impact on its "licences to operate", its ability to secure new clients and its financial performance.

The Group may not be able to grow or effectively manage its growth.

The Group's future growth will depend on a number of factors which include, among others, the ability to: execute its strategy; maintain or develop new and existing customer relationships; identify and consummate desirable acquisitions, joint ventures or strategic alliances; introduce new and attractive services; identify and capitalise on opportunities in new markets; successfully adapt to changing market conditions, such as changes to the regulatory framework; successfully manage the Group's liquidity and obtain the required financing for existing and new operations; secure necessary third party service providers; and attract, hire and retain qualified personnel. A deficiency in any of these factors could adversely affect the Group's ability to achieve anticipated growth in cash flow or realize other anticipated benefits. Future investments could result in incurring additional indebtedness and liabilities that could have an adverse material effect on the Group's profitability. In addition, the Group's current operating and financial systems may not be adequate to support growth, and any attempts to improve these systems may be ineffective. Failure to execute the Group's business strategy or to manage growth effectively could adversely affect the Group's business, operations, cash flow and financial condition. In addition, even if the Group successfully implements its business strategy, it may not improve operations. Furthermore, the Group may decide to alter or discontinue aspects of business strategy and may adopt alternative or additional strategies in response to operating environment, competitive situation, or factors or events beyond the Group's control. Any of these factors may have an adverse material impact on the Group's operations, prospects and financial results.

Expansion through acquisitions entails certain risks, which could have adverse consequences for the Group's business.

The Group may consider growth through acquisitions in the near future. In particular, the Group may want to strengthen its presence in electricity generation markets through the acquisition of businesses involved in generation of electricity from renewable energy sources (especially wind parks). If the Group made an acquisition, it would need to integrate new operations and personnel into the Group's business. The Group's ability to realise the expected benefits from future acquisitions will depend, in large part, on its ability to integrate new operations with existing operations in a timely and effective manner and to manage a greater number of portfolio assets. In addition, the Group's potential acquisition plans involve numerous risks, including the following: the Group's acquisitions may not be profitable or generate anticipated cash flows; the Group may fail to expand its corporate infrastructure to facilitate the integration of its operations with those of acquired assets; the Group may face difficulties entering into markets and geographic areas where it has limited or no experience; the Group may have potential difficulties in integrating its operations and systems with those of acquired companies; the Group may face possible anti-monopoly review by relevant competition authorities that could result in such authorities seeking to prohibit or unwind its acquisition of new businesses; and the possibility that the failure of the Group's acquisition strategy could hamper its continued growth and profitability.

As a consequence, the above mentioned factors may have an adverse material impact on the Group's operations, prospects and financial results.

The Group is dependent on its key personnel.

The Group's success depends to a significant extent upon the contributions of a limited number of the Group's key senior management and personnel. There can be no certainty that the Group will be able to retain its key personnel. Factors critical to retaining the Group's present staff and attracting and motivating additional highly qualified personnel include the Group's ability to provide these individuals with competitive compensation arrangements. As of the date of the Prospectus, the Group has not entered into any non-compete agreements with any of its key senior management and personnel. Furthermore, the Group is not insured against risks of loss or removal of its key senior management or personnel.

The loss (whether temporary or permanent) of the services of any director, member of the senior management team or other key personnel within the Group Companies could have an adverse material effect on the business, financial condition or results of operations of the Group.

Intellectual property of the Group may not be properly secured.

There is no guarantee that the intellectual property of the Group is properly secured. The Group deals with two major groups of intellectual property rights relating to: trademarks and Internet domain names. As of the date of the Prospectus, the Group has registered only the trademarks of the Issuer in Lithuania and applied for the protection of trademarks in Lithuania, Latvia, Estonia and Poland. As of the date of the application for registration, these trademarks are temporary protected. As a consequence, Group intellectual property rights may be infringed upon or the Group may infringe the intellectual rights of other entities. The lack of protection of intellectual property, as well as infringement of intellectual rights of other entities, may adversely influence implementation of the Group's strategy, which may have a negative impact on the public perception of the Group, its operations and financial results.

The Group's insurance coverage may be insufficient for any incurred losses.

The Group's operations are subject to risks inherent in the sector in which the Group operates. The Group maintains insurance in accordance with applicable laws and regulations. The Group cannot assure that it has adequately insured against all risks, that any future claims, penalties and/or fines will be paid or that it will be able to procure adequate insurance coverage at commercially reasonable rates in the future. If regulations become more stringent, insurance costs may increase or make insurance unavailable against certain risks. Furthermore, there is no guarantee that the insurance policies will cover all losses that the Group may incur, or that disputes over insurance claims will not arise with insurance carriers. There is no guarantee that the Group will be able to renew its insurance policies on the same or commercially reasonable terms, if at all, in the future. Any uninsured or underinsured loss may have an adverse material impact on the Group's operations, prospects and financial results.

Risks Related to the Baltic States

Changes in macroeconomic environment could negatively impact the Group.

The Group operates primarily in Lithuania, but is also active in Latvia and plans to develop its business activities in Estonia. The macroeconomic situation in the Baltic States is developing continuously, mainly as a result of the transformation and accession to the EU, and as reaction to the global economic crisis in recent years. The Baltic States were heavily affected by the global crisis, with GDP falling in 2009 by 14.8% in Lithuania, 17.7% in Latvia and 14.1% in Estonia. Due to relatively small domestic markets, the Baltic States are exposed to events in the global economy to a greater extent than many other countries, including Poland.

The macroeconomic situation has a direct influence on the demand for electricity. As a consequence, any negative changes to the macroeconomic situation in Lithuania and the other Baltic States may lead to a decrease in demand for electricity.

The Group has limited or no influence on these events. Any negative changes to the macroeconomic environment in Lithuania and the other Baltic States, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and operations in a manner that cannot be predicted.

Pegged currency may have an adverse impact on Lithuanian and/or Latvian economy, and therefore, materially adversely influence the Group.

Since June 2004, Lithuania has been a part of the ERM II and committed to observe a central exchange rate of litas 3.45280 to EUR 1.00, with a fluctuation band of $\pm 15\%$, but unilaterally maintains a 0% fluctuation band around the central rate.

The fact that the LTL is pegged to the EUR could have an adverse material effect on the Lithuanian economy. Namely, the pegged currency limits the self-regulatory mechanisms of the economy. For example, during any financial turmoil substantial amounts of investments are withdrawn from developing countries (such as Lithuania), which causes a depreciation of the local currency. However, the depreciation of the local currency increases the trade competitiveness of the country (by fuelling exports), and therefore, softens the impact and economic consequences of the financial turmoil. Countries with a pegged currency cannot rely on above mentioned self-regulatory mechanisms, and therefore, could be struck by financial turmoil in a more severe way. Therefore, during any financial turmoil, the Lithuanian economy may have a more limited ability to recover due to the peg between the LTL and the EUR.

The above mentioned risks are also applicable to Latvia, as this country has been part of the ERM II since May 2005, and is committed to observe a central exchange rate of LVL 0.702804 to EUR 1, with a fluctuation band of $\pm 15\%$, although Latvia unilaterally maintains a 1% fluctuation band around the central rate.

Any potential turmoil in the economic conditions in Lithuania and/or Latvia, over which the Group has no control, could significantly affect the Group's business, prospects, financial conditions and operations in a manner that cannot be predicted.

Risks Related to the Issuer

The rights of Lithuanian company shareholders differ from the rights of the shareholders of Polish listed companies.

The Issuer was incorporated and organized under the laws of Lithuania and consequently the rights of the Issuer's shareholders are governed by the laws of Lithuania and by the Issuer's Articles of Association. Accordingly, the Issuer's corporate structure, as well as the rights and obligations of its shareholders, may be different from the rights and obligations of the shareholders of Polish-based companies listed on the WSE. In particular, the competences of the corporate bodies in Lithuanian companies are different than in Polish companies, where the management board is involved in day-to-day management of a company. In Lithuania, such competences are attributable to the general director, while the management board is responsible for strategic decisions. In addition, Lithuanian regulations may provide shareholders with particular rights and privileges which do not exist in Poland and, *vice versa*, certain rights and privileges that shareholders may benefit from in Polish companies may not be guaranteed. The exercise of some of the shareholders' rights in a

Lithuanian company can be more complicated or expensive for investors from Poland than the exercise of similar rights in a Polish company. Resolutions of the General Meeting of Shareholders may be adopted with majorities different from the majorities required for adoption of equivalent resolutions in Polish companies. Rectification of the Issuer's registers and/or some corporate actions may require the approval of Lithuanian courts.

Judgments of Polish courts against the Issuer and the Group may be more difficult to enforce than if the company and its management were located in Poland.

The Issuer was formed in accordance with Lithuanian law and its registered office is in Lithuania. Moreover, most of the Group Companies and the majority of their assets are located in Lithuania, and the majority of the management personnel working for the Group resides in Lithuania. For this reason, Polish investors may encounter difficulties in serving summons and other documents related to court proceedings on any of the entities within the Group and/or the management personnel working for the Group. For the same reason, it may be more difficult for Polish investors to enforce a judgment of the Polish court issued against any entities within the Group and/or the management personnel working for the Group than if those entities and/or the management personnel were located in Poland.

The Issuer has been, and will continue to be, controlled by principal shareholders.

As of the date of the Prospectus, the Issuer is controlled by RAO Nordic OY (the "Majority Shareholder") which owns 51% of the Issuer's issued share capital and immediately after the Offering will continue to own the same percentage of the Issuer's share capital. The Majority Shareholder is fully owned by INTER RAO UES. Furthermore, as of the date of the Prospectus, 49% of the outstanding share capital of the Issuer is held directly by UAB Scaent Baltic (the "Selling Shareholder", together with the Majority Shareholder – the "Principal Shareholders"). Following the Offering, the Selling Shareholder will continue to directly own 29% of the outstanding share capital of the Issuer, assuming all of the Offer Shares are sold to investors. As a consequence, the Principal Shareholders will continue to own up to 80% of the Issuer's issued share capital, assuming all of the Offer Shares are sold to investors.

The Principal Shareholders are parties to the Shareholders' Agreement, which establishes basic conditions of cooperation between the Principal Shareholders, as well as prescribes certain rights and obligations of the Principal Shareholders. For instance, the Shareholders' Agreement contains provisions regarding appointment of members of the Supervisory Board, members of the Management Board and the CEO. For more information on the Shareholders' Agreement and its provisions, please see: "*Shareholders – Shareholders' Agreement*"; "*The Issuer – Rights attached to Shares - Electing members of the Supervisory Board*"; "*The Management – Management Board*"; and "*The Management – The CEO*".

As a consequence, the Principal Shareholders have ability to influence and control most actions undertaken by the General Meeting, the Supervisory Board and the Management Board. Therefore, the Principal Shareholders could, for example, cause the Group to pursue transactions that may involve a higher risk for the Group. Moreover, the interests of the Principal Shareholders may, in some circumstances, conflict with the interests of other holders of the Shares. For example, the Group has engaged in and continues to engage in certain transactions with related parties, including INTER RAO UES and such transactions are expected to continue following the Offering (for more information on related party transactions, please see: "*Business Overview – Related Party Transactions*"). If circumstances were to arise where the interests of the Principal Shareholders conflicted with the interests of other holders of the Issuer's shares, they could take actions that are materially adverse to the interests of holders of the Issuer's shares.

In addition, since INTER RAO UES is included in a list of strategic companies of the Russian Federation, it may be subject to additional requirements and/or limitations resulting from Russian regulations that may impact the relationships between the Group and the Majority Shareholder and indirectly influence the Group's operations and financial results.

The Issuer may not pay dividends.

The Issuer is under no continuous obligation to pay regular dividends to its shareholders. Any payment of dividends in the future will depend upon decisions of the General Meeting (at which the Principal Shareholders may represent a majority of voting rights). Payment of dividends may be made only if mandatory provisions so allow, as required by law or by the Articles of Association and the respective articles of association of the Group companies. Furthermore, for the decision to pay dividend the following factors (among others) shall also be taken into account: future results of operations, cash flows, financial position, reinvestment needs, expansion plans, contractual restrictions, and other factors the Management Board and/or the General Meeting deem relevant, which do not necessarily have to coincide with the short-term interests of all the Issuer's shareholders. There can be no assurance that the Issuer will make any dividend payments in the future. Accordingly, investors cannot rely on dividend income from the Shares and any returns on an investment in the Shares will likely depend entirely upon any future appreciation in the price of the Shares.

Furthermore, on 20 July 2012 the Principal Shareholders adopted resolution on the increase of the share capital from the Issuer's own funds. As a consequence the net profit for distribution for the financial year ending 31 December 2012, will be reduced by the amount of the share capital increase.

Risks Related to the Shares, Listing and Trading on the WSE

There has been no prior public trading market for the Shares and therefore liquidity as well as trading price of the Shares could be materially and adversely affected.

Prior to the Offering, there has been no public trading market for the Shares. Although the Issuer will apply for the Shares to be admitted to trading on the WSE, there is no guarantee that an active trading market for the Shares will develop or, if developed, can be sustained following the closing of the Offering. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be materially and adversely affected. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the Shares does not develop, the price of the Shares may be more volatile and it may be difficult to complete a buy or sell order for the Shares.

The price of the Shares may fluctuate significantly.

The trading prices of the Shares may be subject to significant price and volume fluctuations in response to many factors including, but not limited to:

- variations in the Group's operating results and those of other companies operating in the electricity sector;
- negative research reports or adverse broker comments;
- future sales of Shares owned by the Issuer's significant shareholders, or the perception that such sales will occur;
- general economic, political or regulatory conditions within Lithuania, other Baltic States or in the electricity sector generally; and
- extreme price and volume fluctuations on the WSE or other stock exchanges, including those in other emerging markets.

Fluctuations in the price and volume of the Shares may not be correlated in a predictable way to the Group's performance or operating results. The Offer Price may not be indicative of prices that will subsequently prevail in the market and an investor may not be able to resell its Shares at or above the Offer Price.

Securities or industry analysts may cease to publish research or reports about the Issuer's business or may change their recommendations regarding the Issuer's Shares.

The market price and/or trading volume of the Issuer's Shares may be influenced by the research and reports that industry or securities analysts publish about the Group Companies' and Issuer's business. There can be no guarantee of continued and sufficient analyst research coverage for the Issuer, as the Issuer has no influence on analysts who prepare such researches and reports. If analysts fail to publish reports on the Issuer regularly or cease publishing such reports altogether, the Issuer may lose the visibility in the capital markets, which in turn could cause the Issuer's Shares price and/or trading volume to decline. Furthermore, analysts may downgrade the Issuer's Shares or give negative recommendations regarding the Issuer's Shares, which could result in a decline of the Share price.

Moreover, the value of investment in the Shares may be affected by prevailing rates of exchange between the LTL and PLN, as the Issuer's capital is denominated in LTL and the Group's accounting currency is LTL, while the Shares will be subscribed and traded on the WSE in PLN.

Turmoil in emerging markets could cause the value of the Shares to suffer.

Financial or other turmoil in emerging markets has, in the recent past, adversely affected market prices in the world's securities markets for companies operating in the affected developing economies. There can be no assurance that renewed volatility stemming from future financial turmoil, or other factors that may arise in other emerging markets or otherwise, will not adversely affect the value of the Shares, even if the economy of Lithuanian and/or other Baltic States remains relatively stable.

The market value of the Shares may be adversely affected by future sales or issues of substantial amounts of Shares.

Future sales of Shares owned by any of the Principal Shareholders and/or other Issuer's significant shareholders, or new issuances of Shares by the Issuer, or the perception that such sales or new issuances will occur, could cause a decline in the market price of the Shares. In connection with the Offering, each of the Issuer and the Principal Shareholders agreed to certain lock-up arrangements in respect of their holdings of Shares held prior to the Offering (for further details see "Shareholders – Lock-up Agreements"). The Issuer cannot predict whether substantial numbers of Shares will be sold by such persons following the expiry of the lock-up period. In particular, there can be no assurance that after the lock-up period expires, any of the Principal Shareholders will not reduce its holdings of Shares. Future sales of Shares could be made by any of the Principal Shareholders or through a capital increase undertaken by the Issuer to fund an acquisition or for another purpose. Sale of a substantial number of Shares, or the perception that such sales could occur, could

materially and adversely affect the market price of the Shares and could also impede the Issuer's ability to raise capital through the issue of equity securities in the future.

The marketability of the Issuer's Shares may decline and the market price of the Issuer's Shares may fluctuate disproportionately and decline below the Offer Price in response to adverse developments that are unrelated to the Group's operating performance.

The Issuer cannot assure that the marketability of the Issuer's Shares will improve or remain consistent. The Offer Price in the Offering may not be indicative of the market price for the Issuer's Shares after the Offering has been completed. Shares listed on regulated markets, such as the WSE, have from time to time experienced, and may experience in the future, significant price fluctuations in response to developments that are unrelated to the operating performance of particular companies. The market price of the Issuer's Shares may fluctuate widely, depending on many factors beyond the Issuer's control. These factors include, among others, actual or anticipated variations in operating results and earnings by the Group Companies and/or its competitors, changes in financial estimates by securities analysts, market conditions in the industry and in general, the status of the securities market, governmental legislation and regulations, as well as general economic and market conditions, such as a recession. These and other factors may cause the market price and demand for the Issuer's Shares to fluctuate substantially and any such development, if adverse, may have an adverse effect on the market price of the Issuer's Shares, which may decline disproportionately to the Group Companies' operating performance. The market price of the Issuer's Shares is also subject to fluctuations in response to any additional issuance of shares by the Issuer, sales of Shares by the Issuer's major shareholders, the liquidity of trading in the Shares, and capital reduction or purchases of Shares by the Issuer, as well as investor perception. As a result of these or other factors, there can be no assurance that the publically trading market price of the Issuer's Shares will not decline below the Offer Price.

The Offering may be delayed, suspended or cancelled.

Public offerings are subject to various circumstances independent from the Issuer and Selling Shareholder. In particular, the demand for the Offer Shares is shaped by, among others, investor sentiment toward the sector and legal and financial conditions of the Offering. In case such circumstances have an adverse impact on the results of the Offering, the Selling Shareholder may decide to delay, suspend or cancel the Offering. Consequently, the investors may be unable to successfully subscribe for the Offer Shares and payments made by investors during the Offering, if any, may be returned without interest or any other compensation.

The Issuer is established and organised under Lithuanian law, while the Shares will be listed on a regulated market in Poland.

The Issuer is a company organised and existing under the laws of Lithuania, while the Shares (including the Offer Shares) will be listed on a regulated market in Poland. The Issuer's corporate structure, as well as rights and obligations of its shareholders, may be different from the rights and obligations of shareholders in Polish companies listed on the WSE.

Lithuania will be the home Member State of the Issuer for the purpose of the EU securities regulations, and Poland will be its host Member State. The EU directives provide different competencies for the home Member State and host Member States with respect to rights and obligations of the investors in public companies, depending on the subject of regulations. In addition, the directives are not always implemented in a proper manner at a national level. Consequently, investors in the Offer Shares may be forced to seek complex legal advice in order to comply with all regulations when exercising their rights or when fulfilling their obligations. In case an investor fails to fulfil its obligations or violates law when exercising rights from or regarding the Offer Shares, he or she may be fined or sentenced for such non-compliance, or be unable to exercise rights from the Offer Shares.

In addition, the exercise of pre-emption and certain other shareholder rights for Polish or non-Lithuanian investors in a Lithuanian company may be more difficult and costly than the exercise of rights in a Polish company listed on the WSE. Resolutions of the General Meeting may be taken with majorities different from the majorities required for adoption of equivalent resolutions in Polish companies. Action with a view to declaring a resolution invalid must be filed with, and will be reviewed by a Lithuanian court in accordance with Lithuanian law. Moreover, certain protections such as anti-takeover measures may not be available to holders of the Offer Shares or their application may be uncertain.

The public offering will be also conducted in Lithuania while the Shares will be listed on a regulated market in Poland.

Although the Offer Shares will be publicly offered also in Lithuania, the Shares (including the Offer Shares) will be listed solely on a regulated market in Poland. Consequently, investors in Lithuania will not have possibility to trade Shares on Lithuanian stock exchange and may be forced to have agreement with financial intermediaries being members of the WSE in order to trade their Shares. In case an investor is unable to trade on the WSE, it may face difficulties in selling its Shares.

Tax treatment for non-Lithuanian investors in a Lithuanian company may vary.

The Issuer is organised and existing under the laws of Lithuania and as such, the Lithuanian tax regime applies to distribution of profit and other payments from the Issuer to its investors. The taxation of incomes from such payments, as well as other income from the sale of shares, for instance, may vary depending on the tax residence of particular investors, as well as on the provision of double tax treaties with Lithuania currently in force. Provisions applying to particular investors may be unfavourable or may change adversely.

The Issuer may be unable to list the Shares on the regulated market in Poland, or the Issuer may be delisted from the regulated market in Poland.

The admission of the Shares to trading on the WSE requires, *inter alia*, that (i) the Shares are registered with the clearing and settlement system of the NDS and that (ii) the management board of the WSE approves the listing and trading of the Shares on the WSE. To obtain WSE management board approval, the Issuer has to meet certain requirements provided for in the respective regulations of the WSE and other applicable laws. Such requirements include, but are not limited to: (i) the appropriate free float of the Shares; (ii) the appropriate market value of the Shares or the equity of the Issuer; (iii) no restriction on the transferability of the Shares; (iv) the approval of this Prospectus by the CBRL and its notification to the PFSA; and (v) no bankruptcy or liquidation proceedings pending with respect to the Issuer. Furthermore, while examining the Issuer's application for admission of the Shares to trading on the WSE, the management board of the WSE will take into consideration: (i) the Issuer's current and projected financial standing; (ii) the Issuer's development perspectives, in particular, assessment of investments objectives, taking into account its financial sources; (iii) experience and qualifications of the members of the Issuer's corporate bodies; (iv) the terms on which the securities were issued and the compliance of these terms with the principles of the public nature laid out in the WSE Rules; and (v) security of public trading on the WSE and interests of trading participants. Some of the conditions mentioned above are discretionary in nature and, therefore, the Issuer cannot provide any assurance that the management board of the WSE will conclude that the Issuer meets all of them.

The rules of the WSE require the Issuer to file an application for introduction of Shares to trading on the WSE within a period of six months from the date on which the Issuer's Shares have been admitted to such trading. If the Issuer fails to comply with this obligation, the decision of the WSE management board on the admission of the Issuer's Shares to trading on the WSE could be annulled.

The Issuer intends to take all the necessary steps to ensure that its Shares are admitted to trading on the WSE as soon as possible following the closing of the Offering. However, there is no guarantee that all of the aforementioned conditions will be met and that the Shares will be admitted to trading on the WSE on the Listing Date, as expected, if at all. Moreover, if the PFSA, which is the competent authority of the Issuer's host Member State, finds that the Issuer has failed to perform or has unduly performed its obligations under applicable Polish securities law, it shall notify the CBRL, which is the competent authority of the Issuer's home Member State, of such event. If, despite the PFSA notification, the CBRL does not take any measures aimed at preventing further breach by the Issuer of its obligations, or when such measures prove ineffective, after the notification of the CBRL, the PFSA may, in order to protect investor interests, impose a fine and/or delist the Shares from trading on the WSE. The PFSA shall notify the European Commission immediately of the application of any such measures.

Mandatory delisting of the Shares will be effected by the WSE management board where: (i) transferability of the Shares has become restricted, (ii) the Shares are no longer book-entry, (iii) the PFSA has so requested in accordance with the Polish Trading in Finance Instruments Act, or (iv) the Shares have been delisted from another regulated market by a competent supervisory authority over such market, provided that the Shares were traded on another regulated market. In addition, the WSE management board shall delist the Shares from trading at the request of the PFSA if the PFSA concludes that trading in the Issuer's Shares imposes a significant threat to the proper functioning of the WSE, the safety of trading on that exchange or infringes investor interest.

The WSE management board may also delist the Shares where (i) the Shares cease meeting all requirements for admission to trading on the WSE; (ii) the Issuer persistently violates the regulations of the WSE; (iii) the Issuer has so requested; (iv) the Issuer has been declared bankrupt or a petition for bankruptcy has been dismissed by the court because the Issuer's assets do not suffice to cover the costs of the bankruptcy proceedings; (v) the WSE considers it necessary to protect the interests of the market participants; (vi) following a decision on a merger, split or transformation of the Issuer; (vii) no trading was effected in the Shares within a period of the previous three months; (viii) the Issuer has become involved in a business that is illegal under the applicable provisions of law; and (ix) the Issuer is in liquidation proceedings. The Issuer believes that, as at the date hereof, there are no circumstances which could give grounds for delisting the Shares from the WSE in the foreseeable future. However, there is no guarantee that any such circumstances will not arise in relation to the Issuer's Shares in the future. Delisting the Shares from the WSE could have an adverse effect on the liquidity of the Shares and, consequently, on investor ability to sell the Shares for a satisfactory price.

The Issuer may be unable to list the Shares on the main market of the WSE.

The regulated market in Poland is operated by the WSE. The regulated market of the WSE consists of main and parallel markets. The Issuer intends to apply for admission and introduction of all issued Shares to trading on the main market of the WSE. The WSE requires that certain criteria shall be met in order to list shares on the main market of the WSE, e.g. the WSE requires that all shares of the same type shall be referred to in the application for admission and the share capital of a company to be listed must be adequately diluted (i.e. part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital). If the Issuer is not able to meet all of the criteria required by the WSE, it may not be able to list the Shares on the main market of the WSE. As a result the WSE would not approve the Shares for listing on the main market of the WSE and, consequently, the Shares would be listed on the parallel market.

Trading in the Shares on the WSE may be suspended.

The WSE management board has the right to suspend trading in the Shares for up to three months (i) at the request of the Issuer, (ii) if the Issuer fails to comply with the respective regulations of the WSE (such as specific disclosure requirements), or (iii) if it concludes that such a suspension is necessary to protect the interests and safety of market participants.

Furthermore, the WSE management board shall suspend trading in Shares for up to one month at the request of the PFSA if the PFSA concludes that trading in the Shares is being carried out under circumstances which may impose a possible threat to the proper functioning of the WSE or the safety of trading on that exchange, or may harm investor interest. The Issuer will make all endeavours to comply with all applicable regulations in this respect. However, there is no guarantee that trading in the Shares will not be suspended. Any suspension of trading could adversely affect the price of the Shares.

The Issuer may have a limited free float, which may have a negative effect on the liquidity, marketability or value of its Shares.

As of the date of the Prospectus, the Majority Shareholder owns 51% of the Issuer's share capital and immediately after the Offering, will continue to own the same percentage of the Issuer's share capital. As of the date of the Prospectus, the Selling Shareholder owns 49% of the Issuer's share capital and immediately after the Offering, the Selling Shareholder will continue to own 29% of the Issuer's share capital, provided that all Offer Shares are placed with investors. Consequently, the free float of Shares held by the public will be no more than 20% of the Issuer's share capital.

In addition, the WSE requires that the share capital of a company to be listed on the main market of the WSE must be adequately diluted, i.e. part of the capital must be held by minority shareholders holding individually less than 5% of that company's share capital. If the Offer Shares are acquired by a limited number of large investors, there is a risk that the share capital would not be adequately diluted and, as a result, the WSE would not approve the Shares for listing on the main market of the WSE and, consequently, the Shares would be listed on the parallel market.

The Issuer has no experience in complying with requirements for publicly-listed companies.

A public company is subject to a number of obligations, mostly related to the disclosure of relevant information for investors. The Issuer has never been subject to such obligations and may fail to fulfil such obligations. Furthermore, the Issuer has only recently employed specialists responsible for financial reporting and therefore, the Issuer may not be fully prepared to fulfil its reporting obligations. As a consequence, investors may not be provided with price-sensitive information on time, or at all, or the content of materials made public may be of unsatisfactory quality.

Moreover, the Group does not maintain a high level of confidentiality protection while operating with its clients and suppliers. Namely, numerous commercial agreements executed by the Group do not include a specific confidentiality undertaking by the other parties. As a consequence, there is a risk of a leak of confidentiality, non-public information, or price-sensitive information regarding the Issuer and/or the Group.

Furthermore, the Issuer has no experience in complying, and may not comply, with certain corporate governance requirements for publicly-listed companies. For instance, as of the date of the Prospectus none of the members of the Supervisory Board meets criteria of being independent. As a consequence, image of the Issuer and perception of the Issuer by the investors may be negative, what may have an adverse impact on price and demand for Shares.

In addition, in the event of its non-compliance resulting from a breach of relevant rules and regulations related to a public company, the Issuer may be fined or have other sanctions imposed on it, which may have an adverse impact on the Issuer's financial results, share price and demand for the Shares.

USE OF PROCEEDS

Expenses and Proceeds from the Offering

The Offering consists solely of the sale of the existing Shares held by the Selling Shareholder. As a result of the Offering, the Issuer will not receive any proceeds from the sale of the Offer Shares. All net proceeds from the Offering shall accrue to the Selling Shareholder.

The Issuer and the Selling Shareholder estimate that the expenses from the Offering and costs related to introduction of the Shares to trading on the WSE will amount to approximately EUR 2.2 million and/or its equivalent, and that the total net proceeds from the Offering will amount to approximately EUR 24 million and/or its equivalent, assuming all the Offer Shares are subscribed for at the Maximum Price. The expenses and costs related to the Offering and Admission will be borne by the Issuer and the Selling Shareholders, as both entities will benefit from the transaction. It is forecasted that the Issuer will incur expenses of up to EUR 1.1 million and/or its equivalent, whereas the Selling Shareholder will cover the remaining part of expenses (approximately EUR 1.1 million and/or its equivalent).

Reasons for the Offering

The Selling Shareholder decided to sell the Offer Shares to provide a number of benefits to itself, as well as to the Issuer. First of all, transparency associated with companies listed on regulated markets could provide the Group with possibilities for various market opportunities and further growth, which will increase the value of the Issuer and, as a result, will increase the value of the remaining stake in the Issuer held by the Selling Shareholder after the Offering.

The Offering and the Admission are expected to provide a number of benefits to the Issuer, such as:

- providing the Issuer access to the capital markets as a potential new source of financing for development in the future;
- increasing the profile of the Issuer and its reliability among its customers, financial institutions, investors and potential employees (in particular in foreign markets);
- aiding the Issuer's growth in the end-user segment as well as in the Polish electricity trading market by increasing corporate profile and visibility of the Issuer;
- providing the Issuer possibility to participate in extensive energy sector projects as a counterparty in joint ventures with other companies through increasing the Issuer's reliability;
- providing the Issuer possibility to use the Issuer's shares to settle future acquisitions.

SELECTED FINANCIAL INFORMATION

The following tables set out selected consolidated financial information of the Group for the years ended 31 December 2011, 2010 and 2009, respectively, and for the six months ended 30 June 2012 and 2011, respectively. Such information is extracted without material adjustment from the Financial Statements presented in the Prospectus. The Financial Statements are included in the Prospectus, starting on page F-1. The following information should also be read in conjunction with the "Operating and Financial Review" section of the Prospectus.

Statement of Comprehensive Income

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
<i>LTL in thousand</i>					
Sales	453,350	419,678	919,080	750,389	104,539
Cost of sales	(406,015)	(375,166)	(827,115)	(670,927)	(78,877)
Gross profit	47,335	44,512	91,965	79,462	25,662
General and administrative expenses	(9,082)	(8,982)	(18,710)	(10,932)	(9,307)
Other operating income	89	-	11	1	-
Other operating expenses	(5)	-	(2)	-	-
Profit from operations	38,337	35,530	73,264	68,531	16,355
Finance income	195	348	482	445	450
Finance expenses	(2,350)	-	(2,432)	(8)	(6)
Share of profit of joint venture	(16)	217	286	100	680
Profit before tax	36,166	36,095	71,600	69,068	17,479
Income tax	(5,389)	(4,924)	(10,400)	(10,007)	(2,526)
Net profit	30,777	31,171	61,200	59,061	14,953
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year, net of tax	30,777	31,171	61,200	59,061	14,953

Source: Financial Statements

Statement of Financial Position

	As at 30 June	As at 31 December		
	2012	2011	2010	2009
<i>LTL in thousand</i>				
Non-current assets	137,611	139,393	6,718	8,930
Current assets	68,940	86,049	150,715	37,175
Total assets	206,551	225,442	157,433	46,105
Total Equity	30,904	64,150	63,745	33,666
Total non-current liabilities	99,880	103,660	801	1,087
Total current liabilities	75,766	57,632	92,887	11,352
Total equity and liabilities	206,551	225,442	157,433	46,105

Source: Financial Statements

Statement of Cash Flows

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
	<i>LTL in thousand</i>				
Net cash flows from (to) operating activities	41,032	1,490	28,874	101,011	18,900
Net cash flows from (to) investing activities	(3,101)	2,735	(67,407)	(9,883)	(12,849)
Net cash flows from (to) financing activities	(44,036)	(28,645)	(9,514)	(28,982)	(17,660)
Net increase (decrease) in cash and cash equivalents	(6,105)	(24,420)	(48,047)	62,146	(11,609)
Cash and cash equivalents at the beginning of the period	33,885	81,932	81,932	19,786	31,395
Cash and cash equivalents at the end of the period	27,780	57,512	33,885	81,932	19,786

Source: Financial Statements

CAPITALISATION AND INDEBTEDNESS

The tables below present a statement of capitalisation and indebtedness as at 30 September 2012 (in LTL thousand).

Total Current Debt	64,441
Guaranteed	-
Secured ⁽¹⁾	8,244
Unguaranteed/ Unsecured	56,197
Total Non-Current Debt (excluding current portion of long – term debt)	94,625
- Guaranteed	-
- Secured ⁽¹⁾	85,221
- Unguaranteed/ Unsecured	9,404
Shareholder's Equity:	
Share Capital	1,000
Legal Reserve	100
Other Reserves	34,754
Total	35,854
A. Cash	27,775
B. Cash Equivalent (Detail)	-
C. Trading Securities	-
D. Liquidity (A) + (B) + (C)	27,775
E. Current Financial Receivable	-
F. Current Bank Debt	-
G. Current portion of non-current debt	8,344
H. Other current financial debt	-
I. Current Financial Debt (F) + (G) + (H)	8,344
J. Net Current Financial Indebtedness (I) - (E) - (D)	(19,431)
K. Non-current Bank Loans	87,985
L. Bonds Issued	-
M. Other non-current Loans	6,640
N. Non-current Financial Indebtedness (K) + (L) + (M)	94,625
O. Net Financial Indebtedness (J) + (N)	75,194

⁽¹⁾ Description of the Group's assets secured is included in "Business Overview - Material Contracts – Financing Agreements".

Source: Group data

On 22 October 2012 the new amount of share capital of the Issuer was registered with the Register of Legal Entities of the Republic of Lithuania. Namely, the Issuer's share capital was increased from LTL 1 million to LTL 20 million, and divided into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Issuer with a nominal value of LTL 1 thousand into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares of the Issuer from the retained earnings of the Issuer.

As a consequence, as of the date of the Prospectus the Issuer's share capital amounts to LTL 20 million, whereas the retained earnings of the Issuer were decreased by LTL 19 million.

OPERATING AND FINANCIAL REVIEW

Certain information contained in the section set forth below includes forward-looking statements. Such forward-looking statements are subject to risks, uncertainties and assumptions about the Group. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in the Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

The following review relates to the Group's historical financial condition and results of operations for the financial years ended on 31 December 2011, 2010 and 2009, respectively, and for the six months ended 30 June 2012 and 2011, respectively. The "Operating and Financial Review" section was based on the Financial Statements that are contained in the Prospectus and this section should be read in conjunction with the Financial Statements.

Overview of Business

The Group is an independent supplier of electricity and the leading wholesale supplier of electricity in Lithuania in terms of volume of delivered electricity. The Group is also active in other Baltic States, namely Latvia and Estonia. The Group imports most of the electricity it trades from Russia and it is an authorized representative of the Russian energy holding company, INTER RAO UES, in the Baltic region. Moreover, since July 2011, the Group has been present in the electricity generation business after acquiring the wind park in Vydmantai, a company operating a wind farm in western Lithuania.

In the six month period ended 30 June 2012, the Group had consolidated revenue of LTL 453.35 million and net profit of LTL 30.78 million, 97.98% of revenue was generated by electricity trading, whereas 2.02% by electricity generation. In the year ended 31 December 2011, the Group recorded consolidated revenue of LTL 919.08 million and a net profit of LTL 61.20 million, 98.81% of revenue was generated by electricity trading, whereas 1.19% by electricity generation. In the year ended 31 December 2010, the Group recorded consolidated revenue of LTL 750.39 million and net profit of LTL 59.06 million. In the year ended 31 December 2009, the Group recorded consolidated revenue of LTL 104.54 million and net profit of LTL 14.95 million. In the years ended 31 December 2010 and 2009, all revenue was generated by electricity trading.

The Group's activities date back to 2002, when the Issuer was established. In 2003, the Issuer received its license as an independent electricity supplier, as well as permission to export electricity, and began electricity trading activities. In 2008, RAO Nordic OY, a wholly-owned subsidiary of the Russian energy holding company, INTER RAO UES, increased its stake in the Issuer from its original 18% acquired in 2005 to 51% of the Issuer's share capital.

Key factors affecting the Group's results from operations

Management believes that the following factors have considerably affected the Group's results from operations for the period under review. Management expects that a number of these factors will continue to have a considerable impact on the Issuer's results from operations in the future.

Macroeconomic factors

Due to the fact that the Group's business activities are concentrated in Lithuania and that further activities are currently being developed in Latvia and Estonia, its business operations depend on the macroeconomic trends in those countries. Basic data on the macroeconomic situation in the Baltic States is presented in section "Market Overview – Macroeconomic Data".

The overall macroeconomic situation has a direct influence on the energy sector. Namely, electricity consumption depends on various macroeconomic factors, e.g., stage of economic development, industrial production and level of foreign direct investment. In 2008, the overall usage of electricity in Lithuania peaked. However, as a result of the economic crisis which followed, industrial production decreased, as well as electricity demand. In 2009, the volume of electricity supplied to customers was 7.29% lower compared with 2008. Since 2009, the volume of electricity supplied to customers has been steadily increasing. However, any negative changes to the macroeconomic situation in Lithuania and other Baltic States may lead to a decrease in the consumption of electricity. This, in turn, may have an impact on the Group's results from operations.

Price of electricity sold

The Group's revenue depends on the price of electricity sold. In general, the price of electricity sold depends mainly on the following factors: the generation structure and capacity of domestic power plants in connection with the prices of fuel resources, regulatory environment, and technical transmission capacity of the grids.

The Group sells its electricity either through the power exchange (Nord Pool Spot AS) or via bilateral contracts with its clients. Alternately the Group may sell electricity to its customers based on future contracts, under which the Group undertakes to sell agreed volumes of electricity on the power exchange at agreed price and its customer undertakes to purchase on the power exchange the same volumes at the same agreed price (if market price differs, the parties agree on mutual compensation of the price margin between the market price and the agreed one).

The price of electricity sold through Nord Pool Spot AS is a market price. However, the price-forming transactions on the power exchange make-up only 5.93% of the overall electricity traded in Lithuania in the financial year ended 31 December 2011. All other trades are executed on an over-the-counter basis and their price is determined by the price forming transactions.

The price of electricity sold by the Group under bilateral contacts is a market price, adjusted for variances depending on the electricity trading pattern of the customer and contractual arrangements (*i.e.*, is fixed on annual or monthly basis, or agreed in daily delivery schedules).

Price of electricity purchased

The Group purchases the vast majority of its electricity from Russia. In the six month period ended 30 June 2012 and 2011, the volume of electricity purchased from Russia amounted to 63.56% and 70.53%, respectively, of the total volume of electricity purchased by the Group. In the financial years ended 31 December 2011, 2010 and 2009, the volume of electricity purchased from Russia amounted to 69.34%, 93.71% and 38.53%, respectively, of the total volume of electricity purchased by the Group. However, the total volume of electricity purchased in the six month period ended 30 June 2012 and 2011, and in the financial years ended 31 December 2011 and 2010, includes purchases made by the Group itself from the power exchange after it sold imported electricity. As a consequence, the data shall be adjusted. The volume of electricity purchased from Russia in the six month period ended 30 June 2012 and 2011, amounted to 87.21% and 94.21%, respectively, of the adjusted total volume of electricity purchased by the Group. In the financial years ended 31 December 2011 and 2010, the volume of electricity purchased from Russia amounted to 94.49% and 93.89%, respectively, of the adjusted total volume of electricity purchased by the Group.

Electricity imported from Russia is purchased exclusively from INTER RAO UES. The Group is party to a number of long-term agreements with INTER RAO UES on the sale and purchase of electricity (for more information, please see: *"Business Overview – Material Contracts – Electricity trading agreements – Agreements with INTER RAO UES"*). Depending on the particular agreement with INTER RAO UES, there are different arrangements on price and volume of electricity to be delivered to the Group. The Group has an annual arrangement, where the fixed price and volume of electricity the Group is obliged to purchase is set for the entire year. The Group has also monthly arrangements, where the fixed price and volume of electricity the Group is obliged to purchase is set for each month. Prices and volumes under annual and monthly arrangements depend on, *inter alia*, projected market prices in Russia, as well as the projected cost of electricity generated by INTER RAO UES. Finally, the Group has the possibility to purchase electricity on a daily basis, with volumes and prices for each hour proposed by INTER RAO UES, depending on the current market situation in Russia (*e.g.*, spot market prices in Russia, current cost of electricity generated by INTER RAO UES, weather conditions, etc.).

Electricity imported from Belarus is purchased from the Belorussian state-owned energy company, Belenergo. The Group is party to several agreements with Belenergo on the sale and purchase of electricity (for more information, please see: *"Business Overview – Material Contracts – Electricity trading agreements – Agreements with Belenergo"*).

Apart from imported electricity from Russia and Belarus, the Group cross-border delivers to the Lithuanian internal electricity market the electricity purchased in Latvia and/or Estonia. The Group purchases electricity from market participants active in Latvia under bilateral contracts based on various pricing arrangements and on the power exchange in Estonia, which is operated by Nord Pool Spot AS.

The Group sells all electricity it cross-border delivers to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market, including those volumes imported from the third countries and those delivered from the EU Member States, has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same price and trades are executed at the market price.

Volume of electricity purchased and sold

The table below presents data on the total volume of electricity purchased and sold by the Group during the periods indicated.

	For six months ended 30 June			For the year ended 31 December				
	2012	Change	2011	2011	Change	2010	Change	2009
		%			%		%	
Total volume (in GWh)	3,905	7.15	3,645	7,994	46.52	5,456	413.75	1,062
Total volume (adjusted)* (in GWh)	2,846	4.32	2,729	5,866	7.71	5,446	412.81	1,062
Total sales (in LTL thousand)	613,316	8.97	562,829	1,243,095	65.32	751,938	619.29	104,539
Total sales (netted)** (in LTL thousand)	453,350	8.02	419,678	919,080	22.48	750,389	617.81	104,539

* Total volume excluding equivalent trades on the power exchange

** Total sales excluding equivalent trades on the power exchange

Source: Group data

In the financial years ended 31 December 2011, 2010 and 2009, respectively, there was an increase in the total volume of electricity purchased and sold by the Group primarily due to an increase in the Group's market share, which was fuelled by the liberalization of the electricity market in Lithuania beginning in 2010, the decommissioning of the second unit of Ignalina NPP at the end of 2009, and as a consequence, an increase in electricity imports to Lithuania. Furthermore, during the periods under review, the Group increased the volume of electricity sold to Latvia, and in the financial year ended 31 December 2011, began selling electricity to Estonia. Moreover, the Group was able to increase its electricity purchases and, as a consequence, sales capacity due to the commissioning of the second power generating unit at the Kaliningrad Thermal Power Plant, which is owned by INTER RAO UES and began operations at the end of 2010. In addition, the total volume of electricity purchased and sold by the Group in the six-month period ended 30 June 2012, increased due to the beginning of exports to Belarus driven by the market conditions, an increase of the Lithuanian electricity market, as well as the acquisition of the wind park in Vydmantai.

In addition, an increase in recorded volume of electricity sold by the Group in the financial year ended 31 December 2011 and 31 December 2010, was partially caused by the introduction of new market regulations. Namely, beginning in 2010, all electricity cross-border delivered to or from the Lithuanian internal electricity market, including those volumes imported from or exported to the third countries and those delivered from or to the EU Member States, is required to be sold on the Lithuanian power exchange.

In the financial year ended 31 December 2010, BALTPPOOL UAB was operating the power exchange and allowed for trading based on mutual compensation mechanism (futures contract) with other market participants, where the clearing functions were undertaken by BALTPPOOL UAB. Such trading did not result in increased volumes of electricity sold recorded by the Group, except for cross-border electricity trades with Latvia.

Starting from 1 January 2011, the power exchange has been operated by Nord Pool Spot AS that does not allow for mutual compensation mechanism. In order to meet the legal requirement, the Group sells all of the electricity it cross-border delivers to the Lithuanian internal electricity market on the power exchange, buys electricity on the power exchange, and only then does it sell electricity to its customers or, alternately, sells electricity to its customers based on future contracts as explained hereinabove. However, the Group presents value of its sales excluding equivalent transactions executed on the power exchange.

As a consequence, the total volume of electricity sold by the Group in the six month period ended 30 June 2012, and in the financial year ended 31 December 2011, has increased by these trades executed on the power exchange.

Volume of electricity generated and sold by Vydmantai Wind Park

The revenue of the Group's subsidiary, Vydmantai Wind Park, depends primarily on two factors: the feed-in tariff and the volume of electricity it generates and sells. Under the feed-in tariff, which is in place until 31 December 2020, the Vydmantai Wind Park shall be paid LTL 300/MWh (app. EUR 87/MWh) for the electricity it sells.

The volume of electricity generated depends on the weather conditions, namely the periods of wind that is strong enough to generate power. The average wind speed at wind park in Vydmantai was equal to 6.14 m/s during the period of January 2007 to June 2012, whereas the average availability factor was 98.77% due to scheduled maintenance during the same period. The average value for net efficiency factor from the beginning of operations until June 2012 was 24.21%.

The table below presents data on the volume of electricity sold by the Vydmantai Wind Park during the periods indicated (however, the Group acquired Vydmantai Wind Park, which owns the wind park located in Vydmantai in July 2011).

	For six months ended 30 June			For the year ended 31 December				
	2012	2011	Change	2011	Change	2010	Change	2009
	GWh		%	GWh	%	GWh	%	GWh
Total volume	30.55	32.38	(5.65)	70.25	28.80	54.54	(5.05)	57.44

Source: Group data

Seasonality

The tables below set out the volume and prices of electricity purchased and sold by the Group, with a monthly breakdown for periods indicated.

	For six months ended 30 June 2012					
	January	February	March	April	May	June
Average sale price (LTL/MWh)	151	161	152	158	149	165
Average purchase price (LTL/MWh)	134	143	136	132	137	148
Total volume (GWh)	738	886	701	438	530	612
Total volume adjusted* (GWh)	542	640	513	339	416	396

* Total volume excluding equivalent trades on the power exchange

Source: Group data

	For the year ended 31 December 2011											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average sale price (LTL/MWh)	152	153	156	153	150	159	157	155	159	156	152	154
Average purchase price (LTL/MWh)	136	138	138	129	134	141	142	139	141	137	136	142
Total volume (GWh)	577	604	598	422	747	696	687	795	702	754	792	620
Total volume adjusted* (GWh)	475	463	450	306	515	518	499	558	513	562	558	447

* Total volume excluding equivalent trades on the power exchange

Source: Group data

	For the year ended 31 December 2010											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average sale price (LTL/MWh)	123	123	122	135	132	132	142	150	144	146	142	144
Average purchase price (LTL/MWh)	102	101	103	111	110	121	130	137	132	134	123	125
Total volume (GWh)	369	342	379	307	398	412	580	426	525	561	491	666
Total volume adjusted* (GWh)	368	340	379	307	398	412	576	426	525	559	491	666

* Total volume excluding equivalent trades on the power exchange

Source: Group data

The annual seasonality of the electricity market in Lithuania and the region can be observed. Namely, the seasonality of the electricity market can be divided into definite periods: the beginning of heating season, spring and autumn thaws, the end of heating season, and maintenance of electricity transmission lines. Heating season in Lithuania usually starts in the beginning of November and ends in mid-April. During the heating season, combined heat and power plants generate electricity, increasing domestic supply and therefore, reducing import demand. Electricity supply in March and April is usually higher due to spring thaw, which leads to higher electricity generation at hydro power plants in the Baltic region. The end of heating season in mid-April results in lower electricity generation at combined heat and power plants, decreasing internal supply and fuelling electricity imports. The maintenance of electricity transmission lines and power plants, which is often performed in the summer months, along with the seasonal growth of electricity consumption, limits electricity supply and increases electricity prices.

The tables below set out the volume of electricity generated and sold by the Vydmantai Wind Park with a monthly breakdown for the periods indicated.

For six months ended 30 June 2012						
	January	February	March	April	May	June
	GWh					
Total volume	6.11	5.93	6.28	5.06	3.41	3.75

Source: Group data

For the year ended 31 December 2011												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	GWh											
Total volume	6.45	7.03	6.62	4.54	4.25	3.48	2.47	5.15	5.85	7.15	5.65	11.61

Source: Group data

For the year ended 31 December 2010												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	GWh											
Total volume	4.79	3.44	5.62	3.39	3.43	3.10	2.02	3.65	6.49	6.62	6.36	5.61

Source: Group data

Electricity generation at the wind park in Vydmantai has historically peaked between October and March, which is due to the climate conditions. Along the sea coast, the windiest days with the strongest winds are recorded during the second half of autumn, winter and the beginning of spring, while summer has the least number of windy days and the weakest wind. Therefore, the cash inflows fluctuate accordingly. Depending on the seasonality factor, the Vydmantai Wind Park projects its cash inflows and expenditures accordingly and maintains cash on deposit in case of any unexpected cash requirement.

Acquisition of wind park in Vydmantai

In July 2011, the Group acquired an operational wind park in Vydmantai, Western Lithuania, with an installed capacity of 30 MW. This transaction impacted the Group's financial position and results in the financial year ended 31 December 2011, in the following manner:

- of the LTL 225.44 million of the Group's total non-current and current assets as at 31 December 2011, LTL 142.36 million was attributable to the Vydmantai Wind Park;
- of the LTL 161.29 million of the Group's non-current and current liabilities as at 31 December 2011, LTL 105.28 million was attributable to the Vydmantai Wind Park;
- of the LTL 2.43 million of the Group's finance expenses as at 31 December 2011, LTL 2.31 million was attributable to the Vydmantai Wind Park;
- as at 15 July 2011, goodwill equal to LTL 9.93 million was recognized and further impaired in amount of LTL 3 million by recording loss in the general and administrative expenses for the financial year ended 31 December 2011;
- as at 31 December 2011, depreciation of property, plant and equipment attributable to the Vydmantai Wind Park amounted to LTL 2.66 million and was included in the cost of sales; and
- as at 31 December 2011, amortization of intangible assets attributable to the Vydmantai Wind Park amounted to LTL 1.87 million and was included in the general and administrative expenses.

Trends and Expected Events

The Group expects that it will face the following trends and events in the foreseeable future:

- moderate growth of electricity prices in the Baltic States;
- continuous growth of electricity demand in the Baltic States; and
- change in the sale structure as a result of the liberalization of electricity markets in the Baltic States, enabling the Group to attract more end-users of electricity.

Critical Accounting Policies

Below are described the accounting policies that Management deems important for understanding the Financial Statements.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the enterprise, and the amount of the revenue can be reliably measured. Sales are recognised net of VAT and discounts.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical energy sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Physical electricity sales and purchases are done through the power exchange (Nord Pool Spot/Baltpool). The sales and purchases are netted on the Group level on an hourly basis and posted either as revenue or cost, according to whether the Group is a net seller or a net buyer during any particular hour.

Electricity sold to the power exchange for regulatory reasons and immediately repurchased for onward sale is recognized as revenue only for the onward sale. No revenue / cost is presented for the sale to / repurchase from the power exchange in this case.

Revenue from sales of produced electricity are recognised on accrual basis when transfer of risks and rewards has been completed.

Revenue from services are recognised when services are rendered.

Interest income or expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the income statement.

Business Combinations and Goodwill

On 15 July 2011, the Group acquired the wind park in Vydmantai. The difference between the amount paid and the fair value of the acquired assets and liabilities were accounted for as goodwill. Goodwill is related to a market entry, i.e. to a new strategy to enter into the renewable energy generation industry. None of the goodwill recognized is expected to be deductible for income tax purposes. The net assets recognized are based on a final assessment of fair values.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred and measured by its fair value on the acquisition date. Acquisition costs incurred are expensed and included in administrative expenses.

Goodwill is initially measured as a cost which is the excess of the aggregate of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised as a profit or loss.

After initial recognition, goodwill is measured as a cost, less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from contribution, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. For the purpose of the impairment test, the goodwill as of 31 December 2011, was allocated to the following cash generating unit – wind energy generation business unit – Vydmantai Wind Park.

As a result of its analysis, Management recognised an impairment charge of LTL 3 million in the financial year ended 31 December 2011, against the goodwill previously carried at LTL 9.93 million, which was recorded within general and administrative expenses in the income statement, and may not be reversed under any circumstances in the future.

Intangible Assets

After acquisition of the wind park in Vydmantai, the wind farm operating license and contract of emission reduction units were recognized as intangible assets. The operating license is a license to produce wind generated electricity with an embedded favourable fixed feed-in tariff applied until 2020. The contract of emission reduction units represents the right to be granted emission reduction units for free until year-end 2012, and then further dispose of emission reduction units in the market.

Intangible assets acquired separately are initially measured at cost. The cost of intangible assets acquired in a business combination (e.g., acquisition of wind park in Vydmantai) is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise, and that the cost of the asset can be reliably measured.

The useful lives of intangible assets are assessed to be finite. After initial recognition, intangible assets with finite lives are measured at cost, less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives (years), except for the

wind farm operating license, for which the validity term is indefinite, but the associated favorable fixed feed-in tariff expires after a certain period.

The amortisation period of the wind farm operating license is equal to 9.5. The validity period of the contract of emission reduction units is equal to 1.5. Amortisation expenses of intangible assets are included in the general and administrative expenses caption in the income statement.

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets, other than goodwill.

Analysis of the results of the Group for the six months ended 30 June 2012 and 2011

	For six months ended 30 June	
	2012	2011
	<i>LTL in thousands</i>	
Sales	453,350	419,678
Cost of sales	(406,015)	(375,166)
Gross profit	47,335	44,512
General and administrative expenses	(9,082)	(8,982)
Other operating income	89	-
Other operating expenses	(5)	-
Profit from operations	38,337	35,530
Finance income	195	348
Finance expenses	(2,350)	-
Share of profit (loss) of joint venture	(16)	217
Profit before tax	36,166	36,095
Income tax expenses	(5,389)	(4,924)
Net profit	30,777	31,171
Other comprehensive income	-	-
Total comprehensive income for the year, net of tax	30,777	31,171

Source: Interim Condensed Financial Statements

Sales

For the six month period ended 30 June 2012, the Group's sales were LTL 453.35 million, and increased by 8.02% as compared to LTL 419.68 million in Group sales for the six month period ended 30 June 2011. The increase was primarily due to an increase in volume of electricity purchased and sold by the Group, an increase in the electricity market price and the pricing policy of the Group, as well as the acquisition of the wind park in Vydmantai and, as a consequence, an introduction of a new revenue source.

The total volume of electricity purchased and sold by the Group was 3,905 and 3,645 GWh, respectively, for the six months ended 30 June 2012 and 2011, representing an increase of 7.13%. The total volume of electricity purchased and sold by the Group, excluding any equivalent trades on the power exchange, was 2,846 and 2,729 GWh, respectively, for the six months ended 30 June 2012 and 2011, representing an increase of 4.29%. In the six month period ended 30 June 2012, the Vydmantai Wind Park generated and sold 30.55 GWh of electricity. For more information, please see: "Operating and Financial Review - Key factors affecting the Group's results of operations".

Electricity purchases and sales

For the six month period ended 30 June 2012, the Group's sales from the 'Electricity purchases and sales' segment were LTL 444.18 million, constituting 97.98% of the Group's total sales, as compared to LTL 419.68 million and 100% of the Group's sales for the six month period ended 30 June 2011. The Group's sales from the 'Electricity purchases and sales' segment increased by 5.84% during the period under review. The increase was primarily due to an increase in the volume of electricity sold by the Group to Estonia, as well as launching electricity exports to Belarus. The increase in volume of electricity sold was lower than the increase in revenue, which reflects an increase in the prices of electricity sold.

Electricity production and sales

For the six month period ended 30 June 2012, the Group's sales from the 'Electricity production and sales' segment were LTL 9.17 million, constituting 2.02% of the Group's sales. As for the six month period ended 30 June 2011, there was a single operating segment - 'Electricity purchases and sales', as the wind park in Vydmantai was acquired only on 15 July 2011.

Sales from 'Electricity purchases and sales' segment by geographical location

The following table sets forth the breakdown of the Group's sales from the 'Electricity purchases and sales' segment, by geographical location, for the periods indicated.

	For six months ended 30 June 2012		Change	For six months ended 30 June 2011	
	(LTL in millions)	(As a % of total sales)	(%)	(LTL in millions)	(As a % of total sales)
Lithuania	309.64	69.71	(1.66)	314.86	75.02
Latvia	88.01	19.81	(3.12)	90.84	21.65
Estonia	32.43	7.30	131.97	13.98	3.33
Belarus	14.10	3.18	-	-	-
Total Sales	444.18	100	5.84	419.68	100

Source: Group data

The following table sets forth the volume of electricity sold by the Group (excluding sales of electricity generated by the Vydmantai Wind Park), by geographical location, for the periods indicated, adjusted by excluding equivalent trades on the power exchange.

	For six months ended 30 June 2012		Change	For six months ended 30 June 2011	
	(GWh)	(As a % of total sales)	(%)	(GWh)	(As a % of total sales)
Lithuania	1,907	67.01	(7.38)	2,059	75.45
Latvia	591	20.77	2.43	577	21.14
Estonia	239	8.40	156.99	93	3.41
Belarus	109	3.83	-	-	-
Total volume	2,846	100	4.29	2,729	100

Source: Group data

During the period under review, the Group sold the majority of its purchased electricity in Lithuania. However, sales of electricity in Lithuania slightly decreased by 1.66% in the six months period ended 30 June 2012, as compared to the six months period ended 30 June 2011. This was primarily due to increased sales in Estonia, being more profitable market, as prices of electricity in that region were higher and due to restrictions in technical capabilities of transmission lines.

The second largest market of the Group during the period under review was Latvia. Sales of electricity in Latvia slightly decreased by 3.12% in the six months period ended 30 June 2012, as compared to the six months period ended 30 June 2011. The decrease was caused primarily due to increased sales in Estonia, being more profitable market, as prices of electricity in that region were higher and due to restrictions in technical capabilities of transmission lines.

The Group increased its sales in Estonia by 131.97% in the six months period ended 30 June 2012, as compared to the six months period ended 30 June 2011. The increase was primarily due to higher prices in Estonian area of Nord Pool Spot.

In the six months period ended 30 June 2012 the Group started to sell electricity in Belarus.

Cost of Sales

For the six month period ended 30 June 2012, the Group's recorded cost of sales was LTL 406.02 million and increased by 8.22% as compared to LTL 375.17 million of the Group's cost of sales for the six month period ended 30 June 2011. The increase was primarily due to an increase in the volume and prices of electricity purchased and imported by the Group.

Gross Profit

Due to factors mentioned above, the Group recorded a LTL 47.34 million gross profit for the six month period ended 30 June 2012, as compared to the LTL 44.51 million gross profit in the six month period ended 30 June 2011, representing an increase of 6.36%.

General and Administrative Expenses

In the six month period ended 30 June 2012 the Group's general and administrative expenses were LTL 9.08 million and increased by 1.11% as compared to LTL 8.98 million of the Group's general and administrative expenses in the six month period ended 30 June 2011. The increase was caused primarily due to recognition of depreciation and amortisation expenses on assets of acquired wind park in Vydmantai.

Profit from Operations

The Group's profit from operations was LTL 38.34 million for the six month period ended 30 June 2012, as compared to the LTL 35.53 million of the Group's profit from operations for the six month period ended 30 June 2011, representing an increase of 7.91% (or LTL 2.81 million).

Electricity purchases and sales

For the six month period ended 30 June 2012, the Group's operating profit from the 'Electricity purchases and sales' segment was LTL 35.77 million, constituting 93.30% of the Group's total operating profit, as compared to LTL 35.53 million and 100% of the Group's sales for the six month period ended 30 June 2011. The Group's operating profit from the 'Electricity purchases and sales' segment increased by 0.68% during the period under review.

Electricity production and sales

For the six month period ended 30 June 2012, the Group's operating profit from the 'Electricity production and sales' segment was LTL 2.57 million, constituting 6.70% of the Group's total operating profit. As for the six month period ended 30 June 2011, there was only a single operating segment - 'Electricity purchases and sales', as wind park in Vydmantai was acquired only on 15 July 2011.

Net Finance Income (Expenses)

In the financial six month period ended 30 June 2012, the Group's net finance expenses were LTL 2.16 million. Finance income was equal to LTL 0.35 million and there were no financial expenses in the comparable six month period ended 30 June 2011. A sharp increase in net finance expenses in the period under review is attributable to the recording of interest-bearing liabilities of the Group, due to financing used to acquire the wind park in Vydmantai and the financial lease liabilities of Vydmantai Wind Park.

Profit Before Tax

Due to the factors described above, the Group's recorded profit before tax for the six month period ended 30 June 2012, was LTL 36.17 million and increased by 0.19% as compared to the LTL 36.1 million of the Group's profit before tax for the six month period ended 30 June 2011.

Income Tax Expenses

The total Group's income tax expenses amounted to LTL 5.39 million in the six month period ended 30 June 2012, and increased by 9.55% as compared to LTL 4.92 million of the Group's income tax expenses in the six month period ended 30 June 2011. The increase was primarily due to the impact of the introduction of a new operating segment (wind park in Vydmantai) on Group operations.

The effective tax rate was 14.90% and 13.63%, respectively, for the six month period ended 30 June 2012 and 2011.

Net Profit

For the reasons discussed above, the Group's net profit in the six month period ended 30 June 2012, was LTL 30.78 million and decreased by 1.25% as compared to the LTL 31.17 million of the Group's net profit in the six month period ended 30 June 2011.

Analysis of the results of the Group for the financial years ended 31 December 2011, 2010 and 2009

	For the year ended 31 December		
	2011	2010	2009
	<i>LTL in thousand</i>		
Sales	919,080	750,389	104,539
Cost of sales	(827,115)	(670,927)	(78,877)
Gross profit	91,965	79,462	25,662
General and administrative expenses	(18,710)	(10,932)	(9,307)
Other operating income	11	1	-
Other operating expenses	(2)	-	-
Profit from operations	73,264	68,531	16,355
Finance income	482	445	450
Finance expenses	(2,432)	(8)	(6)
Share of profit of joint venture	286	100	680
Profit before tax	71,600	69,068	17,479
Income tax	(10,400)	(10,007)	(2,526)
Net profit	61,200	59,061	14,953

Source: Consolidated Financial Statements

Sales

For the financial year ended 31 December 2011, the Group's sales were LTL 919.08 million and increased by 22.48% as compared to the LTL 750.39 million of the Group's sales for the financial year ended 31 December 2010.

For the financial year ended 31 December 2010, the Group's sales were LTL 750.39 million and increased by 617.81% as compared to the LTL 104.54 million of the Group's sales for the financial year ended 31 December 2009.

The total volume of electricity purchased and sold by the Group was 7,994, 5,456 and 1,062 GWh, respectively, for the financial years ended 31 December 2011, 2010 and 2009. In the financial year ended 31 December 2010, the volume of electricity purchased and sold by the Group increased by 413.75% compared with the financial year ended 31 December 2009. In the financial year ended 31 December 2011, the Group observed an additional increase in total volume of electricity purchased and sold of 46.52% compared with the financial year ended 31 December 2010. However, the total volume of electricity purchased and sold by the Group, excluding any equivalent trades on the power exchange, was 5,865 and 5,448 GWh, respectively, for the financial years ended 31 December 2011 and 2010, representing an increase of 7.65%. In the financial year ended 31 December 2011, Vydmantai Wind Park generated and sold 70.25 GWh of electricity, however, only part of this was attributable to the Group's revenue, due to the fact that the Vydmantai Wind Park, which owns the wind park in Vydmantai, was acquired only on 15 July 2011. For more information, please see: "Operating and Financial Review - Key factors affecting the Group's results of operations - Volume of electricity purchased and sold".

Electricity purchases and sales

For the financial year ended 31 December 2011, the Group's sales from the 'Electricity purchases and sales' segment were LTL 908.12 million, constituting 98.81% of the Group's total sales, as compared to LTL 750.39 million and 100% of the Group's sales for the financial year ended 31 December 2010. The Group's sales from the 'Electricity purchases and sales' segment increased by 21.02% during the period under review. The increase was attributable to an increase in the volume of electricity sold by the Group, which was fuelled by further liberalization of the electricity market in Lithuania. Furthermore, the Group increased the volume of electricity sold to Latvia and Estonia. The increase in revenue was also caused by an increase in the electricity market price.

For the financial year ended 31 December 2010, the Group's sales from the 'Electricity purchases and sales' segment were LTL 750.39 million, as compared to LTL 104.54 million for the financial year ended 31 December 2009. The Group's sales from the 'Electricity purchases and sales' segment increased by 617.81% during the period under review. The increase was primarily due to an increase in the volume of electricity sold by the Group that was fuelled by: (i) liberalization of the electricity market in Lithuania starting from 2010, (ii) decommissioning of the second unit of the Ignalina NPP at the end of 2009, which increased demand for electricity imports to Lithuania, and (iii) an increase in the volume of electricity sold to Latvia. The increase in revenue during the period under review was also fuelled by an increase in the regulated prices of electricity in

Lithuania and a general increase in the market prices of electricity on the Lithuanian market as a consequence of the decommissioning of the Ignalina NPP.

Electricity production and sales

For the financial year ended 31 December 2011, the Group's sales from the 'Electricity production and sales' segment were LTL 10.96 million, constituting 1.19% of the Group's sales.

The Group did not record any sales in the 'Electricity purchases and sales' segment in the financial years ended 31 December 2010 and 2009, as the wind park in Vydmantai was acquired only on 15 July 2011.

Sales from 'Electricity purchases and sales' segment by geographical location

The following table sets forth the breakdown of the Group's sales from the 'Electricity purchases and sales' segment, by geographical location, for the periods indicated.

	For the year ended 31 December 2011		Change 2011 vs. 2010	For the year ended 31 December 2010		Change 2010 vs. 2009	For the year ended 31 December 2009	
	(LTL in millions)	(As a % of total sales)	(%)	(LTL in millions)	(As a % of total sales)	(%)	(LTL in millions)	(As a % of total sales)
Lithuania	623.25	68.63	(1.79)	634.59	84.57	835.28	67.85	64.90
Latvia	255.42	28.13	120.90	115.63	15.41	4,120.07	2.74	2.62
Estonia	29.45	3.24	-	-	-	-	-	-
Russia	-	-	(100.00)	0.17	0.02	(99.50)	33.96	32.49
Total Sales	908.12	100	21.02	750.39	100	617.80	104.54	100

Source: The Group's calculations based on the Consolidated Financial Statements

The following table sets forth the volume of electricity sold by the Group (excluding sales of electricity generated by the wind park in Vydmantai), by geographical location, for the periods indicated, adjusted by excluding equivalent trades on the power exchange.

	For the year ended 31 December 2011		Change 2011 vs. 2010	For the year ended 31 December 2010		Change 2010 vs. 2009	For the year ended 31 December 2009	
	(GWh)	(As a % of total sales)	(%)	(GWh)	(As a % of total sales)	(%)	(GWh)	(As a % of total sales)
Lithuania	4,089	69.70	(12.46)	4,671	85.77	765.00	540	50.85
Latvia	1,564	26.67	102.85	771	14.16	2984.00	25	2.35
Estonia	213	3.63	-	-	-	-	-	-
Russia	-	-	(100.00)	3	0.06	(99.40)	497	46.80
Total volume	5,866	100	7.71	5,446	100	412.81	1,062	100

Source: Group data

During the period under review, the Group sold the majority of its purchased electricity in Lithuania. The Group increased its sales in Lithuania in the financial year ended 31 December 2010, by 835.28%, as compared to the financial year ended 31 December 2009. The increase during the period under review was achieved primarily because of an increase in the volume of electricity sold by the Group that was fuelled by: (i) liberalization of the electricity market in Lithuania starting from 2010, (ii) the decommissioning of the second unit of the Ignalina NPP at the end of 2009, which increased demand for electricity imports to Lithuania, and (iii) an increase in the Group's market share. The increase in sales in Lithuania during the period under review was also fuelled by an increase in the regulated prices of electricity in Lithuania and a general increase in the market prices of electricity on the Lithuanian market as a consequence of the decommissioning of the Ignalina NPP. Sales of electricity in Lithuania slightly decreased by 1.79% in the financial year ended 31 December 2011, as compared to the financial year ended 31 December 2010.

The Group increased its sales in Latvia by over 41 times in the financial year ended 31 December 2010 as compared to the financial year ended 31 December 2009, and this trend continued in the financial year ended 31 December 2011, when the sales in Latvia further increased by 120.90% as compared to the financial year ended 31 December 2010. The increase in sales in Latvia was caused by implementation of the Group's strategy, which included development of the Group's operations on the electricity market in Latvia. The Group exploited market possibilities which appeared after the decommissioning of the Ignalina NPP that had been supplying Latvia with electricity. As at the date of the Prospectus the Group is the sole importer of electricity

from Russia to Latvia. The Group was also able to increase its electricity purchases and, as a result, its sales capacity due to the commissioning of a second power generating unit at the Kaliningrad Thermal Power Plant, which is owned by INTER RAO UES and began operations at the end of 2010.

In the financial year ended 31 December 2011, the Group began selling electricity in Estonia. In Estonia, the Group traded through Nord Pool Spot AS.

During the period under review, the Group decreased its sales to Russia from 32.48% of total sales in the financial year ended 31 December 2009, to 0.02% in the financial year ended 31 December 2010. In the financial year ended 31 December 2011, the Group did not achieve revenue from Russia. This change was caused by ceasing electricity export to Russia when the price difference became less favourable, mostly as a result of decommissioning of Ignalina NPP and increase in prices of electricity in Lithuania.

Cost of Sales

The table below sets forth the structure of the Group's cost of sales for the period indicated.

	For the year ended 31 December 2011		Change 2011 vs. 2010	For the year ended 31 December 2010		Change 2010 vs. 2009	For the year ended 31 December 2009	
	(LTL in millions)	(As a % of total costs of sales)	(%)	(LTL in millions)	(As a % of total costs of sales)	(%)	(LTL in millions)	(As a % of total costs of sales)
Cost of purchase of electricity	809.08	97.82	22.76	659.07	98.23	736.38	78.80	99.90
Transmission network service cost	14.53	1.76	22.51	11.86	1.77	14,725	0.08	0.10
Depreciation on wind farm	2.66	0.32	-	-	-	-	-	-
Other expenses	0.85	0.10	-	-	-	-	-	-
Total	827.12	100	23.28	670.93	100	750.60	78.88	100

Source: Consolidated Financial Statements

In the financial year ended 31 December 2011, the Group's cost of sales was 827.12 million and increased by 23.28% as compared to LTL 670.93 million of the Group's cost of sales for the financial year ended 31 December 2010. This was primarily due to an increase in the cost of purchase of electricity by 22.76% from LTL 659.07 million in the financial year ended 31 December 2010, to LTL 809.08 million in the financial year ended 31 December 2011. The increase in the cost of purchase of electricity was fuelled by an increase in the volume of electricity purchased (for more information, please see: "Operating and Financial Review - Key factors affecting the Group's results of operations - Volume of electricity purchased and sold"). Furthermore, the increase in costs of sales during the period under review was caused by an increase in transmission network service cost (i.e., input fee) by 22.51% from LTL 11.86 million in the financial year ended 31 December 2010, to LTL 14.53 million in the financial year ended 31 December 2011. This increase in the transmission network service cost was caused by an increase in the volume of electricity imported from Russia and Belarus, as well as a change in the input fee applied for cross-border flows of electricity from and to the third countries, which was increased from 0.7 EUR/MWh in the financial year ended 31 December 2010 to 0.8 EUR/MWh in the financial year ended 31 December 2011. The increase in the cost of sales was also caused by an inclusion of depreciation of the wind park in Vydmantai into the cost of sales.

In the financial year ended 31 December 2010, the Group's recorded cost of sales was LTL 670.93 million and increased by 750.60% as compared to LTL 78.88 million of the Group's cost of sales for the financial year ended 31 December 2009. This was due to an increase in the cost of purchase of electricity of 736.38% from LTL 78.80 million in the financial year ended 31 December 2009, to LTL 659.07 million in the financial year ended 31 December 2010. An increase in cost of purchase of electricity was fuelled by an increase in the volume of electricity purchased. Furthermore, the increase in costs of sales during the period under review was caused by an increase in the transmission network service cost from LTL 75 thousand in the financial year ended 31 December 2009, to LTL 11.86 million in the financial year ended 31 December 2010. The increase in the transmission network service cost fuelled by a sharp increase in the volume of imported electricity was partially offset by a decrease in the input fee on imported electricity from 1.4 EUR/MWh in the financial year ended 31 December 2009, to 0.7 EUR/MWh in the financial year ended 31 December 2010.

The input fee (or the ITC Perimeter Fee) is set based on the principles established by the Commission Regulation (EU) No 838/2010 of 23 September 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging, and is calculated and commonly applied by all the perimeter EU Member States following the inter-transmission system operator compensation mechanism agreed among the transmission system operators participating in the European Network of Transmission System Operators for Electricity (ENTSO-E).

The Group calculates the electricity purchase margin for the 'Electricity purchases and sales' segment using the following formula:

$$\frac{\text{Total electricity sales} - \text{Cost of purchase of electricity}}{\text{Cost of purchase of electricity}}$$

Based on above mentioned calculation, the electricity purchase margin for the years ended 31 December 2011, 2010 and 2009, was 12.24%, 13.86% and 32.66%, respectively.

The decrease in the electricity purchase margin in the period under review was mainly due to an increase in the scale of the Group's operations and, as a consequence, revenue, as well as an increase in the market share, which was partially achieved by introducing a more flexible and competitive pricing policy.

Gross Profit

The Group recorded a LTL 91.97 million gross profit for the financial year ended 31 December 2011, as compared to a LTL 79.46 million gross profit in the financial year ended 31 December 2010, representing an increase of 15.74%.

In the financial year ended 31 December 2010, the Group's recorded gross profit was LTL 79.46 million and increased by 209.66% as compared to the LTL 25.66 million gross profit for the financial year ended 31 December 2009.

General and Administrative Expenses

	For the year ended 31 December		
	2011	2010	2009
	<i>LTL in thousand</i>		
Wages, salaries and social security	4,345	3,008	2,410
Support (charity)	4,066	3,908	3,631
Goodwill impairment loss	3,000	-	-
Depreciation and amortisation	2,230	371	383
Consulting services expenses	1,169	115	600
Electricity selling expenses	770	460	148
Transport expenses	679	650	578
Professional services expenses	537	394	315
Business trips	518	159	125
Representation expenses	260	107	307
Rent	243	193	190
Bank services	191	444	39
Tax expenses	174	109	151
Life insurance expenses	-	301	-
Repair and maintenance	148	137	138
Trainings and seminars	84	131	51
Other general and administrative expenses	296	445	241
Total	18,710	10,932	9,307

Source: Consolidated Financial Statements

The Group's general and administrative expenses in the financial year ended 31 December 2011, amounted to LTL 18.71 million and increased by 71.18% as compared to LTL 10.93 million in the financial year ended 31 December 2010. For the financial year ended 31 December 2010, the Group's general and administrative expenses were LTL 10.93 million and increased by 17.40% as compared to LTL 9.31 million of the Group's general and administrative expenses for the financial year ended 31 December 2009.

The main component of general and administrative expenses were costs attributable to employment, including wages, salaries and social security, which amounted to LTL 4.35 million in the financial year ended 31 December 2011, and increased by 44.52% as compared to LTL 3.01 million in the financial year ended 31 December 2010. The employment cost for the financial year ended 31 December 2010, increased to LTL 3.01 million, by 24.90% as compared to LTL 2.41 million in the financial year ended 31 December 2009. The increase during the periods under review was primarily due to an introduction of a new incentive plan for the

CEO, which resulted in higher payments to the CEO in the year ended 31 December 2011. Furthermore, in the financial year ended 31 December 2010, the Group introduced new incentive schemes for employees, which resulted in payments of additional bonuses. The increase was also attributable to an increase in the number of employees from 13 as of 31 December 2009, to 24 as of 31 December 2011, as a consequence of the Group's business expansion in Lithuania, as well as into other Baltic States, and to its entrance to the renewable electricity generation segment and preparation for expanding the Group's presence in the end-user segment of the electricity market in the Baltic States.

The second biggest component of general and administrative expenses is the cost of support (charity) that for the financial year ended 31 December 2011, amounted to LTL 4.07 million and increased by 4.09% as compared to LTL 3.91 million in the financial year ended 31 December 2010. The cost of support (charity) in the financial year ended 31 December 2010, amounted to LTL 3.91 million as compared to LTL 3.63 million in the financial year ended 31 December 2009, and increased by 7.71%. These costs represent Group's corporate values and culture to support and contribute to the overall social welfare. Sponsorship activities, supported by the Group, are concentrated on three areas: communities, education – culture and sports. A slight increase of the sponsorship costs during the periods under review was primarily due to the Group's intention to support sustainable development of the society compatibly with the growing value of the Group. For more information, see *"The Management – Social responsibility"*.

The third biggest component of general and administrative expenses in the year ended 31 December 2011, was the goodwill impairment loss, equal to LTL 3 million. As a result of analysis, Management determined that an impairment needed to be recognized against goodwill, previously carried at LTL 9.93 million.

Depreciation and amortization costs for the financial year ended 31 December 2011, were LTL 2.23 million and increased five times as compared to the LTL 0.37 million in the financial year ended 31 December 2010. The increase of depreciation and amortization expenses for the financial year ended 31 December 2011, was primarily caused by recognition of depreciation and amortisation expenses on certain assets of the acquired wind park in Vydmantai (i.e., intangible assets). Depreciation and amortization costs in the financial year ended 31 December 2010, amounted to LTL 0.37 million and maintained at similar level as compared to LTL 0.38 million for the financial year ended 31 December 2009, and was attributable to the depreciation and amortisation expenses on the investment property.

Consulting services expenses amounted to LTL 1.17 million in the financial year ended 31 December 2011, and increased significantly as compared to LTL 0.12 million in the financial year ended 31 December 2010. This increase was caused by an increase in the expense of consultation on investments in companies and was attributable to a large extent to the acquisition of the wind park in Vydmantai and the costs of legal, financial and audit services connected therewith. Furthermore, it was attributable to the expense of consultation on public relations and market research. The consulting services expenses for the financial year ended 31 December 2010, decreased to LTL 0.12 million as compared to LTL 0.60 million of the Group's consulting services expenses in the financial year ended 31 December 2009.

The Group's electricity selling expenses represent the market participant fee paid to the power exchange operator. For the financial year ended 31 December 2011, electricity selling expenses were LTL 0.77 million and increased by 67.39% as compared to LTL 0.46 million in the financial year ended 31 December 2010. Electricity selling expenses for the financial year ended 31 December 2010, amounted to LTL 0.46 million and increased by 206.67% as compared to LTL 0.15 million for the financial year ended 31 December 2009. The increase during the periods under review was primarily due to an increase in the volume of electricity traded through the power exchange.

Transport expenses represent lease expenses, maintenance and fuel costs of passenger cars used by the Group. Recorded transport expenses for the financial year ended 31 December 2011, were LTL 0.68 million, as compared to a LTL 0.65 million in the financial year ended 31 December 2010, and LTL 0.58 million in the financial year ended 31 December 2009.

Professional services expenses for the financial year ended 31 December 2011, were LTL 0.54 million as compared to LTL 0.40 million in the financial year ended 31 December 2010, and increased by 35.00%. Professional services expenses for the financial year ended December 2010, amounted to LTL 0.40 million and increased by 25.00% as compared to LTL 0.32 million of the Group's transport expenses for the financial year ended 31 December 2009. The increase during the periods under review was primarily due to an increase in expenses for legal, accounting and audit services.

Business trips expenses for the financial year ended 31 December 2011, were LTL 0.52 million as compared to LTL 0.16 million in the financial year ended 31 December 2010, and increased by 225.79%. Business trip expenses for the financial year ended 31 December 2010, amounted to LTL 0.16 million and increased by 27.20% as compared to LTL 0.13 million of the Group's transport expenses for the financial year ended 31 December 2009. The increase during the periods under review was primarily due to the increasing development of business in the other Baltic States, as well as the increase in the number of employees.

Profit from Operations

The Group's profit from operations was LTL 73.26 million for the financial year ended 31 December 2011, as compared to LTL 68.53 million of the Group's profit from operations for the financial year ended 31 December 2010, representing an increase of 6.91% (or LTL 4.73 million).

In July 2011, the wind park in Vydmantai was acquired and the Group recognized an operating profit from the 'Electricity production and sales' segment in the amount of LTL 2.3 million, constituting 3.14% of the Group's total operating profit in the financial year ended 31 December 2011. For the financial year ended 31 December 2011, the Group's operating profit from the 'Electricity purchases and sales' segment was LTL 70.96 million, constituting 96.86% of the Group's total operating profit, as compared to LTL 68.53 million for the financial year ended 31 December 2010. The Group's operating profit from the 'Electricity purchases and sales' segment increased by 3.54% during the period under review.

For the financial year ended 31 December 2010, the Group's profit from operations was LTL 68.53 million and increased by 318.89% as compared to LTL 16.36 million of the Group's profit from operations for the financial year ended 31 December 2009.

Net Finance Income (Expenses)

The Group's net finance expense for the financial year ended 31 December 2011, was LTL 1.95 million as compared to LTL 0.43 million of net finance income for the financial year ended 31 December 2010. This increase was caused by an increase in the liabilities of the Group due to financing received for the acquisition of wind park in Vydmantai and financial lease liabilities of the Vydmantai Wind Park.

The Group's net finance income for the financial year ended 31 December 2010, amounted to LTL 0.44 million and was maintained at similar level as in the comparable period for the financial year ended 31 December 2009. It represented interest on overnight and on long-term deposits, as well as interest on loans granted.

Profit Before Tax

For the financial year ended 31 December 2011, the Group's recorded profit before tax was LTL 71.60 million and increased by 3.66% as compared to LTL 69.07 million of the Group's profit before tax for the financial year ended 31 December 2010.

In the financial year ended 31 December 2010, the Group's recorded profit before tax was LTL 69.07 million and increased significantly by 295.14% as compared to LTL 17.48 million of the Group's profit before tax for the financial year ended 31 December 2009.

Income Tax

The total Group's income tax expense amounted to LTL 10.40 million, LTL 10.01 million and LTL 2.53 million, respectively, in the financial years ended 31 December 2011, 2010 and 2009.

The corporate income tax rate in Lithuania was 20% in the financial year ended 31 December 2009, and 15% in the financial years ended 31 December 2011 and 2010. There was no corporate income tax in Estonia in the financial year ended 31 December 2011. The tax rate in Latvia was 15% in the financial years ended 31 December 2011, 2010 and 2009.

The effective corporate income tax rate was 14.50% for the financial years ended 31 December 2011, 2010 and 2009.

The significant increase in the income tax expense in the financial year ended 31 December 2010, as compared to the financial year ended 31 December 2009, reflects the increase in the size of the Group's operations.

Net Profit

For the reasons discussed above, the Group's net profit in the financial year ended 31 December 2011, was LTL 61.20 million and increased by 3.62% as compared to the LTL 59.06 million net profit in the financial year ended 31 December 2010.

For the financial year ended 31 December 2010, the Group's net profit amounted to LTL 59.06 million and increased significantly by 295.05% as compared to the LTL 14.95 million net profit for the financial year ended 31 December 2009.

Analysis of the liquidity of the Group for the six months ended 30 June 2012 and 2011

The following table sets forth a summary of the Group's cash flows for the periods indicated.

	For six months ended 30 June	
	2012	2011
	<i>LTL in thousand</i>	
Net cash flows from (to) operating activities	41,032	1,490
Net cash flows from (to) investing activities	(3,101)	2,735
Net cash flows from (to) financing activities	(44,036)	(28,645)
Net increase (decrease) in cash and cash equivalents	(6,105)	(24,420)
Cash and cash equivalents at the beginning of the year	33,885	81,932
Cash and cash equivalents at the end of the six month period ended 30 June	27,780	57,512

Source: Interim Condensed Financial Statements

Net Cash Flows from (to) Operating Activities

For the six month period ended 30 June 2012, the Group's net cash flows from operating activities were LTL 41.03 million and increased significantly as compared to the LTL 1.5 million net cash flows from operating activities for the six month period ended 30 June 2011. This increase in net cash flows from operating activities for the six month period ended 30 June 2012, was primarily due to recognition of depreciation and amortisation in the amount of LTL 5.30 million, as well as to an increase in interest expenses to the amount of LTL 2.35 million. Furthermore, the structure of net cash flows from operating activities during the period under review was influenced by a change to the structure of working capital due to specifics of the Group's payment arrangements with its debtors and creditors.

Net Cash Flows from (to) Investing Activities

The Group recorded net cash outflow of LTL 3.10 million to investing activities for the six month period ended 30 June 2012, as compared to net cash inflow of LTL 2.74 million in the six month period ended 30 June 2011. This change during the period under review was primarily caused by acquisition of non-current assets (*i.e.*, office premises and parking spaces) in the six month period ended 30 June 2012, as well as by a decrease in the dividends received from UAB Alproka due to a decrease in the number of investment properties sold by this company.

Net Cash Flows from (to) Financing Activities

In the six month period ended 30 June 2012, the Group recorded a net cash outflow to financing activities of LTL 44.04 million, as compared to a net cash outflow of LTL 28.65 million to financing activities in the six month period ended 30 June 2011. The increase in period under review was caused by a higher amount of dividend paid, as well as the appearance of interest and finance lease payments in the six month period ended 30 June 2012, as a result of the acquisition of the wind park in Vydmantai.

Cash and cash equivalents at the end of the six month period ended 30 June

The Group's cash and cash equivalents were LTL 27.78 million as at the end of the six month period ended 30 June 2012, as compared to the LTL 57.51 million cash and cash equivalents as at the end of the six month period ended 30 June 2011, representing a decrease of 51.70% (or LTL 29.73 million).

Analysis of the liquidity of the Group for the financial years ended 31 December 2011, 2010 and 2009

The following table sets forth a summary of the Group's cash flows for the periods indicated.

	For the year ended 31 December		
	2011	2010	2009
	<i>LTL in thousand</i>		
Net cash flows from (to) operating activities	28,874	101,011	18,900
Net cash flows from (to) investing activities	(67,407)	(9,883)	(12,849)
Net cash flows from (to) financing activities	(9,514)	(28,982)	(17,660)
Net increase (decrease) in cash and cash equivalents	(48,047)	62,146	(11,609)
Cash and cash equivalents at the beginning of the year	81,932	19,786	31,395
Cash and cash equivalents at the end of the year	33,885	81,932	19,786

Source: Consolidated Financial Statements

Net Cash Flows from (to) Operating Activities

The Group recorded a LTL 28.87 million net cash flow from operating activities for the financial year ended 31 December 2011, as compared to a LTL 101.01 million net cash flow from operating activities in the financial

year ended 31 December 2010, representing a decrease of 71.42%. The decrease was primarily due to the fact that in the year ended 31 December 2010, the Group was accumulating cash to pay out a dividend and in the year ended 31 December 2011, the Group acquired the wind park in Vydmantai. Furthermore, the structure of net cash flows from operating activities during the periods under review was influenced by the change in structure of working capital due to the specifics of the Group's payment arrangements with its debtors and creditors.

In the financial year ended 31 December 2010, the Group's recorded net cash flow from operating activities was LTL 101.01 million and increased significantly as compared to the LTL 18.90 million net cash flow from operating activities for the financial year ended 31 December 2009. The increase was primarily due to an increase in the Group's operations in the year ended 31 December 2011, and to the fact that in the year ended 31 December 2010, the Group was accumulating cash to pay out a dividend. Furthermore, the structure of net cash flow from operating activities during the periods under review was influenced by a change in the structure of working capital due to the specifics of the Group's payment arrangements with its debtors and creditors.

Net Cash Flows from (to) Investing Activities

In the financial year ended 31 December 2011, the Group's recorded net cash outflows to investing activities were LTL 67.41 million and increased significantly as compared to LTL 9.88 million of the Group's net cash outflows to investing activities for the financial year ended 31 December 2010. This was primarily caused by the acquisition of the wind park in Vydmantai in July 2011.

For the financial year ended 31 December 2010, the Group's net cash outflows to investing activities were LTL 9.88 million and decreased by 23.11% as compared to LTL 12.85 million of the Group's net cash outflows to investing activities for the financial year ended 31 December 2009. Increase in net cash outflows to the investing activities for the year ended 31 December 2010, was primarily due to granting a loan to the Majority Shareholder. The increase in net cash outflows to investing activities for the year ended 31 December 2010, was partially offset by the repayment of a loan granted to the Majority Shareholder in the year ended 31 December 2009. Furthermore, in the financial years ended 31 December 2010 and 2009, the Group received payments equal to LTL 2 million from the sale of non-current assets (*i.e.*, sale of office premises to the Selling Shareholder in the financial year ended 31 December 2008).

Net Cash Flows from (to) Financing Activities

For the financial year ended 31 December 2011, the Group's net cash outflows to financing activities were LTL 9.51 million and decreased by 67.18% as compared to the LTL 28.98 million net cash outflows to financing activities for the financial year ended 31 December 2010. Net cash inflows in the financial year ended 31 December 2011, were primarily influenced by proceeds from a loan granted to the Group for the acquisition of the wind park in Vydmantai. Net cash outflows in the financial year ended 31 December 2011, were influenced by the higher amount of dividend paid, as well as recognition of interest and finance lease payments.

For the financial year ended 31 December 2010, the Group's net cash outflows to financing activities were LTL 28.98 million and increased by 64.10% as compared to LTL 17.66 million of the Group's net cash outflows to financing activities for the financial year ended 31 December 2009. This was caused by a higher amount of dividend paid.

Cash and Cash Equivalents at the End of the Year

The Group's cash and cash equivalents were LTL 33.89 million as at the end of the financial year ended 31 December 2011, as compared to LTL 81.93 million of the Group's cash and cash equivalents as at the end of the financial year ended 31 December 2010, representing a decrease of 58.64% (or LTL 48.04 million).

As at the end of the financial year ended 31 December 2010, the Group's cash and cash equivalents were LTL 81.93 million and increased significantly by 314.42% as compared to LTL 19.77 million of the Group's cash and cash equivalents as at the end of the financial year ended 31 December 2009.

Capital Resources

The Group's operations are generally financed through cash flows generated by its operations. The Group keeps its cash in bank accounts in several banks denominated in EUR and LTL, and receives an overnight rate of interest for the cash held on these accounts.

However, the acquisition of the wind park in Vydmantai was financed through medium-term financing facilities. Namely, the Group is a party to a credit agreement with Swedbank AB, executed on 13 July 2011, and four finance lease agreements with UAB Swedbank lizingas (previously UAB Hansa Lizingas), executed on 17 November 2006. A summary of the material financing arrangements with financial institutions to which the Group is a party as at the date of the Prospectus is contained in: "*Business Overview – Material Constricts – Financing Agreements*".

As of the date of the Prospectus, Swedbank AB has offered the Group to execute a new credit agreement to refinance the Group's obligations under the credit agreement with Swedbank AB and finance lease agreements with Swedbank lizingas (described above). Under the offered terms, new credit shall be issued to the Vydmantai Wind Park following the merger of IRL Wind and Vydmantai Wind Park. The interest rate will be

floating and is equal to the 6 month Euribor plus a margin of 2.45%. The offer of Swedbank AB is valid until 14 April 2013. For more information, please see: "*Business Overview – Material Constricts – Financing Agreements – New credit agreement with Swedbank AB*".

As at 30 September 2012, the outstanding balance on the long-term loans was approximately LTL 49.76 million including financial instrument (interest rate swap) accounted at fair value of approximately LTL 6.64 million; the outstanding balance on the short-term bank loans (including the current portion of long-term loans) was approximately LTL 86 thousand; the outstanding balance on the long-term financial lease liabilities was approximately LTL 44.86 million and the outstanding balance on the short-term financial lease liabilities (including the current portion of long-term financial lease facilities) was approximately LTL 8.26 million.

Recent Developments after 30 June 2012

On 5 July 2012, the Group signed an annex to the finance lease agreement and agreed to return an additional portion of the finance lease liabilities in EUR 0.58 million (LTL 2 million) no later than 30 July 2012. The remaining lease liabilities schedule was subsequently adjusted.

On 29 June 2012, the Group entered into an interest swap rate transaction with Swedbank AB in order to hedge the floating rate interest under the credit agreement. According to the interest rate swap, the floating portion of the interest rate was fixed at 1.65%. The effective date of the agreement is 17 July 2012, and the termination date is 17 October 2020.

On 20 July 2012, the General Meeting of the Issuer approved the transformation of the Issuer from a private limited liability company to a public limited liability company, and agreed to increase the share capital up to LTL 20 million. For more information, please see: "*The Issuer – Share capital*".

On 17 September 2012, the Group incorporated a subsidiary in Poland named IRL POLSKA sp. z o.o.

On 22 October 2012 the transformation and the increased share capital of the Issuer was registered with the Register of Legal Entities of the Republic of Lithuania.

Working Capital Statement

The Management is of the opinion that the working capital available to the Group is sufficient to meet its present requirements for at least the next 12 months following the date of the Prospectus.

BUSINESS OVERVIEW

Overview

The Group is an independent supplier of electricity and the leading wholesale supplier of electricity in Lithuania in terms of volume of delivered electricity. The Group is also active in other Baltic States, namely Latvia and Estonia. The Group imports most of the electricity it trades from Russia and it is an authorized representative of the Russian energy holding company, INTER RAO UES, in the Baltic region. Moreover, since July 2011, the Group has been present in the electricity generation business after acquiring a wind park in Vydmantai, western Lithuania.

In the six month period ended 30 June 2012, the Group had consolidated revenue of LTL 453.35 million and net profit of LTL 30.78 million, 97.98% of revenue was generated by electricity trading, whereas 2.02% by electricity generation. In the year ended 31 December 2011, the Group recorded consolidated revenue of LTL 919.08 million and a net profit of LTL 61.20 million, 98.81% of revenue was generated by electricity trading, whereas 1.19% by electricity generation. In the year ended 31 December 2010, the Group recorded consolidated revenue of LTL 750.39 million and net profit of LTL 59.06 million. In the year ended 31 December 2009, the Group recorded consolidated revenue of LTL 104.54 million and net profit of LTL 14.95 million. In the years ended 31 December 2010 and 2009, all revenue was generated by electricity trading.

The Group's activities date back to 2002, when the Issuer was established. In 2003, the Issuer received its license as an independent electricity supplier, as well as permission to export electricity, and began electricity trading activities. In 2008, RAO Nordic OY, a wholly-owned subsidiary of the Russian energy holding company, INTER RAO UES, increased its stake in the Issuer from its original 18% acquired in 2005 to 51% of the Issuer's share capital.

Competitive Strengths and Advantages

Management believes that the Group benefits from the following competitive strengths and advantages:

Reliable supplier of a significant volume of electricity at competitive prices

The Group has developed a strategic partnership with its ultimate parent company, the Russian energy holding company, INTER RAO UES, which allows the Group to purchase a vast majority of the electricity it trades from its Russian partner. INTER RAO UES is a diversified energy holding company. INTER RAO UES is recognized as one of the leading players in the Russian electricity market and its shares are listed on the largest Russian stock exchange, MICEX – RTS. Its business includes power and heat generation, electricity supply, international energy trading, engineering, and the design and development of electric power infrastructure. Having its own substantial generation assets, INTER RAO UES has a significant amount of electricity supply capabilities and is the leading exporter and importer of electricity from/to Russia. As a consequence, Management believes that INTER RAO UES is a reliable and credible partner that can supply the Group with a significant volume of electricity at competitive prices.

The Group concluded a number of agreements with INTER RAO UES on the sale and purchase of electricity. Part of the agreements is long-term; their validity expires at the end of 2020 and shall be automatically renewed for another year in the event neither of the parties wishes to terminate the agreement at expiration.

Management believes that having such a strategic partner as INTER RAO UES positions the Group as a reliable supplier of the required volumes of electricity at competitive prices.

One of the leading players in wholesale electricity markets in Lithuania, Latvia and Estonia

The Group is the leading wholesale supplier of electricity in Lithuania in terms of the volume of delivered electricity. In the year ended 31 December 2011, the Group's market share of wholesale electricity trading on the power exchange in Lithuania amounted to 44%, according to the National Control Commission for Prices and Energy. Management believes that the Group is also the second wholesale electricity supplier, after the state-owned electricity suppliers, in Latvia and Estonia.

Market leadership allows the Group to capitalize on its increased scale of operations, as well as an increase in its client base. Thanks to its market position and breadth of experience, the Group can exploit market opportunities in a more efficient and cost effective manner.

Management believes that the position which the Group was able to achieve in the electricity market in Lithuania and in other Baltic States provides an opportunity for further growth and further strengthening of financial results.

Highly competent, experienced and growth-oriented management with extensive knowledge of the market

Management has extensive technical and business experience in the area of electricity trading. Mr Giedrius Balčiūnas has almost 10 years, Mr Jonas Garbaravičius has more than 12 years, Mr Vidas Čebatariūnas has more than 11 years, Mr Paulius Vazniokas has more than 6 years, Ms Aiste Vaitaityte has more than 9 and Mr Edvardas Važgėla has more than 35 years of relevant professional experience, both in private and state-

owned companies. Moreover, throughout their careers, the members of Management were engaged in the electricity trading business in Lithuania and other Baltic States as well as Scandinavia and therefore, have gained unique experience, knowledge and know-how, which is essential for success in the electricity trading market in this region. In particular, Management's strength lies in its experience working as an independent supplier in the liberalizing electricity markets of the region.

Management believes that the current composition of the management team secures a deep knowledge of electricity trading market, knowledge of the financial environment and experience in strategic development processes.

Established relationships with largest customers in the region, which positions the Group as a reliable partner with outstanding track record

The Group has been operating in the electricity trading market since 2002. Throughout this period, the Group has managed to build relations with the largest wholesale clients in the Baltic States. The Group cooperates with Lietuvos energija (Lithuanian state-owned energy holding company), Latvenergo (Latvian state-owned energy holding company), as well as Energijos tiekimas (an independent supplier wholly-owned by Lietuvos energija) and SBE Energy (private independent electricity supplier). Furthermore, since 2010, the Group has been supplying electricity to the largest electricity consumer in the Baltic States, ORLEN Lietuva AB.

Since starting its business operations, the Group has always fulfilled its electricity supply commitments by delivering the required volume of electricity to its counterparties. Thanks to this, the Group has been perceived as a reliable, trustworthy and reputable supplier of electricity. Furthermore, this allows the Group to maintain good relationships with its major customers, as well as monetize an outstanding track record while attracting new clients.

Management believes that the Group's established relations with its biggest clients position the it as a reliable and trustworthy business partner.

Sound financial results support further development of the Group

In the six month period ended 30 June 2012, the Group had consolidated revenue of LTL 453.35 million and net profit of LTL 30.78 million (net profit margin of 6.8%), as compared to consolidated revenue of LTL 419.68 million and net profit of LTL 31.17 million (net profit margin of 7.4%) in the six month period ended 30 June 2011. In the financial year ended 31 December 2011, the Group had consolidated revenue of LTL 919.08 million and net profit of LTL 61.20 million (net profit margin of 6.7%), as compared to consolidated revenue of LTL 750.39 million and net profit of LTL 59.06 million in the financial year ended 31 December 2010 (net profit margin of 7.9%), and consolidated revenue of LTL 104.54 million and net profit of LTL 14.95 million (net profit margin of 14.3%) in the financial year ended 31 December 2009.

In Management's opinion, these sound financial results of the Group allow and facilitate its further expansion, including, into the renewable energy generation sector in Lithuania and abroad.

Strategy

Being the leading wholesale electricity trader in Lithuania (44% market share in electricity sales on the power exchange in Lithuania in the year ended 31 December 2011), the Group believes that it can capitalise on significant market growth potential, as well as further liberalization of the electricity market in Lithuania and in neighbouring countries, by expanding its operations abroad and exploiting retail electricity markets. The Group's strategy rests on the key pillars described below.

Consolidating the leading wholesale electricity market position in Lithuania

As the Group is the leading wholesale supplier of electricity in Lithuania, in terms of volume of delivered electricity, it recognizes the business opportunities in further consolidation of the wholesale electricity market in Lithuania, as well as exploiting arising market opportunities.

The Group estimates that the wholesale electricity market in Lithuania will witness further growth once cross-border interconnections between Lithuania and Sweden (NordBalt), as well as between Lithuania and Poland (LitPol Link 1 and LitPol Link 2), are constructed (for further information, please see: "*Market Overview - Cross-border transmission lines and interconnections*"). Namely, trading opportunities will substantially increase when wholesale electricity clients from Sweden and Poland enter the Lithuanian market. Moreover, the Group will have the possibility to exploit potential market opportunities by purchasing electricity in Sweden and Poland in order to resell it in Lithuania, as well as in other Baltic States, and vice versa.

Furthermore, the Group expects that additional opportunities to consolidate its market position in Lithuania will arise after and if the Baltiiskaya NPP is constructed and commissioned in Kaliningrad Oblast, as the Group entered into an agreement with INTER RAO UES on potential export supplies of electricity to be generated by the Baltiiskaya NPP to the Baltic States. Additional market opportunities may arise, if and when Visaginas NPP is built and commissioned. However, as of the date of the Prospectus capacities of electricity transmission lines between Kaliningrad Oblast and Lithuania are highly utilised and they should be modernized in order to allow the increase in volume of electricity transmitted from Kaliningrad Oblast.

Increasing market share in the Latvian and Estonian electricity markets

The Group plans to capitalize on its strong position in the wholesale electricity markets in Latvia and Estonia (the Management believes that the Group is the second largest wholesale electricity supplier, after the state-owned electricity suppliers) by exploiting arising opportunities in the wholesale electricity market and by gaining more clients in the end-user segment and, as a consequence, increasing its overall sales in the Latvian and Estonian electricity markets.

The Group expects that the wholesale electricity market in Estonia and, to a lesser extent, Latvia will witness additional growth once the additional cross-border interconnection between Estonia and Finland (EstLink 2) is constructed (for further information, please see: *"Market Overview - Cross-border transmission lines and interconnections"*). Additional market opportunities in Latvia and Estonia may also arise as a consequence of the construction of NordBalt as well as LitPol 1 and 2.

Moreover, the Group estimates that demand for imported electricity in Estonia will increase as a consequence of the increase in prices of electricity generated in Estonia. This will be caused primarily by the expiry in 2015 of certain transitional periods regarding environmental protection granted to Narva power plants (the largest electricity generator with 79.49% of total installed electricity generation capacity in Estonia, in the year ended 31 December 2011) during Estonia's accession to the EU.

For a description of the Group's plan to gain more clients in the end-user segment of the electricity market in Latvia and Estonia, please see *"Expanding the Group's presence in end-users segment of electricity market and building more diversified consumer base in the Baltic States"* below.

Expanding the Group's presence in electricity generation from renewable sources and increasing generation capacity

The Group plans to increase its generation capacity from renewable energy sources and therefore, it is seeking opportunities to invest in renewable energy resources across the Baltic States. Furthermore, the Group may be engaged in relatively bigger acquisition projects across the Baltic Sea region, in particular, in Sweden, Finland and Poland, and such projects may be completed, together with INTER RAO UES or its subsidiaries. The Group plans to either acquire operational generation capacities or to develop greenfield projects. Although the Group's aim is to invest in wind farms, it may also consider investment in power plants generating energy from other renewable sources. In 2015, the Group targets to reach up to total 100 MW of new generation capacities under development and operation.

In Management's opinion, any increase in the Group's presence in the renewable energy market may increase revenue diversification and, as a consequence, facilitate stable growth of the Group.

Expanding the Group's presence in the end-user segment of electricity market and building more diversified consumer base in the Baltic States

The Group plans to expand its presence in the end-user segment of the electricity market in Lithuania and Latvia, as well as to enter the end-user segment of the electricity market in Estonia, along with the liberalization process in those countries. The primary goal of the Group is to continue attracting large end-users of electricity. The Group also intends to gain more market share by attracting medium and small end-users of electricity.

Increasing its presence in the end-user segment of the electricity market and building a diversified consumer base in the Baltic States will allow the Group to decrease negative influence of fluctuations in demand for electricity from its wholesale customers. This may significantly decrease any risks associated with the Group's business and facilitate its stable growth.

Entering Polish electricity market

The Group plans to expand its activities by entering the Polish electricity trading market. Management expects that operations in the Polish electricity market will begin in 2013 and develop in a stable manner. On 17 September 2012, the Group incorporated a subsidiary in Poland, named IRL POLSKA sp. z o.o.

At the beginning, the Group plans to concentrate its activities on trading with electricity purchased in Poland, as well as on developing full-scale electricity derivatives trading. This will allow the Group to gain experience in the Polish electricity market, as well as build its market position, which will be useful in further development of its activities in Poland.

In the medium- to long-term, the Group also plans to engage in cross-border electricity trading, once interconnection between the electricity grids of Poland and Lithuania has been constructed. The Group is also interested in exporting to Poland electricity generated by the Baltiiskaya NPP and Visaginas NPP. Furthermore, the Group aims to expand its operations into the end-user segment of the electricity market in Poland.

Moreover, the Group may develop various projects in the electricity market in Poland in cooperation with its strategic partner, INTER RAO UES, depending on the strategy of INTER RAO UES. Cooperation with INTER

RAO UES would substantially increase the scale of projects in which the Group could be engaged, as well as would allow the Group to leverage the experience of INTER RAO UES.

Principal Business Activities

The Group is an independent supplier of electricity and, as such, may engage in various forms of electricity trading. Moreover, the Group is active in the import and export of electricity. The Group is also present in electricity generation operations, as it owns a wind farm in Western Lithuania.

Electricity Trading

Overview

The Group is engaged in various forms of electricity trading: the purchase and sale of electricity under bilateral contracts with wholesalers of electricity, as well as on the power exchange; supply of electricity to end-users; provision of balancing services for end-users and other wholesalers of electricity; sale and purchase of regulating and balancing electricity for the purposes of systemic services provided by the transmission system operators. Furthermore, as the Group has permission to import and export electricity to and from Lithuania, it is engaged in the import of electricity from Russia and, to a lesser extent, from Belarus, as well as in export to these countries. The Group is also active in cross-border electricity trading between Lithuania and other EU Member States, namely Latvia and Estonia.

The table below presents data on the electricity trading activities of the Group, with a breakdown on each country for the periods indicated.

	For six months ended 30 June				For the year ended 31 December					
	2012		2011		2011		2010		2009	
	sale	purchase	sale	purchase	sale	purchase	sale	purchase	sale	purchase
	GWh									
Lithuania	2,965	1,160	2,975	985	6,217	2,270	4,682	124	540	582
Lithuania*	1,907	101	2,059	69	4,089	142	4,672	114	-	-
Latvia	591	106	577	47	1,564	47	771	166	25	65
Estonia	239	37	93	19	213	38	-	-	-	-
Russia	-	2,482	-	2,571	-	5,543	3	5,113	497	410
Belarus	109	120	-	23	-	96	-	53	-	7
Total	3,905	3,905	3,645	3,645	7,994	7,994	5,456	5,456	1,062	1,064
Total*	2,846	2,846	2,729	2,729	5,866	5,866	5,446	5,446	-	-

* Excluding equivalent trades on the power exchange

Source: Group data

In its electricity trading business, the Group is engaged in the following activities:

Cross-border trade in electricity

The Group imports electricity to Lithuania from third countries (non-EU Member States), mainly Russia, but also Belarus. It also occasionally exports electricity to Belarus. The Group also has the possibility to export electricity to Russia. The Group, as a holder of permissions for import and export of electricity is also engaged in the import and export of electricity for the purposes of regulation and balancing of the power system in order to cover undersupply and to distribute oversupply of electricity, and therefore the Group trades in regulating and balancing electricity with the transmission system operator.

The table below sets forth the volume of electricity imported and exported by the Group from/to the third countries for the periods indicated.

	For six months ended 30 June				For the year ended 31 December					
	2012		2011		2011		2010		2009	
	import	export	import	export	import	export	import	export	import	export
	GWh									
Russia	2,482	-	2,571	-	5,543	-	5,113	3	410	497
Belarus	120	109	23	-	96	-	53	-	7	-
Total	2,602	109	2,594	-	5,639	-	5,166	3	417	497

Source: Group data

The Group imports electricity in order to satisfy obligations under contracts executed with its clients, as well as to sell electricity on the market. A team of the Group's traders calculates the amount of electricity that it is obliged for delivery to clients during particular hours of the day and estimates the overall market demand in Lithuania, Latvia and Estonia. In response to prices and quantities offered by other market participants, the Group's traders submit orders for electricity to be imported.

Electricity imported from Russia is purchased exclusively from INTER RAO UES. The Group is party to a number of long-term agreements with INTER RAO UES on the sale and purchase of electricity (for more information, please see: *"Business Overview – Material Contracts – Electricity trading agreements – Agreements with INTER RAO UES"*). Depending on the particular agreement with INTER RAO UES, there are different arrangements on price and volume of electricity to be delivered to the Group. The Group has an annual arrangement, where the fixed price and volume of electricity the Group is obliged to purchase is set for the entire year. The Group has also monthly arrangements, where the fixed price and volume of electricity the Group is obliged to purchase is set for each month. Prices and volumes under annual and monthly arrangements depend on, *inter alia*, projected market prices in Russia, as well as the projected cost of electricity generated by INTER RAO UES. Finally, the Group has the possibility to purchase electricity on a daily basis, with volumes and prices for each hour proposed by INTER RAO UES, depending on the current market situation in Russia (e.g., spot market prices in Russia, current cost of electricity generated by INTER RAO UES, weather conditions, etc.). Such structure of arrangements allows the Group to conduct its business efficiently, as annual contracts serve as the basis for estimating electricity sales volumes and prices for the year and monthly contracts for a month, and daily trading helps to maximize the Group revenue and helps to adjust volumes and prices of its purchases to the market conditions.

Electricity imported from and exported to Belarus is traded with the Belorussian state-owned energy company, Belenergo. The Group is party to several agreements with Belenergo on the sale and purchase of electricity (for more information, please see: *"Business Overview – Material Contracts – Electricity trading agreements – Agreements with Belenergo"*).

The Group's import from and export to Belarus is carried depending on market conditions.

The import of electricity from Russia is done with the use of electricity transmission lines to Lithuania, either from Kaliningrad Oblast (600 MW) or via Belarus (1300 MW). Electricity from Belarus is delivered through direct electricity transmission lines from Belarus to Lithuania (1300 MW) and to Belarus through transmission lines from Lithuania to Belarus (1350 MW). It is also possible to import electricity from Russia directly to Estonia and Latvia

Pursuant to the inter-transmission system operator compensation mechanism elaborated by the European transmission system operators, following respective regulatory and contractual arrangements, the Group is obliged to pay a so-called an input fee for the actual volume of electricity imported/exported to/from any third countries (non-EU countries, e.g., Russia and Belarus). Since March 2011, the input fee is equal to 0.8 EUR/MWh.

Apart from imported electricity from Russia and Belarus, the Group cross-border delivers to the Lithuanian internal electricity market the electricity purchased in Latvia and/or Estonia. The Group purchases electricity from market participants active in Latvia under bilateral contracts based on various pricing arrangements and on the power exchange in Estonia, which is operated by Nord Pool Spot AS.

Wholesale electricity trading

The Group is engaged in wholesale electricity trading (purchase and sale of electricity under bilateral contracts with other wholesalers of electricity, as well as on the power exchange) in Lithuania, Latvia and Estonia.

The Group sells all of the electricity it cross-border delivers to the Lithuanian internal market on the power exchange since, in accordance with respective regulations, all electricity cross-border delivered to the Lithuanian internal electricity market, including those volumes imported from the third countries and those delivered from the EU Member States, has to be sold on the power exchange. Then the Group buys the electricity on the power exchange in a volume corresponding to its contractual obligations with clients. Sale and purchase orders are submitted for the same price and trades are executed at the market price. Only then does the Group sell electricity to its wholesale customers in Lithuania and Latvia according to bilateral contracts. The price of electricity sold under bilateral contacts is the market price, adjusted for variances depending on the electricity trading pattern of the customer and contractual arrangements (e.g., fixed on annual or monthly basis or agreed in daily delivery schedules). Alternately the Group may sell electricity to its customers based on future contracts, under which the Group undertakes to sell agreed volumes of electricity on the power exchange at agreed price and its customer undertakes to purchase on the power exchange the same volumes at the same agreed price (if market price differs, the parties agree on mutual compensation of the price margin between the market price and the agreed one).

Some portion of electricity is also sold directly through Nord Pool Spot AS in Lithuania and Estonia to other market participants. Trades on the power exchange are executed at the market price.

Apart from importing electricity, the Group also purchases the electricity it trades from other wholesalers of electricity in Lithuania and Latvia under bilateral contracts based on various pricing arrangements, as well as on Nord Pool Spot AS in Lithuania and Estonia based on market price.

The table below sets forth volumes of the Group's wholesale electricity trading activities for the periods indicated.

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
			GWh		
Total wholesale volume	3,905	3,645	7,994	5,456	1,062
Total wholesale volume*	2,846	2,729	5,866	5,446	1,062

* Excluding equivalent trades on the power exchange

Source: Group data

The major wholesale clients of the Group include (presented in alphabetic order): Energijos tiekimas (wholly-owned subsidiary of Lietuvos energija), Latvenergo, Lietuvos energija, ORLEN Lietuva and SBE Energy. The Group sells electricity based on different time and price schedules, depending on agreements with customers. For further details regarding agreements with some of the above mentioned clients, please see: "Business Overview – Material Contracts – Electricity trading agreements".

The table below sets forth volumes of the Group's sales to its major wholesale clients for the periods indicated.

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
			GWh		
Client A	1,247	1,414	2,808	3,581	540
Client B	202	252	524	554	-
Client C	295	193	425	124	-
Client D	18	66	78	129	-
Client E	112	123	233	249	-
Client F	573	577	1,535	771	15
Client G	109	-	-	-	-
Client H	239	93	213	-	10
Client I	18	-	29	-	-
Client J*	33	11	21	35	-
Client K	-	-	-	3	497
Total	2,846	2,729	5,866	5,446	1,062

* Includes aggregation of few clients with minor sales contracts

Source: Group data

The major wholesale supplier of the Group is Latvenergo. The Group purchases electricity from Latvenergo on daily arrangements. For further details regarding agreement with Latvenergo, please see: "Business Overview – Material Contracts – Electricity trading agreements – Agreements with Latvenergo".

Supply of electricity to end-users

The Group is also active in supplying electricity to end-users of electricity. As at the date of the Prospectus, the Group sells to end-users of electricity in Latvia (began during the six month period ended 30 June 2012) and Lithuania (started in July 2012). In the six month period ended 30 June 2012, the Group supplied approx. 1 GWh to end-users in Latvia.

Sale of electricity to end-users of electricity is made pursuant to bilateral agreements, which are usually valid until the end of a given year. The usual terms of agreement with end-users of electricity provide for a 60-day payment term and, to a lesser extent, payments in advance.

The Group is expanding its client base in various ways. In Lithuania, the Group has dedicated employees responsible for marketing and the acquisition of new clients. In Latvia, this task is entrusted to the electricity traders. Furthermore, the Group participates in tenders to choose an electricity supplier, which are usually organised by relatively large end-users, as well as state-owned companies.

Risk management

The Group's electricity trading is partially executed based on orders submitted by a team of traders on a daily basis in response to market conditions, upon consideration of the Group's contractual obligations and market demand. Electricity trading operations are executed using software provided by the electricity exchange (Nord Pool Spot AS) platform or platforms of clients/suppliers.

In order to mitigate risks associated with electricity trading, the Group has introduced respective policies to supervise its traders' activity. Namely, each order for electricity purchase or sale is made by two employees: one employee inputs trading parameters, whereas the other (usually the commercial director) reviews and confirms them.

Apart from internal risk management procedures, trades made by the Group are checked by its counterparties, the power exchange and transmission system operators. Electricity trades made through Nord Pool Spot AS are checked by the power exchange itself for arithmetical accuracy and systematic errors, as well as for unusual activities. Furthermore, each day the Group is obliged to present to the transmission system operator its plan for deliveries of electricity for the following day. The transmission system operator checks whether the Group is able to deliver the planned volume of electricity and, if required, checks the availability of balancing services to be provided to the Group. Moreover, each day the Group is obliged to deliver to the Lithuanian transmission system operator plans for import and export of electricity from/to Russia or Belarus.

Regarding the management of credit risk, the Group is engaged in credit valuation and constant monitoring of its clients. In such activities, the Group uses an internally designed software which allows for the collection of information from clients and prospective clients, which is needed to evaluate client's credit risk.

Licenses and permits

The Issuer has a valid license for the independent supply of electricity in Lithuania issued by the National Control Commission for Prices and Energy on 7 March 2003. The license enables the Issuer to participate in the wholesale and retail trade in electricity in the internal electricity market of Lithuania. The license is valid for an indefinite time period.

The Issuer also has the following valid permissions for import and export of electricity issued for an indefinite time period:

- permission for import of electricity to Lithuania for the purposes of regulation and balancing of the power system executed by the transmission system operator, issued on 31 May 2004;
- permission for import of electricity to Lithuania for the purposes of its sale to Lietuvos energija AB, up to 2.5 TWh, issued annually, from 14 December 2005;
- permission for export of electricity from Lithuania to Belarus, Russia and Poland, issued on 23 October 2003; and
- permission for export of electricity from Lithuania for the purposes of exporting the regulating, balancing, peak and non-peak electricity purchased from the transmission system operator, issued on 31 May 2004.

SIA INTER RAO Latvia, a Latvian subsidiary of the Issuer, received a license from the PUC for electricity trading. The license was issued on 1 March 2010, and is valid until 28 February 2015.

As of the date of the Prospectus, the Group does not require any license for activities conducted in Estonia.

Electricity Generation

Overview

The Group owns the wind park in Vydmantai, which it acquired in July 2011.

The wind park is located in Western Lithuania, near the Baltic Sea coast. The wind park in Vydmantai consists of 15 high-quality Enercon E-70 wind turbine generators, with 2 MW of installed capacity and 85 m hub height and 3 blades each. The total generation capacity of the wind park in Vydmantai is equal to 30 MW. The wind park in Vydmantai is connected to the electricity transmission grid operated by LITGRID AB.

The wind park in Vydmantai Wind Park began operations in 2006. It was one of the first wind parks to be commissioned in Lithuania and is one of the largest in terms of generated electricity (as of 31 December 2011, generation capacity of the wind park in Vydmantai was equal to 16.2% of the total generation installed capacity of all Lithuanian wind parks). For more information please see "*Market Overview – Lithuania – Electricity generation*".

The Vydmantai Wind Park is eligible for state support for renewable energy generation. As a consequence, the Vydmantai Wind Park was granted a feed-in tariff, which is in place until 31 December 2020. Under the feed-in tariff, the Vydmantai Wind Park shall be paid 300 LTL/MWh (app. 87 EUR/MWh) for any electricity it sells. The feed-in tariff is fixed and not subject to inflationary adjustments. The Vydmantai Wind Park is not required to fulfil regulatory and balancing obligations.

The table below presents data on the volume of electricity sold by Vydmantai Wind Park during the periods indicated (however, the Group acquired wind park in Vydmantai in July 2011).

	For six months ended 30 June		For the year ended 31 December		
	2012	2011	2011	2010	2009
	GWh				
Total volume	30.55	32.38	70.25	54.54	57.44

Source: Group data

The average wind speed at the wind park in Vydmantai was 6.14 m/s during the period from January 2007 to June 2012, whereas the average availability factor was 98.77% due to scheduled maintenance during the same period. The average value for net efficiency factor from the beginning of operations until June 2012 was 24.21%.

Customers

All volumes of electricity generated by the wind park in Vydmantai and delivered to the electricity transmission grid are purchased by Lietuvos energija AB. The Vydmantai Wind Park receives part of the feed-in tariff directly from Lietuvos Energija AB, with the transmission system operator (LITGRID AB) paying the remainder. For more information on agreements with Lietuvos energija AB and LITGRID AB, please see *"Business Overview – Material Contracts – Electricity generation agreements"*.

Suppliers

In order to maintain the equipment installed in the wind park in Vydmantai, the Group outsources external maintenance services. Maintenance of wind turbines is carried out by the German company, Enercon GmbH, whereas maintenance of the electrical installations (e.g., transformer equipment and cables) is carried out by the Lithuanian company, UAB Axis Power.

The agreement with Enercon GmbH for maintenance services is valid for 12 years after the commencement date of each of the 15 turbine generators (i.e., until 2018 or 2019, depending on date of commissioning of each turbine generator).

The agreement with UAB Axis Power for the maintenance of electrical installation services is valid until 19 March 2013. The agreement will be extended for another 12 months if neither party announces termination of the agreement within 90 days of its expiry.

Licenses and permits

The Vydmantai Wind Park has a valid permission for generation of electricity at its 30 MW wind park, issued by the Ministry of Energy of the Republic of Lithuania on 10 October 2011. The permission is valid for an indefinite time period.

Investments

The Group did not undertake any significant investments during the financial years ended 31 December 2009 and 2010.

In the financial year ended 31 December 2011, the Group executed acquisition of the wind park in Vydmantai. The purchase price was equal to LTL 77.20 million (EUR 22.36 million). The acquisition was financed through internal sources of the Group, as well as through a credit from Swedbank AB. For more information on the credit agreement with Swedbank AB, please see: *"Business Overview – Material Contracts – Financing Agreements – Credit agreement with Swedbank AB"*.

In May 2012, the Group purchased office premises of 397.7 m² in Vilnius, Lithuania, for its headquarters. The purchase price was equal to LTL 3.95 million.

Material Assets

Real estate

The Group owns real estate in Lithuania. The Issuer is owner of a non-residential premises of 397.7 m² used as a headquarters, along with parking lots, located on A. Tumėno 4, Vilnius (Business Center "Vilniaus vartai").

Furthermore, the Issuer owns real estate located on Vytauto 157, Palanga. The Issuer is the owner of 5 apartments for recreation purpose (together with 5 auxiliary facilities, parking lots, engineering structures and parts of the land plot designated for recreation purpose). The real estate property is part of a complex of apartments named "Vanagupes namai" and was purchased in 2007 from the joint venture, UAB Alproka. The net book value of the real estate as of 31 December 2011, was LTL 0.66 million. Based on the sale price of other apartments, Management believes that the fair value of the apartments owned is higher. The Issuer intends to dispose of the described real estate. For information on investment in UAB Alproka, please see: *"The Issuer – Subsidiaries – UAB Alproka"*.

The Vydmantai Wind Park leases 16 plots of land located in the Kretinga District (in Kiauleikiu, Kveciu and Rudaiciu villages). The plots of land used by the wind park are where the 15 wind turbine generators (one turbine per plot of land), a transformer substation, a network control panel building, and a fence, are installed. All plots of land are leased from natural persons and all lease agreements are registered with the Real Estate Register. The plots of land are leased until June 2055. The plots of land are subleased to UAB Swedbank Lizingas (for more information, please see: “Business Overview – Material Contracts – Finance lease agreements with Swedbank lizingas”).

Additionally, certain Group Companies lease or sub-lease, *inter alia*, office and administrative premises in Kaunas, Riga and Tallinn.

Property and Equipment

The Vydmantai Wind Park uses various equipment necessary for operation of a wind park: (i) 15 Enercon E-70 wind turbine generators with 2 MW of installed capacity and 85 m hub height each; (ii) 110/20-kV transformer equipment; (iii) 20 kV cable and underground connection cable; (iv) various engineering construction (e.g., approach roads to wind power stations and transformer substation, foundation piles to wind power stations). The equipment described above is leased under finance lease agreements (for more information, please see: “Business Overview – Material Contracts – Finance lease agreements with Swedbank lizingas”).

Additionally, the Group owns and leases passenger cars, out of which nine are leased under operational lease agreements.

Intellectual Property

As at the date of the Prospectus, the Issuer owns two “INTER RAO LIETUVA” figurative trademarks, which are registered in Lithuania. The Group applied for registration of its trademarks in Lithuania, Latvia, Estonia and Poland. As at the date of the Prospectus the registration procedure is pending. The temporary protection of these trademarks was established according to the local law regulations. Furthermore, the Group owns the following Internet domains: interrao.lt, interrao.lv, interrao.ee, interrao.eu.

Information Technology

In its business operations, the Group uses basic office software, as well as an internally designed program allowing the collection of information from clients and prospective clients that is needed to evaluate client credit risk.

Electricity trading operations are executed using software provided by the electricity exchange (Nord Pool Spot AS) platform or platforms of the Group's clients/suppliers.

Employees

In the six month period ended 30 June 2012, and years ended 31 December 2011, 2010 and 2009, the Group employed 29, 24, 18 and 13 employees, respectively.

The table below presents data on the headcount of employees divided into categories, in the periods indicated.

	As of 30 June	As of 31 December		
	2012	2011	2010	2009
Management	8	8	5	4
Sales Managers, including Traders	6	4	4	3
PR & Marketing Staff	2	2	1	-
Project managers	2	3	2	2
Technical staff	3	1	1	-
Office Staff	8	6	5	4
Total	29	24	18	13

Source: Group data

As of 30 June 2012, 26 of the Group's employees were employed in Lithuania and 3 were employed in Latvia. No employee was employed in Estonia.

The Group recognises the importance of its staff in operating a stable and efficient business, and in providing the highest level of customer service and, accordingly, the Group strives to recruit, train, reward and retain only the best personnel. The Group usually introduces a remuneration system comprised of a standard gross salary, paid monthly, as well as bonuses, based on the discretionary decision of the Management.

There are no trade unions or workers councils registered in the Group Companies. There are no collective bargaining agreements concluded in the Group Companies.

As at the date of this Prospectus, the Group's employees, except for Mr Jonas Garbaravičius, Mr Giedrius Balčiūnas, Mr Vidas Čebatariūnas, Mr Saulius Garbaravičius and Mr Nerijus Veikša, do not have any direct or indirect shareholdings in the Issuer, do not hold any stock options or other rights to the Shares and do not participate in any other way in the capital of the Issuer. There are no arrangements relating to such participation.

Insurance

The Group maintains valid insurance for the real estate it owns. In most cases, it is all-risk insurance. Furthermore, vehicles which are owned or leased by the Group are insured with all-risk insurance and civil liability insurance.

The Vydmantai Wind Park holds the following types of insurance: civil liability insurance, business interruption insurance, as well as enterprise and organisation property insurance.

The Group believes that it maintains insurance coverage at the level required by applicable laws and regulations. Please see: *"Risk Factors – Risks Relating to the Group's Business – The Group's insurance coverage may be insufficient for any incurred losses"*.

Legal and Arbitration Proceedings

The Group is routinely involved in litigation, either as a plaintiff or defendant, in various legal disputes arising from the ordinary course of business.

As of the date of the Prospectus, there are no governmental, legal or arbitration proceedings involving the Issuer and/or any of the Group Companies which could have any significant effect on the Issuer and/or the Group's financial position or profitability. In the 12 months prior to the date of the Prospectus, there were no governmental, legal or arbitration proceedings involving the Issuer and/or any of the Group Companies which could have any significant effect on the Issuer and/or Group's financial position or profitability.

Material Contracts

As of the date of the Prospectus, the agreements described below are material due to their significant effect on the operations of the Issuer and its Group. The Group depends on several types of agreements that the Management considers material to the Group by reason of their importance to the Group's operations or financing: (i) agreements on electricity sale and purchase, in particular, with INTER RAO UES; (ii) agreements regarding participation in power exchanges, (iii) financial agreements concluded with respect to the Vydmantai Wind Park; and (iv) agreements related to the generation of electricity by the Vydmantai Wind Park.

Electricity Trading Agreements

Agreements with INTER RAO UES

The Group is party to a number of agreements with INTER RAO UES on the sale and purchase of electricity.

The table below summarizes the existing agreements between the Group and INTER RAO UES.

Date	Validity term	Seller	Buyer	Electricity volume and price	Delivery terms (Incoterms 2000)
22 October 2008	31 December 2012	INTER RAO UES	the Issuer	Delivery of electricity to Lithuania, Estonia and/or Latvia in order to regulate imbalances in electricity systems of those countries Price and volume agreed on a monthly basis, following delivery schedules accepted by the parties for deliveries upon the transmission system operator's dispatch notification	DAF Russia-Lithuania/Latvia/Estonia
30 October 2008	31 December 2020	INTER RAO UES	the Issuer	Price and volume agreed on daily basis, following delivery schedules accepted by the parties	DAF Lithuania
5 March 2009	31 December 2020	INTER RAO UES	the Issuer	Fixed price and volume agreed for one-year period	DAF Lithuania
22 December	31 December	the Issuer	INTER RAO	Price and volume agreed	DAF Estonia – Russia

2009	2020		UES	on daily basis	DAF Latvia – Russia DAF Lithuania – Belarus DAF Lithuania – Russia (Kaliningrad Oblast)
22 December 2009	31 December 2020	the Issuer	INTER RAO UES	Delivery of electricity to Belarus Price and volume agreed on daily basis	DAF Lithuania - Belarus
27 April 2010	31 December 2020	INTER RAO UES	the Issuer	Price and volume agreed on daily basis	DAF Russia - Estonia DAF Russia – Latvia DAF Russia (Kaliningrad Oblast) – Lithuania DAF Belarus - Lithuania
20 May 2010	31 December 2020	INTER RAO UES	the Issuer	Price and volume agreed on a monthly basis, following delivery schedules accepted by the parties	DAF Estonia/Lithuania
7 September 2010	31 December 2012	INTER RAO UES	the Issuer	Price and volume agreed on a monthly basis, following delivery schedules accepted by the parties	DAF Estonia/Lithuania
25 March 2011	31 December 2012	the Issuer	INTER RAO UES	Delivery of electricity upon activation of emergency power reserve Price and volume agreed on a monthly basis, following delivery schedules accepted by the parties for deliveries upon the transmission system operator's dispatch notification	DAF Russia/Belarus
25 March 2011	31 December 2012	INTER RAO UES	the Issuer	Delivery of electricity upon activation of emergency power reserve Price and volume agreed on a monthly basis, following delivery schedules accepted by the parties for deliveries upon the transmission system operator's dispatch notification	DAF Lithuania/Latvia/Estonia

Source: Group data

Each of the agreements presented in the table above can be terminated by joint agreement by the parties. Furthermore, each of the agreements contain a provision that it shall be extended for each subsequent calendar year if none of the parties terminates the agreement at least 30 days prior to its expiry.

Apart from the agreements described above, the Group entered into an agreement with INTER RAO UES, dated 3 March 2011, on the implementation of export supplies of electricity from Baltiiskaya NPP. The agreement is valid through 31 December 2036, and regulates cooperation between the Group and INTER RAO UES on potential export supplies of electricity to be generated by the Baltiiskaya NPP, which is currently under construction in Kaliningrad Oblast, Russia. The agreement itself contains no mandatory commitments for the sale and purchase of electricity, as all relevant terms and conditions for the sale and purchase of electricity (including volumes, schedules and prices) shall be determined by separate agreements between the Group and INTER RAO UES, after and if Baltiiskaya NPP will be constructed, commissioned and operational. The Group and INTER RAO UES also undertook to cooperate in the analysis and verification of the feasibility of various technical and commercial options for export of electricity from Kaliningrad Oblast. The prospective date

for start of electricity trading is 2017, depending on technical capabilities (including actual operational status of the Baltiiskaya NPP). The agreement can be terminated by joint agreement by the parties, as well as under unilateral written notification by any party at least 30 days prior to its expiry.

Agreements with Belenergo

The Issuer is a party to the agreements concluded with Belenergo, a Belorussian state-owned energy company, on 6 February 2009, 25 May 2009 and 27 April 2012 on the sale and purchase of electricity. The main conditions of these agreements are the following:

- the agreement shall be automatically renewed for each subsequent year if none of the parties terminates the agreement at least 2 months prior to its expiry;
- electricity is sold and purchased under Incoterms DAF Belarus-Lithuania;
- the preliminary price is set under the agreement, whereas the binding price and quantities are agreed under a monthly or day-ahead hourly delivery schedules;
- the agreement can be terminated by joint agreement by the parties, as well as by unilateral written notification by either party at least 30 days - 2 months prior to its expiry, depending on the agreement.

Agreements with Latvenergo

The Issuer is party to the following agreements on the sale and purchase of electricity with Latvenergo, a Latvian state-owned energy company:

- Agreement, dated 9 April 2009, on the delivery of electricity upon activation of emergency power reserve. The Issuer acts as seller and Latvenergo as buyer. The initial term of the agreement was 31 December 2009, and the agreement was renewed through 31 December 2012. The subject of the agreement is the sale and purchase of electricity for regulation of the power system imbalances upon activation of the emergency power reserve under dispatch notification by the transmission system operators for electricity. Electricity is sold and purchased under Incoterms DAF Russia-Latvia. The price is not defined in the agreement; the binding price and quantities are agreed under each particular delivery schedule. The agreement can be terminated by joint agreement of the parties.
- Agreement, dated 21 September 2009, on the sale and purchase of electricity. The Issuer acts as seller and Latvenergo as buyer. The initial term of the agreement was 31 December 2010, and the agreement was renewed through 31 December 2012. Electricity is sold and purchased under Incoterms DAF Latvia. The price is not defined in the agreement; the binding price and quantities are agreed under day-ahead hourly schedules. The agreement can be terminated by joint agreement of the parties.
- Agreement, dated 25 March 2010, on the sale and purchase of electricity. The Issuer acts as buyer and Latvenergo as seller. The initial term of the agreement was 31 December 2010, and the agreement was renewed through 31 December 2012. Electricity is sold and purchased under Incoterms DAF Latvia-Lithuania. The price is not defined in the agreement; the binding price and quantities are agreed under day-ahead hourly schedules. The agreement can be terminated by joint agreement of the parties.

Agreements with Lietuvos Energija AB

The Issuer is party to the following agreements with Lietuvos energija AB on the sale and purchase of electricity:

- Agreement, dated 9 November 2007, on the sale and purchase of electricity (from 9 September 2010, was restructured as an OTC futures contract). The Issuer acts as seller and Lietuvos energija AB as buyer. The agreement is valid until 31 December 2012. Under the agreement, the Issuer agrees to sell and Lietuvos energija AB agrees to purchase electricity at the Lithuanian power exchange (Nord Pool Spot AS). The agreement can be terminated by joint agreement of the parties.
- Agreement, dated 21 September 2011, on the sale and purchase of electricity. The Issuer acts as seller and Lietuvos Energija AB as buyer. The agreement is valid through 31 December 2012. The price is not defined in the agreement; the binding price and quantities are agreed under day-ahead hourly schedules. The agreement can be terminated by joint agreement of the parties.

Agreements with LITGRID AB

The Issuer is a party to the following agreements designed for transmission grid services within the internal electricity market in Lithuania, including balancing, system regulation and use of the transmission, grid and entered with the Lithuanian transmission system operator for electricity, LITGRID AB:

- Agreement, dated 15 June 2012, on the sale and purchase of balancing electricity. Pursuant to the agreement, the Issuer acts as a balance service provider and commits itself to trade in balancing electricity with LITGRID AB in the event of any electricity trading imbalances incurred by the Issuer itself,

or by other market participants. The price for electricity is calculated for each particular trading hour following the terms and conditions established by the National Control Commission for Prices and Energy.

- Agreement, dated 31 December 2009, on systemic services. The parties agreed to the sale and purchase of regulation electricity upon activation of the power reserve (both directions of sale possible) following the schedules agreed between the transmission system operators of Lithuania and Russia. Both sale and purchase are optional and depend on the ability of the Issuer to deliver electricity as required by the transmission system operators for power system balancing services.
- Agreement, dated 31 December 2010, on service for use of the transmission grid. Pursuant to the agreement, the Issuer obtains the right to use transmission grid capacities for cross-border electricity trading with third countries (non-EU countries). The amount of service equals the quantities of electricity declared for cross-border trading with third countries. The market input fee is equal to 0.8 EUR/MWh, as set under ITC Clearing and Settlement Agreement, dated 22 March 2011, entered into by the European transmission system operators as members of ENTSO-E.

Agreement with ORLEN Lietuva AB

The Issuer is party to an agreement with ORLEN Lietuva AB, dated 13 June 2012, on the sale and purchase of electricity. The Issuer acts as seller and ORLEN Lietuva AB as buyer. The agreement is valid till 31 December 2012. Delivery is made under separately agreed hourly delivery schedules on a weekly basis. The agreement can be terminated by joint agreement of the parties.

Agreement with UAB Energijos tiekimas

The Issuer is party to an agreement with UAB Energijos tiekimas, dated 29 May 2012, on the sale and purchase of electricity. The Issuer acts as seller and UAB Energijos tiekimas as a buyer. The agreement is valid till 31 December 2012. The agreement can be terminated by joint agreement of the parties.

Electricity Exchange Trading Agreements

Agreements with Nord Pool Spot AS

The Issuer is a party to the following agreements with Nord Pool Spot AS, an operator of the power exchange in Lithuania and Estonia:

- Agreement, dated 7 June 2012, on participation in the NPS Elspot and Elbas markets. The agreement was concluded for an indefinite period. Pursuant to the agreement, the Issuer obtains rights with regard to electricity trading on the NPS Elspot (day-ahead) and Elbas (intraday) markets of Nord Pool Spot AS. The agreement was entered into for the purposes of electricity trading on NPS Lithuania (Elspot). Nord Pool Spot AS trading rules are binding. Trading fees are specified by rules of Nord Pool Spot AS. Pursuant to the agreement, minimum collateral equal to EUR 30,000 must be established. Termination of the agreement is not restricted by the agreement.
- Agreement, dated 6 December 2010, on participation in the NPS Elspot and Elbas markets. The agreement was concluded for an indefinite period. Pursuant to the agreement, the Issuer obtains rights with regard to electricity trading on the NPS Elspot (day-ahead) and Elbas (intraday) markets of Nord Pool Spot AS. The agreement was entered into for the purposes of electricity trading on NPS Estonia (Elspot). Nord Pool Spot AS trading rules are binding. Trading fees are specified by Nord Pool Spot AS. Pursuant to the agreement, minimum collateral equal to EUR 30,000 must be established. Termination of the agreement is not restricted by the agreement.

Agreement with BALTPOOL UAB

The Issuer is a party to an agreement, dated 7 June 2012, with BALTPOOL UAB on participation in the Lithuanian exchange for derivatives of the electricity market. The agreement was concluded for an indefinite period. Pursuant to the agreement, the Issuer obtains rights with regard to participation in the Lithuanian exchange for derivatives of the electricity market operated by BALTPOOL UAB, which allows bilateral OTC trading (futures and forward contracts), applying for clearing services provided by BALTPOOL UAB and anonymous trading in standardized products on the exchange. Trading fees are specified by the rules of BALTPOOL UAB. The agreement can be terminated by unilateral written notification by either of the parties at least 3 months prior to the intended termination.

Electricity Generation Agreements

Agreement with Lietuvos energija AB

On 30 December 2011, the Vydmantai Wind Park concluded an agreement with Lietuvos energija AB on the sale and purchase of electricity. The agreement is valid through 31 December 2012.

In accordance with the agreement, the Vydmantai Wind Park shall sell and Lietuvos energija AB shall purchase electricity generated at the wind park operated by Vydmantai Wind Park. All electricity generated at the wind park and delivered to the transmission grid shall be purchased by Lietuvos energija AB. Lietuvos

energija AB is also obliged to sell, and Vydmantai Wind Park is obliged to purchase, any electricity required for its own needs at the wind power park.

The price for electricity sold by the Vydmantai Wind Park is equal to 45 EUR/MWh. In this case, the price set by the National Control Commission for Prices and Energy is applied as a part of the total feed-in tariff guaranteed for electricity produced from renewable energy sources (87 EUR/MWh). The remaining part of the feed-in tariff is being paid to Vydmantai Wind Park under the agreement with LITGRID AB, dated 31 December 2010, described below.

Agreements with LITGRID AB

The Vydmantai Wind Park concluded the following agreements with LITGRID AB:

- The Vydmantai Wind Park and LITGRID AB are parties to the agreement on public service obligations, dated 31 December 2010 and shall remain valid until the end of scheduled feed-in tariffs (the year 2020) unless the terms and conditions for feed-in tariffs payment change. LITGRID AB undertakes to pay Vydmantai Wind Park for public service obligations, *i.e.*, for all electricity produced at the wind power park operated by Vydmantai Wind Park and delivered to the electricity transmission grid. The price for electricity produced and delivered by Vydmantai Wind Park is equal to 42 EUR/MWh and is calculated as the total feed-in tariff (87 EUR/MWh) minus the fixed market price, which is paid to Vydmantai Wind Park under an agreement with Lietuvos energija AB, dated 30 December 2011, described above.
- The Vydmantai Wind Park and LITGRID AB are parties to the agreement on grid connection, dated 30 August 2005. Pursuant to the agreement LITGRID AB connected the 30 MW wind park to the high-voltage transmission grid of electricity and is obliged to maintain its connection for the entire operational time of the wind park. The agreement is valid until the wind park is operational and related electrical installations are connected to the electricity transmission grid. According to the agreement, the liability of the Vydmantai Wind Park is extended and includes all and any damages to LITGRID AB caused by the fault or negligence of the Vydmantai Wind Park.
- The Vydmantai Wind Park and LITGRID AB are parties to the agreement on electricity transmission service, dated 17 August 2010. LITGRID AB undertakes to transport electricity purchased by Vydmantai Wind Park, for its own electricity consumption, up to the ownership point of electrical installations in the "Vėjas-1" 110/20 kV transformer substation. The regulated tariff for the electricity transmission services, as established by the National Control Commission for Prices and Energy and reviewed annually, is applied.

Financing Agreements

Credit agreement with Swedbank AB

On 13 July 2011, IRL Wind entered into a credit agreement with Swedbank AB. The amount of credit was EUR 12.6 million and was used for partial financing of the acquisition of the wind park in Vydmantai. Credit maturity is 13 July 2013. The interest rate is floating and is the 6-month Euribor plus a margin of 2.95%. Interest rate applicable as of 31 December 2011 was 4.77%. In addition, on 29 June 2012 IRL Wind entered into an interest swap rate transaction with Swedbank AB with effective date on 17 July 2012 in order to hedge floating rate interest under the credit agreement. According to the interest rate swap, the floating portion of the interest rate was fixed at 1.65%.

The credit agreement with Swedbank AB is secured by the following collateral:

- pledge of 100% of shares in IRL Wind, held by the Issuer, in favour of Swedbank AB;
- pledge of 100% of shares in the Vydmantai Wind Park, held by IRL Wind, in favour of Swedbank AB;
- the credit agreement also serves as an agreement on financial collateral without transfer of ownership, according to which all current and future funds in the accounts of IRL Wind opened with Swedbank AB are pledged in favour of Swedbank AB.

Furthermore, according to the credit agreement with Swedbank AB, IRL Wind shall be merged into the Vydmantai Wind Park by 13 July 2013.

The credit agreement with Swedbank AB provides, among others, the following events of default:

- if the amount of shares owned by the IRL Wind in the Vydmantai Wind Park shall fall below 100%;
- if the amount of shares owned by the Issuer in IRL Wind shall fall below 100%;
- if the Vydmantai Wind Park does not perform its obligation under the finance lease contracts concluded with Swedbank AB (described below under: "*Finance lease agreements with Swedbank lizingas*"), or if other termination conditions of the finance lease contracts are triggered.

Finance lease agreements with Swedbank lizingas

On 17 November 2006, UAB Vėju spektras (predecessor of the Vydmantai Wind Park) entered into four finance lease agreements with UAB Hansa Lizingas (now UAB Swedbank lizingas) regarding the purchase of equipment and construction of various engineering items necessary for operation of a wind park. As of the date of the Prospectus Vydmantai Wind Park is the financed party pursuant to the following finance lease agreements:

- Finance lease agreement on the financing of the construction of: approach roads to 15 wind power stations and transformer substation, foundation piles to 15 wind power stations, foundation concrete for 15 wind power stations, and foundation framework for 15 wind power stations. Value of assets to be constructed was made LTL 0.00 and was increased by the amount of sums invested in the construction of assets.
- Finance lease agreement on financing the acquisition of 15 new Enercon E-70 wind turbine generators with 2 MW of installed capacity and 85 m hub height each. The value of assets acquired was EUR 30.15 million and financing amounted to EUR 21.41 million (including VAT).
- Finance lease agreement on financing the acquisition of new 110/20-kV transformer equipment. The value of the acquired asset was equal to EUR 3.66 million (including VAT) and financing amounted to EUR 2.60 million (including VAT).
- Finance lease agreement on financing the acquisition of a 20 kV cable and underground connection cable. Asset was purchased for EUR 482 thousand (including VAT) and financing amounted to EUR 342 thousand (including VAT).

The interest rate is 4.8%. The end-of-payment period for each of the finance lease agreements with UAB Swedbank lizingas is 30 October 2016.

The finance lease agreements with UAB Swedbank lizingas are secured by, among others, the following instruments:

- cash deposit of EUR 1 million on the reserve account with Swedbank AB, pledged (current and future amounts) in favour of UAB Swedbank lizingas;
- conditional assignment of account receivables from the sale of electricity in favour of UAB Swedbank lizingas, with default under any of the finance lease agreements triggering the assignment;
- requirement to perform 100% of the turnover through the accounts at Swedbank AB; and
- pledge of the shares of the Vydmantai Wind Park in favour of UAB Swedbank lizingas.

The Vydmantai Wind Park is also obliged to observe, among others, the following provisions of the finance lease agreements with UAB Swedbank lizingas:

- to maintain a ratio between shareholders' equity and total assets higher than 0.15;
- without the consent of UAB Swedbank lizingas, not to borrow, except from related entities, or otherwise increase its obligations if the aggregate amount of such obligations exceeds LTL 500 thousand per year;
- without the consent of UAB Swedbank lizingas, not to sell, rent or otherwise dispose of any fixed assets if the aggregate balance sheet value of such disposals exceeds LTL 1 million per year;
- without the consent of UAB Swedbank lizingas, not to pay any dividends or bonuses, decrease its share capital or otherwise pay any money out of the company if: (i) a cash deposit of EUR 1 million at Swedbank AB is not established; (ii) the company's DSCR ratio (12 years) is less than 1.2 (DSCR shall be calculated as follows – EBITDA/current year asset purchasing instalments plus current year interest payments); and (iii) the equity/total assets ratio of the company is less than 0.2 according to the financial statement of the company;
- to sublease plots of land located in the Kretinga District used for a wind park;
- in case of an increase in the asset price compared to the price stated in the agreements, such increased portion of the price shall be paid by the company if not agreed otherwise; in case of a decrease in the asset price compared to the price stated in the agreements, the unpaid asset value shall be decreased accordingly.

New credit agreement with Swedbank AB

Swedbank AB has offered to execute a new credit agreement with the Group to refinance its obligations under the credit agreement with Swedbank AB and finance lease agreements with Swedbank lizingas (described above). Under the offered terms, the new credit shall be made available to the Vydmantai Wind Park following

the merger of IRL Wind and Vydmantai Wind Park. The offer of Swedbank AB is valid until 14 April 2013. Following is a description of the basic arrangements under the proposed new credit agreement.

Vydmantai Wind Park shall receive a credit of up to LTL 105.45 million (EUR 30.54 million), but not more than the total outstanding amount under the credit agreement with Swedbank AB and finance lease agreements with Swedbank lizingas. The maturity of the new credit will be 31 December 2020.

The interest rate will be floating and is equal to the 6-month Euribor plus a margin of 2.45%.

The new credit agreement with Swedbank AB will be secured by the following collateral:

- pledge of 100% of shares in the Vydmantai Wind Park, held by the Issuer, in favour of Swedbank AB;
- pledge of current and future amounts in the accounts of the Vydmantai Wind Park;
- conditional pledge of leased assets, as well as pledge of lease rights to plots of land where leased assets are built;
- secondary pledge of all remaining assets;
- deposit of not less than EUR 2 million with Swedbank AB and pledge of the said deposit.

Related Party Transactions

The Group entered into the following transactions with related parties during the period covered by the Financial Statements.

For the year ended 31 December 2011					
	Purchases	Sales	Paid (received) dividends	Prepayments	Payables
	<i>LTL in thousand</i>				
INTER RAO UES	769,650	-	-	6,485	25,439
Majority Shareholder	-	153	31,005	-	-
Selling Shareholder	353	-	29,790	-	43
UAB Alproka	-	-	(2,999)	-	-
Other related parties	77	-	-	-	17
Total	770,080	153	57,796	6,485	25,499

Source: Consolidated Financial Statements

For the year ended 31 December 2010					
	Purchases	Sales	Paid (received) dividends	Loans granted and prepayments	Payables
	<i>LTL in thousand</i>				
INTER RAO UES	615,221	170	-	7,844	67,977
Majority Shareholder	-	249	14,781	14,049	-
Selling Shareholder	356	-	14,201	-	41
UAB Alproka	-	-	(2,000)	-	-
Other related parties	345	-	-	-	72
Total	615,922	419	26,982	21,893	68,090

Source: Consolidated Financial Statements

For the year ended 31 December 2009

	Purchases	Sales	Paid dividends	Receivables, including loans granted	Payables
	<i>LTL in thousand</i>				
INTER RAO UES	43,784	33,959	-	3,658	2,598
Majority Shareholder	-	76	17,850	-	-
Selling Shareholder	364	-	17,150	2,001	126
Other related parties	503	-	-	-	33
Total	44,651	34,035	35,000	5,659	2,757

Source: Consolidated Financial Statements

Most of the transactions with related parties executed by the Group in the years ended 31 December 2011, 2010 and 2009, comprised of electricity trading transactions with INTER RAO UES.

In the financial year ended 31 December 2010, the Group granted a loan to the Majority Shareholder which matured on 22 June 2011. The loan was denominated in EUR and the interest rate was the 12-month EURIBOR + 2 %.

In the years ended 31 December 2011, 2010 and 2009, the Group purchased and rented premises, as well as purchased accounting services from the Selling Shareholder.

In the year ended 31 December 2011, the Group purchased advertising services, and in the years ended 31 December 2010 and 2009, advertising and vehicle rental services from other related parties.

For the six month period ended 30 June 2012

	Purchases	Sales	Paid/received dividends	Receivables, including loans granted	Payables
	<i>LTL in thousand</i>				
INTER RAO UES	345,515	-	-	-	22,396
The Majority Shareholder	-	-	19,101	-	13,551
The Selling Shareholder	149	-	18,352	-	13,043
UAB Alproka	-	-	(750)	-	-
Total	345,664	-	36,703	-	48,990

Source: Interim Condensed Financial Statements

Most of the transactions with related party executed by the Group in the six month period ended 30 June 2012 comprised of electricity trading transactions with INTER RAO UES.

In the six month period ended 30 June 2012 the Group rented of premises as well as bought accounting services from the Selling Shareholder.

The Group's payables to the Majority Shareholder and the Selling Shareholder as at 30 June 2012 represent dividends payable in LTL 13,551 thousand and LTL 13,019 thousand respectively.

MARKET OVERVIEW

Overview

The Group's key markets are Lithuania, Latvia and Estonia, where it is one of the leaders in electricity trading and supply. Prior to the break-up of the USSR, Lithuanian, Latvian and Estonian electricity markets were managed as part of the power system of the USSR. After the break-up of the USSR, they remained effectively self-sufficient, in large part because of the Ignalina NPP in Lithuania. However, since the decommissioning of Ignalina NPP (completed at the end of 2009) Lithuania and Latvia have been net importers of electricity, with most of the imported electricity purchased from Russia. As of the date of the Prospectus, the Group is the largest importer of electricity from Russia into the Baltic States.

The markets in which the Group operates are subject to continuous change which is driven, *inter alia*, by legislation. Following EU accession in 2004, Lithuania, Latvia and Estonia have implemented regulatory regimes aimed at the separation of electricity generation and supply from transmission and distribution in an effort to promote market competition. As a result, the market position of state-owned incumbent utilities has weakened while the role of independent suppliers has strengthened.

This liberalization process was further strengthened by the introduction on 1 January 2010, of power exchanges in Lithuania and Estonia, and an obligation to execute all cross-border transactions through the power exchange, rather than via bilateral contracts that was introduced in 2010. As a result, prices established on the power exchange became a point of reference for the market. As at the date of the Prospectus, the power exchanges in Lithuania and Estonia are operated by Nord Pool Spot AS, which runs the power exchange market in the Scandinavian countries. It is envisaged that introduction of Nord Pool Spot AS, as the power exchange operator in Latvia will further strengthen the integration of the Baltic electricity markets.

Cross-border Transmission Lines and Interconnections

The power networks of Lithuania, Latvia and Estonia are still synchronised with the systems of Russia and Belarus ("BRELL" system) and they are not synchronised with the networks of other EU countries. Electricity can flow between countries in the BRELL system the following transmission lines: Russia (Kaliningrad Oblast) – Lithuania (600 MW), Lithuania – Russia (Kaliningrad Oblast) (680 MW), Belarus – Lithuania (1300 MW), Lithuania – Belarus (1350 MW), Latvia – Lithuania (1300 MW), Lithuania – Latvia (1500 MW), Latvia – Estonia (1000 MW), Estonia – Latvia (1000 MW), Latvia – Russia (750 MW), Russia – Latvia (800 MW), Estonia – Russia (650 MW), Russia – Estonia (810 MW).

The strategic goal of the Baltic States is to integrate with EU electricity networks (ENTSO-E Continental Europe) which will allow the Baltic States to decrease their dependence on electricity imported from Russia and Belarus. In addition, Lithuania plans to increase supply competition and – eventually allow export of electricity generated at Visaginas NPP (if and when it is constructed). The integration would be achieved by constructing interconnections between the electricity grids of the Baltic States and other EU member states.

The sole existing cross-border connection between the Baltic States grids and those of the EU countries is the Estlink 1, 350 MW high-voltage direct current interconnection between Estonia and Finland, commissioned in 2007. In February 2012, construction of the 650 MW Estlink 2 began and is scheduled for completion by 2014. These connections are expected to eliminate congestion and improve electricity flows between the Baltic and Scandinavian markets.

In addition to Estlink 1 and Estlink 2, four cross-border interconnections are proposed for construction over the next 10 years: the 700 MW Lithuania-Sweden link ("NordBalt"), two 500 MW Lithuania-Poland links (2 stages, with total capacity of 1,000 MW - "LitPol Link 1") and one 700-800 MW Lithuania-Poland link ("LitPol Link 2"). Interconnection with the Polish power network is critical for Lithuania, as it would allow it to integrate to the synchronous area of the Continental Europe.

LitPol Link 1 is planned to be a 50-50 venture of the national transmission network operators – PSE Operator SA and Litgrid AB - and is currently scheduled to become operational by the end of 2015, initially with 500 MW capacity throughputs, subsequently increased to 1,000 MW. LitPol Link 2 shall result in additional electricity trades between Lithuania and Poland. According to the Lithuanian National Energy Independence Strategy, LitPol Link 2 shall be commissioned by 2018/20 and have a capacity of 700-800 MW.

Lithuania

Overview

Following Lithuanian independence in 1990, the local market was dominated by the Ignalina NPP which had two units with installed capacity of 1500 MW each. As a result, Lithuania was a net exporter of electricity. However, due to similarities between Ignalina NPP and the failed Chernobyl NPP, Lithuania was obliged to shut down Ignalina NPP as a part of its accession agreement with the EU. The first unit was closed in December 2004 and the second in December 2009. As a result, Lithuania changed its status from net exporter to net importer of electricity.

As a result of Lithuania's adoption of the EU legislation with respect to unbundling of transmission and distributions of electricity (EU Third Energy Package), Lithuania's transmission and distribution networks are currently operated by two separate entities - LITGRID AB operates national high-voltage transmission networks, whilst AB LESTO is Lithuania's national distribution system operator.

Another aim of the EU Third Energy Package is to create a market for independent electricity suppliers. As a consequence, the Lithuanian electricity market has been undergoing gradual liberalization. Formally, all consumers (both commercial and household) are free to choose their independent supplier of electricity since 1 July 2007; however, there was no actual market liberalization until mandatory shift to non-regulated (or independent) supply was introduced by legislation. Therefore the actual liberalization of Lithuania's electricity market is scheduled to take place in five stages. Each stage mandatory requires for a new group of end-users to choose an independent electricity supplier. The first stage of liberalization began on 1 January 2010, when electricity end-users with capacity exceeding 400 kW were mandatory required selecting an independent electricity supplier. Further steps took place on 1 January 2011 and 2012, when electricity end-users with capacity exceeding 100 kW and 30 kW, respectively, mandatory shifted to non-regulated supply. Starting from 1 January 2013, all non-household end-users will be required to select an independent electricity supplier. Public suppliers must enter into contracts and supply electricity for regulated price to all household end-users who have not selected an independent electricity supplier, as well as to any socially vulnerable customers. All commercial end-users are also allowed to purchase electricity from public suppliers, in case they fail for any reason to select an independent supplier, however, at the regulated price plus extra margin for the last resort supply guaranteed by the public supplier.

Furthermore, in order to facilitate a competitive trading market, a power exchange was launched in 2010. Initially it was operated by BALTPool UAB (company controlled by the transmission system operator, LITGRID AB). In June 2012, Nord Pool Spot AS became the operator of the Lithuanian power exchange. Meanwhile, BALTPool UAB set up an independent exchange for electricity derivatives which is in an early phase of development.

Electricity Generation

The table below presents an overview of installed electricity generation capacity in Lithuania between 2009-2011.

	Fuel	2011	2010	2009
		MW		
Lithuanian PP	gas/fuel oil	1,800	1,800	1,800
Vilnius	gas	360	372	372
Mazeikiai (owned by ORLEN Lietuva AB)	gas/fuel oil	210	160	160
Kaunas	gas	170	170	170
Industrial Power Plants	gas/fuel oil	164	96	98
Panevezys	gas	35	35	35
Klaipeda	gas	11	11	11
Kaunas energija	gas	8	8	8
Total Fossil Fuel		2,758	2,652	2,654
Kruonis	Pumped storage	900	900	900
Kaunas	Flow of river	101	101	101
Other	-	26	25	26
Total Hydro		1,027	1,026	1,027
Wind	wind	185	161	68
Biofuel	biomass	50	33	21
Solar	solar	1	0	-
Total Renewable Sources (excluding Hydro)		236	194	89
Ignalina	nuclear	-	-	1300
Total		4,021	3,872	5,070

Source: National Control Commission for Prices and Energy

Thermal power plants had an installed capacity of 2,758 MW in 2011. The majority of thermal power plants in Lithuania use natural gas to produce electricity, whereas some plants have the technical capability to use fuel oil. Some of the thermal power plants (*i.e.*, Vilnius, Kaunas, Panevezys, Klaipeda, Kaunas energija) generate electricity only during the heating season (combined heat and power plants).

Hydro power plants had an installed capacity of 1,027 MW in 2011; with 900 MW coming from the Kruonis hydro-pumped storage plant whose main role is to balance the power system. The Kaunas plant operates close to Kruonis, sharing its water reservoir.

Renewable energy sources (wind, solar, biomass and biogas) had an installed capacity of 236 MW in 2011. Generation capacity from renewable energy sources has increased substantially over the past years due to, *inter alia*, favourable feed-in tariffs.

Lietuvos energija has recently launched a new 455 MW unit in the Lithuanian PP. According to Lietuvos energija, the unit will produce sufficient electricity to meet 20-25% of Lithuanian domestic demand. Moreover, the amount of natural gas used to produce the same amount of energy will be reduced by up to 30%.¹

Electricity Sources and Uses Balance Sheet

The table below presents the sources and uses of the power market in Lithuania between 2000-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	TWh											
Imports	8.71	7.13	0.68	1.68	1.17	1.54	1.09	0.13	0.00	0.30	0.20	0.14
Thermal plants	2.85	3.63	2.64	2.63	2.63	2.57	3.20	2.85	2.80	2.64	2.58	2.26
Hydropower (>10 MW)	0.96	1.21	1.06	0.91	0.86	0.75	0.75	0.88	0.94	0.75	0.66	0.61
Renewable energy sources	0.80	0.46	0.34	0.26	0.27	0.10	0.07	0.07	0.05	0.04	0.04	0.03
Other power stations	0.07	0.40	0.43	0.27	0.41	0.39	0.42	0.37	0.18	0.15	0.07	0.10
Ignalina	0.00	0.00	10.85	9.89	9.83	8.65	10.34	15.10	15.48	14.14	11.36	8.42
Total (generation and imports)	13.39	12.83	16.00	15.64*	15.17	14.00*	15.87*	19.40*	19.45*	18.02*	14.91*	11.56*
Supplied to customers	9.36	9.22	9.16	9.88	9.55	9.20	8.82	8.45	7.94	7.51	7.24	6.91
Exports	1.97	1.14	3.61	2.63	2.54	1.98	4.05	7.32	7.53	6.79	4.16	1.48
Losses	0.97	0.99	0.97	1.02	1.12	1.09	1.23	1.27	1.41	1.43	1.42	1.28
Used by Kruonis plant	0.80	1.04	1.01	0.82	0.76	0.54	0.75	0.92	0.61	0.55	0.45	0.64
Usage by power plants	0.29	0.44	1.25	1.21	1.20	1.15	1.23	1.61	1.66	1.67	1.55	1.44
Total (consumption and exports)	13.39	12.83	16.00	15.56*	15.17	13.96*	16.08*	19.57*	19.15*	17.95*	14.82*	11.75*

* Imbalances for 2008, 2006 and previous years are due to rounding by National Control Commission for Prices and Energy

Source: National Control Commission for Prices and Energy

As stated earlier, generation in Lithuania was initially dominated by Ignalina NPP, whose output was sufficient to meet domestic consumption. Following the final decommissioning of Ignalina NPP, Lithuania began importing electricity to cover the deficit. In 2010, domestic production met approximately 62% of the total consumption, and in 2011 its share fell to approximately 50% due to more expensive fuel used in thermal power plants.

In 2010, imports accounted for 7.13 TWh, or approximately 56% of total consumption and exports. In 2011, imports increased by approximately 22.2%, as compared to 2010, to 8.71 TWh and constituted around 65% of total electricity consumption and exports.

Despite a large amount of installed capacity, generation in Lithuanian thermal power plants amounted to only approximately 30.4% of electricity supplied to end-users in 2011. This was brought about by the relatively high price of fossil fuels, as well as availability of cheaper electricity imported from Russia and Belarus.

Hydro power plants with an installed capacity exceeding 10 MW have been producing up to 1 TWh per year. In 2010 and 2011, they produced approximately 21.2% and 20.5% of the total electricity produced in Lithuania, respectively. The majority of generated electricity comes from the Kruonis and Kaunas plants.

Generation from renewable sources has demonstrated a substantial increase since 2008, as it tripled from 0.26 TWh to 0.8 TWh in 2011, or approximately 17% of the total domestic electricity production. The increase was fuelled by a substantial increase in installed generation capacity.

Consumption in Lithuania has been slowly increasing since 2000, peaked in 2008 at 9.88 TWh and then fell to 9.16 TWh in 2009, following the economic slowdown in the region. Although the Lithuanian economy is recovering, demand has not yet reached pre-crisis levels. In 2011, electricity supplied to end-users based in Lithuania increased by approximately 1.5% to 9.36 TWh compared to 2010, when 9.22 TWh was supplied.

¹ <http://www.le.lt/en/activities/electricity-generation/lithuanian-power-plant-the-lpp/>

Electricity Consumption

The table below sets out the structure of electricity consumption in Lithuania by type of users between 2000-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	TWh											
Industry	3.55	3.07	2.65	3.09	3.13	3.14	3.25	3.08	3.02	2.96	2.85	3.27
Trade and other users	2.90	3.31	3.53	3.82	3.67	3.42	3.22	3.04	2.78	2.50	2.36	1.57
Residents	2.62	2.59	2.75	2.75	2.50	2.39	2.18	2.15	1.97	1.84	1.82	1.77
Agriculture	0.20	0.17	0.16	0.16	0.16	0.16	0.15	0.16	0.15	0.15	0.15	0.23
Transportation	0.09	0.08	0.07	0.06	0.09	0.09	0.02	0.02	0.02	0.06	0.07	0.07
Total demand	9.36	9.22	9.16	9.88	9.55	9.20	8.82	8.45	7.94	7.51	7.25	6.91

Source: National Control Commission for Prices and Energy

Trade and other commercial users demonstrated the largest absolute increase in electricity consumption from 1.57 TWh in 2000 to 2.90 TWh in 2011, or an increase of 84.71%, after reaching a peak just before the global economic crisis in 2008. The second largest increase in consumption occurred in the household segment, where consumption increased by 48.02% from 1.77 TWh to 2.62 TWh during the same period.

Wholesale Electricity Market

The wholesale electricity market comprises trading between independent electricity suppliers on an over-the-counter basis (based on bilateral agreements) or via the power exchange. Under Lithuanian law, all electricity cross-border delivered to or from the Lithuanian internal electricity market, including those volumes imported from or exported to the third countries and those delivered from or to the EU Member States, must be purchased on the power exchange. However, the volume of the price-forming transactions on the power exchange make-up only 5.93% of the overall electricity traded in Lithuania in the financial year ended 31 December 2011. All other trades are executed on an over-the-counter basis.

As of 30 June 2012, there were 65 independent electricity suppliers with valid licenses to trade domestically in Lithuania. However, only 26 suppliers were actively operating in the market.

The table below presents data on the market share in electricity sales on the power exchange in Lithuania in 2010 and 2011 (%).

	2011	2010
The Group	44.0	40.1
Latvenergo Prekyba	17.5	-*
Lietuvos energija	17.4	39.9
Vilniaus energija	6.7	6.9
Kauno termofikacinė elektrinė	3.6	3.4
Others	10.8	9.8
Total	100.0	100.0

* In 2010, Latvenergo Prekyba market share was included in other market members' share

Source: National Control Commission for Prices and Energy

The wholesale electricity market in 2011 was dominated by the Group, Latvenergo Prekyba and Lietuvos energija. Latvenergo Prekyba is a subsidiary of the state-owned Latvian utility, Latvenergo. Lietuvos energija, owned by the Lithuanian state, is the largest electricity generator in Lithuania, and is owner of the Lithuanian PP, as well as Kruonis and Kaunas plants. Other market players include Vilniaus energija (a subsidiary of the French company, Dalkia, and owner of the Vilnius power plant) and Kauno termofikacinė elektrinė (controlled by Russian Gazprom and owner of Kaunas plant).

The wholesale electricity sales market slightly changed in 2011 compared to 2010. The Group increased its market share by 4 percentage points to 44%, and Latvenergo Prekyba increased its share to almost 18% in 2011 due to changes in market regulation, which required for more electricity users to choose independent suppliers. Lietuvos energija lost 23 percentage points in 2011, primarily due to market liberalization, which required for consumers with capacity needs exceeding 100 kW to choose from among independent electricity suppliers. The market shares of Vilniaus energija and Kauno termofikacinė elektrinė remained stable at approximately 7% and 3%, respectively.

The table below presents data on the market share in electricity purchases on the power exchange in Lithuania between 2010 and 2011 (in %).

	2011	2010
Lietuvos energija	45.1	81.7
The Group	19.3	~*
Latvenergo Prekyba	18.0	5.1
ORLEN Lietuva	5.7	5.0
Enefit	4.1	3.3
Others	7.9	4.8
Total	100.0	100.0

* In 2010, the Group's market share was included in other market members' share

Source: National Control Commission for Prices and Energy

In 2011, the structure of electricity purchases changed more dramatically than the structure of sales. Lietuvos energija purchased almost 37 percentage points less electricity than in 2010. The Group increased its market share to more than 19%. This was caused primarily by the changes of trading schemes after Nord Pool Spot AS became operator of the power exchange in Lithuania in 2011, requiring that all cross-border delivered electricity be traded on the power exchange. For more information, please see "Operating and Financial Review - Key factors affecting the Group's results of operations - Volume of electricity purchased and sold". Latvenergo Prekyba increased its market share by almost 13 percentage points in 2011 to reach 18%. ORLEN Lietuva and Enefit (subsidiary of Eesti Energia) were less active and captured 5.7% and 4.1% market share, respectively.

The table below presents data on the average price of electricity traded on the power exchange (BALTPPOOL and Nord Pool Spot AS) in the period January 2010 – September 2012.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	LTL/MWh											
2012	153.37	181.42	149.80	139.84	137.87	145.33	158.17	186.80	153.75	-	-	-
2011	153.61	158.28	162.94	146.87	164.57	172.25	155.26	166.52	153.21	161.66	155.37	124.25
2010	141.76	155.59	127.48	128.95	149.50	152.31	171.68	206.27	187.30	178.69	157.70	165.02

Source: Baltpool and Nord Pool Spot

Prices on the power exchange have been fluctuating between 124.25 – 206.27 LTL/MWh since the opening of the market in January 2010. The average price in 2011 was equal to 156.23 LTL/MWh, or 2.47% lower than in 2010 (160.19 LTL/MWh). The lowest price of 124.25 LTL/MWh was observed in December 2011 due to relatively warm winter, whereas the highest price of 206.27 LTL/MWh was recorded in August 2010 due to technical limitations of the power grid resulting from high temperatures.

In 2011 the volume of electricity traded reached 7.96 TWh, which was 2% lower than in 2010 when 8.12 TWh was traded. The average monthly volume decreased to 663.65 GWh in 2011 from 676.50 GWh in 2010. However, the price-forming transactions executed on the power exchange constitute only approximately 5.93% of all trades in electricity executed in Lithuania in the financial year ended 31 December 2011. The prices of remaining trades, both OTC as well as bilateral transactions, are determined by these price forming transactions.

End-user Electricity Market

The Lithuanian end-user market can be served by two types of suppliers: a public supplier and independent suppliers.

Starting from 1 January 2013, all non-household end-users will be required to select an independent electricity supplier, whereas from 1 January 2013, the public supplier must enter into contracts and supply electricity for a regulated price to all household end-users who have not selected an independent electricity supplier, as well as to socially vulnerable customers. If a commercial end-user does not choose an independent supplier, a guaranteed supply of electricity is ensured by the public supplier at the regulated price, with an extra margin for supply of last resort.

The table below presents data on the market share for electricity supply to end-users between 2010 and 2011 (%).

	2011	2010
AB LESTO (regulated end-users)	44.0	50.9
AB LESTO (end-users eligible for choice of supplier)	9.1	14.3
Latvenergo Prekyba	17.1	6.8
Energijos tiekimas	14.6	15.1
SBE Energy	4.8	1.4
Enefit	3.8	2.5
Other suppliers	6.7	9.1
Total	100.0	100.0

Source: National Control Commission for Prices and Energy

In 2011, the end-user electricity market was dominated by AB LESTO, Latvenergo Prekyba and Energijos tiekimas. AB LESTO is the state-owned distribution system operator in Lithuania, as well as the public supplier of electricity. AB LESTO was established through the merger of the public distribution network companies, RST and VST.

Energijos tiekimas is an independent supplier and subsidiary of Lietuvos energija, whereas SBE Energy is a privately owned independent supplier. A smaller market share was held by Enefit (subsidiary of Eesti Energia) and other suppliers. During the discussed period, the Group did not supply energy to end-users.

AB LESTO decreased its market share (both in the regulated and liberalized segments) from 65.2% in 2010 to 53.1% in 2011. This was primarily due to increased competition triggered by market liberalization. Latvenergo Prekyba increased its market share substantially from 6.8% in 2010 to 17.1% in 2011, exploiting liberalization opportunities. The market share of Energijos tiekimas dropped slightly from 15.1% in 2010 to 14.6% in 2011, whereas the share of SBE Energy increased in the same period from 2.5% to 3.8%.

Market Prospects

The following factors are expected to shape the future development of the electricity market in Lithuania:

Further liberalization of end-user market

As stated above, starting from 1 January 2013, all non-household end-users will be obliged to select an independent electricity supplier. This will increase the accessible end-users base and, as prior stages of the market liberalization have shown, should create additional market opportunities for independent electricity suppliers.

Construction of cross-border interconnections

The commissioning of the NordBalt and LitPol Link 1 will facilitate further development of cross-border electricity trading to and from Lithuania, including increased supply of electricity available for the Lithuanian market. Moreover, should the generation of electricity in Lithuania increase by, e.g., construction of the planned capacity of the Visaginas NPP, new interconnections will facilitate cross-border trading with the neighbouring countries, e.g. Poland. Cross-border interconnections will also stimulate further integration of the regional electricity markets and, as a consequence, result in a gradual convergence of prices.

Construction of nuclear power plants in the region

Lithuania plans to construct Visaginas NPP, which may become a supplier of substantial volumes of relatively cost-effective electricity to meet both internal demand and facilitate exports. Construction of Visaginas NPP will substantially decrease Lithuanian dependence on imported electricity, thus increasing the power security of the country.

In July 2011, a proposal submitted by the Japanese power systems company, Hitachi, Ltd., along with Hitachi-GE Nuclear Energy, Ltd. ("Hitachi"), was selected, and Hitachi as the strategic investor was invited to continue exclusive direct negotiations on the concession agreement and other related project agreements. Hitachi has carried out the technical preparatory work of the Visaginas NPP project development in relation to construction and operation of the Hitachi-GE 1350 MW (gross) class advanced boiling water reactor (the "AWBR"); Exelon Nuclear Partners, LLC has been selected as the Owner Engineer; and the agreement on the key conditions of the Visaginas NPP concession agreement was signed in December 2011. In June 2012, Lithuanian parliament approved the granting of the concession to the project-implementing company for the Visaginas NPP project (the "PCO") and approved the concession agreement.

The initial Visaginas NPP project participants are: the Lithuanian investor (at least 34% of the entire PCO authorised capital), the strategic investor (Hitachi) (at least 20% of the entire PCO authorised capital) and regional partners (their stakes in the authorised capital of the PCO shall be stated in the agreement(s) entered into by the respective regional partner). The initial regional partners are: Latvenergo (Latvia) and Eesti Energia (Estonia). In December 2011, PGE Polska Grupa Energetyczna (Poland) suspended its participation in the Visaginas NPP.

The Visaginas NPP project is being developed based on the Mankala model, according to which the investors in the Visaginas NPP will get electricity at cost in proportion to the amount of PCO shares they own, and shall sell the purchased electricity to the market at market prices.

In July 2012, the initiative group of Lithuanian parliament members initiated a consultative (deliberative) referendum regarding the construction of a new nuclear power plant in Lithuania. The resolution adopted in such type of referendum is only advisory and not mandatory. The referendum was held simultaneously with the Lithuanian General Election, on 14 October 2012. According to the official results, the referendum was considered valid as 52.58% of eligible voters participated in the consultative referendum. In total 62.68% of those who cast their votes, voted against the construction of a new nuclear power plant in Lithuania. The issue of conducting this referendum had to be deliberated in the Lithuanian parliament within one month of the referendum, and only the Lithuanian parliament can decide whether the resolution of this referendum will be approved, but as of the date of the Prospectus such decision of the Lithuanian parliament is still pending. However, in June 2012, the Lithuanian parliament already expressed its consent for the construction of the Visaginas NPP by adopting the new Nuclear Power Plant Law.

Furthermore, the Lithuanian electricity market is likely to be influenced by the on-going construction of the Baltiiskaya NPP in Kaliningrad Oblast, Russia. Baltiiskaya NPP – which is expected to begin operations around 2017 – could become a supplier of relatively cheap electricity to Lithuania, as well as to Latvia and Estonia. Moreover, if interconnections with Poland and Sweden are constructed, Lithuanian market players could export electricity from Kaliningrad Oblast via Lithuania to Poland and/or Sweden.

However, as of the date of the Prospectus capacities of electricity transmission lines between Kaliningrad Oblast and Lithuania are highly utilised and they should be modernized in order to allow the increase in volume of electricity transmitted from Kaliningrad Oblast.

Further development of renewable energy sources

Although electricity generated from renewable sources may be more expensive than electricity generated at nuclear and conventional power plants, there is an increasing focus on the development of such energy sources at the EU level as a tool to fight global warming. Therefore, the development of power plants generating electricity from renewable sources of energy is being promoted and subsidised, which increases market opportunities in this sector. Further development of renewable energy is also welcomed as a way of increasing the power security of Lithuania. Moreover, renewable energy sources may also be considered as an economically-justified substitute for conventional power plants, especially when bearing in mind the potential increase in the price of commodities and different projects aimed at decreasing emission of greenhouse gases (e.g., European Emission Trading Scheme).

Based on Directive 2009/28/EC of the European Parliament and of the Council of 23 August 2009, on the promotion of the use of energy from renewable sources, and the amending and subsequent repealing of Directives 2001/77/EC and 2003/30/EC, Lithuania is obliged to achieve a total share of 23% of energy from renewable sources as a portion of gross final consumption of energy by 2020. Following national energy policy strategies and international commitments, the Law on Renewable Energy, transposing Directive 2009/28/EC, established minimum rates for renewable energy share to be reached by 2020 in each specific sector, and in particular – at least 10% of gross final energy consumption in the transport sector, at least 20% in electricity sector, and at least 60% in district heating and 80% in household heating.

Lithuania had an installed capacity of 185 MW in wind parks in 2011, and agreed to provide conditions for wind parks totalling 500 MW by 2020.

Latvia

Overview

Latvia is highly dependent on imported energy resources from neighbouring countries. Solid fuel, gas and oil products are mainly imported from Russia. Latvia has the largest hydropower plant capacity among all three Baltic States, which supplies around a half of the total electricity generated in the country. The other half is generated from fossil energy resources.

Nevertheless, Latvian generation capacity is not competitive and the country is a net importer of electricity. The shortage is covered by imports from neighbouring countries – Estonia, Lithuania and Russia. The volume of electricity generation at the largest hydro power plant in Latvia (Daugava HPP cascade) is variable year round and depends on the flow of the Daugava River. Typically, electricity generation from hydro power plants reaches the lowest level of the year during the summer season, whilst during the spring season, electricity generation reaches its annual peak.

The state-owned company, Latvenergo AS, is the leading electricity producer in Latvia, which owns three of the largest hydropower plants and the two largest combined heat and power plants. In 2011 Latvenergo AS generated 72% of total electricity demand, while 11% was purchased from small-scale electricity producers.

The Latvian electricity market has been open since 15 May 2008, when electricity consumers became eligible to select an electricity supplier, and since then, 37% of electricity end-users in Latvia are electricity market participants and the market is based on bilateral agreements between electricity suppliers and end-users.¹ However, the market still remains heavily dependent on a state-owned utility company which has the largest electricity generation capacity in Latvia.

NordPool is scheduled to begin operating the Latvian power exchange in 2013.

Electricity Generation

The table below presents an overview of installed electricity generation capacity in Latvia in 2009-2011:

	Fuel	2011	2010	2009
		<i>MW</i>		
Plavinu HES	flow of river	869	869	869
Rigas-HES	flow of river	402	402	402
Keguma HES	flow of river	264	264	264
Other hydro power plants	flow of river	41	41	1
Total hydro		1,576	1,576	1,536
Rigas TEC-2	gas	662	662	662
Rigas TEC-1	gas	144	144	144
Other natural gas power plants	gas	127	123	111
Total natural gas		933	929	917
Wind parks	wind	36	30	29
Total renewable sources (excluding hydro)		36	30	29
Other small power plants		60	34	27
Total		2,605	2,570	2,509

Source: Central Statistical Bureau of Latvia

Three principal hydro power plants have the largest installed capacity of 1535 MW and are owned by the state-owned company, Latvenergo AS. Hydro power plants use river water as fuel and provide electricity at a competitive price. However, electricity generation at hydropower plants is variable and depends on the flow of the river. Usually, during autumn and spring thaws, electricity generation reaches its highest levels.

Two of the largest combined heat and power plants are also owned by Latvenergo AS and have an installed capacity of 806 MW. Other natural gas powered plants had an installed capacity of 127 MW in 2011. Thermal power plants in Latvia generate electricity using natural gas, the price of which is currently increasing in Europe.

Due to an unattractive government support scheme, the wind energy sector in Latvia has remained undeveloped. As at 31 December 2011, wind power plants had an installed capacity of only 36 MW, whereas installed capacity in Estonia and Lithuania was equal to 184 MW and 185 MW, respectively.

Electricity Sources and Uses Balance Sheet

The table below presents sources and uses of electricity in Latvia between 2000 and 2011 (in TWh).

¹ http://www.ast.lv/portal/page/portal/english/parvade/main/electricity_market/

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	<i>TWh</i>											
Generation	6.10	6.63	5.57	5.28	4.78	4.89	4.90	4.69	3.97	3.97	4.28	4.13
Renewable sources	2.96	3.57	3.51	3.17	2.79	2.74	3.37	3.16	2.31	2.47	2.84	2.82
Fossil energy sources	3.14	3.06	2.06	2.11	1.99	2.15	1.53	1.53	1.66	1.50	1.44	1.31
Imports	4.01	3.97	4.26	4.64	4.96	2.81	2.86	2.73	2.67	2.84	2.34	2.11
Total (generation and imports)	10.11	10.60	9.83	9.92	9.74	7.70	7.76	7.42	6.64	6.81	6.62	6.24
Supplied to end-users	6.19	6.22	6.10	6.63	6.61	6.14	5.73	5.40	5.20	4.88	4.58	4.48
Exports	2.76	3.10	2.61	2.12	1.96	0.30	0.71	0.64	0.04	0.49	0.46	0.32
Losses	0.62	0.73	0.74	0.80	0.80	0.82	0.84	0.89	0.90	0.99	0.99	0.99
Usage by power plants	0.53	0.56	0.38	0.37	0.37	0.44	0.49	0.50	0.51	0.45	0.59	0.45
Total (consumption and exports)	10.11	10.60	9.83	9.92	9.74	7.70	7.76	7.42	6.64	6.81	6.62	6.24

Source: Central Statistical Bureau of Latvia

Electricity generation from renewable sources, including hydro, has been providing competitively priced electricity since the country achieved independence. Generation from renewable energy sources reached 2.96 TWh, or around 48% of total electricity consumption, in 2011. Although electricity generation from hydropower plants is well-developed, the wind sector is still at a rather early stage of development in Latvia and generates a tiny proportion of total electricity consumed.

Combined heat and power plants have historically generated anywhere from 1.31 TWh to 3.14 TWh per annum. More than 95% of CHP plants are fuelled by natural gas, which is imported from Russia.¹

Latvia has historically been importing anywhere from 2.11 TWh to 4.96 TWh per annum. Before 2010, most of electricity was imported from Ignalina NPP in Lithuania. In 2011, net imported electricity constituted around 20% of total electricity consumption in Latvia.

Energy Consumption

The table below sets out the structure of electricity consumption in Latvia in the years 2000-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
	<i>TWh</i>											
Trade and other users	2.49	2.42	2.34	2.64	2.71	2.34	2.15	2.00	1.88	1.74	1.48	1.55
Residential	1.77	1.94	2.00	2.03	1.79	1.73	1.57	1.47	1.42	1.32	1.24	1.19
Industry and construction	1.67	1.59	1.51	1.69	1.82	1.76	1.70	1.63	1.61	1.53	1.55	1.43
Transport	0.12	0.13	0.12	0.14	0.14	0.15	0.15	0.14	0.14	0.14	0.17	0.15
Agriculture	0.14	0.14	0.14	0.14	0.15	0.17	0.16	0.16	0.16	0.16	0.15	0.16
Total demand	6.19	6.22	6.10	6.63	6.61	6.14	5.73	5.40	5.20	4.88	4.58	4.48

Source: Central Statistical Bureau of Latvia

The trade and other commercial electricity user segment has been the largest energy consuming sector in Latvia, with consumption fluctuating between 1.48 TWh and 2.64 TWh in the period from 2000-2011. Annual consumption in the residential sector fluctuated between 1.19 TWh and 2.03 TWh in the period 2000-2011.

Wholesale Electricity Market

According to the Public Utilities Commission as of the date of the Prospectus there are 35 licensed electricity traders in Latvia. The Latvian wholesale electricity market is based on bilateral contracts, as the power exchange is not operating in Latvia. The Management believes that the Group is the second largest market participant in wholesale electricity market, after a state-owned electricity supplier Latvenergo.

¹ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2009:0978:FIN:EN:PDF>

End-user Electricity Market

In July 2007 Latvian electricity market became liberalized and allowed both industrial consumers and private households to choose their electricity provider. Around one third of electricity end-users are electricity market participants, which can select independent electricity suppliers. In compliance with the EU requirements, the state-owned monopoly Latvenergo AS was reorganized in July 2007, which led to the formation of fully liberalized market. Nevertheless, the market still remains heavily dependent on state-owned utility company, which has the largest electricity generation capacities in Latvia.

Market Prospects

Market liberalization

Although the Latvian electricity market has been fully liberalized since 2007, the market still remains heavily dependent on state-owned utility company Latvenergo. However, approximately one third of electricity end-users are eligible to select independent electricity suppliers, what gives opportunities for further market growth.

Construction of new power plant in the region

The Cabinet of Ministers has approved the construction of an additional base load power plant in Kurzeme. The power plant's basic fuel will be coal and the plant will have an installed capacity of 400 MW. The state-owned company, Latvenergo AS, is planning to assess its participation in the solid fuel power plant in Kurzeme.

Joining the Nord Pool electricity trading system

In 2013, Nord Pool Spot AS is scheduled to become the power exchange operator in Latvia. As a consequence, the process of building one electricity trading platform in Scandinavia and Baltic States will be completed.

Estonia

Overview

Estonia is the only Member State which has significant oil shale resources and a developed oil shale mining industry. Oil shale fuelled power plants generate roughly 90% of electricity in Estonia. The main oil shale producer is the state-owned company, Eesti Kaevandused. Though the European Commission issued report warning Estonia to diversify its energy sources for electricity generation, it has not had much of an impact on the generation structure.

In 2011, Estonian generation capacity reached 2,994 MW, whereas the real generation capacity is much lower due to maintenance periods.

The Estonian grid operator, Elering, a former subsidiary of Eesti Energia, manages the Estonian electricity system. In compliance with EU unbundling requirements, Elering was unbundled from Eesti Energia and sold to the Estonian Government in 2010.

In April 2010, the Estonian electricity market became partially liberalized, with 35% of the Estonian electricity market opening to competition. Starting from 1 January 2013, the Estonian electricity market will be fully liberalized and each end-user will be able to choose its electricity supplier.

Electricity Generation

The table below presents an overview of electricity generation capacity installed in Estonia in 2009-2011:

	Fuel	2011	2010	2009
		MW		
Narva PP	oil shale	2380	2380	2380
Iru PP	gas	190	190	190
Wind farms	wind	184	148	141
Other small power plants		240	213	160
Total		2,994	2,931	2,871

Source: Statistics Estonia, Eesti Energia, Eesti Gaas

Eesti Energia, the state-owned public company, is engaged in power generation, transmission, distribution and electricity sales. Eesti Energia operates the Narva PP, the largest oil shale fuelled power plant in Estonia, with an installed capacity of 2,380 MW.

Eesti Gaas, a fully privatized company, is responsible for Estonian gas imports from Russia and has a gas-powered power plant with an installed capacity of 190 MW.

Renewable energy sources consist mainly of wind farms. There were 85 wind turbines, with a total installed capacity of 184 MW in 2011, which generated around 5% of total electricity consumption in Estonia. Hydro

power plants' installed capacity accounts for 5 MW and the potential for further development of the hydro sector is very limited.

Electricity Sources and Uses Balance Sheet

The table below presents the sources and uses of electricity in Estonia between 2002 and 2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	<i>TWh</i>									
Generation	12.89	12.96	8.78	10.58	12.19	9.73	10.20	10.30	10.16	8.53
Oil shale resources	10.90	11.04	7.67	9.63	11.40	8.77	9.29	9.51	9.36	7.73
Other energy resources	1.99	1.92	1.11	0.95	0.79	0.96	0.91	0.79	0.80	0.80
Imports	1.69	1.10	3.03	1.37	0.35	0.25	0.35	0.35	0.09	0.41
Total (generation and imports)	14.58	14.06	11.80	11.95	12.54	9.98	10.55	10.65	10.25	8.94
Consumption	7.16	7.43	7.08	7.43	7.18	6.90	6.40	6.33	6.01	5.69
Use by power plants	1.23	1.23	0.90	1.08	1.24	1.00	1.09	1.07	1.06	0.89
Losses	0.95	1.05	0.89	1.13	1.35	1.08	1.10	1.11	1.19	1.26
Exports	5.25	4.35	2.94	2.31	2.77	1.00	1.96	2.14	1.99	1.10
Total (consumption and exports)	14.58	14.06	11.80	11.95	12.54	9.98	10.55	10.65	10.25	8.94

Source: Statistics Estonia

Electricity generation in 2011 was equal to 12.89 TWh, of which 7.16 TWh was consumed within the country. Electricity generation and consumption peaked in 2010 at 12.96 TWh and 7.43 TWh, respectively. Electricity usage by power plants was estimated at 1.23 TWh in 2011. Approximately 0.95 TWh was lost due to the transmission of electricity via high and low voltage distribution networks in 2011.

Estonia has been a net electricity exporter since 2002 (except in 2009, due to lower generation in less competitive electricity generation facilities in Estonia, which were temporarily substituted by electricity imports from Ignalina NPP in Lithuania). In 2011, electricity imports equalled to 1.69 TWh increasing by 53.64%, as compared to 2010. In 2011, electricity was mainly imported from Latvia (0.82 TWh), Finland (0.50 TWh) and Lithuania (0.37 TWh). In 2011, electricity exports were 5.25 TWh and increased by 20.69%, as compared to 2010. In 2011, electricity export destinations included Latvia (2.08 TWh), Finland (1.69 TWh) and Lithuania (1.48 TWh).

Electricity generation by oil shale powered plants fluctuated during the period from 2002 - 2011 between 7.67 TWh in 2009 and 11.40 TWh in 2007. In 2011, generation of electricity at oil shale powered plants was by 52.23% higher than electricity consumption in Estonia.

Electricity Consumption

The table below sets out the structure of electricity consumption in Estonia in 2002-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
	<i>TWh</i>									
Industry and construction	2.57	2.62	2.55	2.84	2.77	2.75	2.53	2.56	2.46	2.28
Trade and other users	2.41	2.54	2.41	2.47	2.36	2.18	1.93	1.83	1.65	1.52
Residential	1.93	2.02	1.88	1.85	1.77	1.68	1.62	1.62	1.59	1.58
Agriculture	0.19	0.19	0.18	0.19	0.20	0.22	0.22	0.22	0.21	0.20
Transport	0.05	0.06	0.06	0.08	0.08	0.08	0.10	0.10	0.10	0.10
Final consumption	7.16	7.43	7.08	7.43	7.18	6.90	6.40	6.33	6.01	5.69

Source: Statistics Estonia

The industry and construction sector has been the largest energy consumer in Estonia, using from 2.28 TWh to 2.84 TWh in the period from 2002-2011. The trade and other commercial user segment has been the second major electricity consumer with an average annual consumption of around 2.13 TWh during period under review. The trade and other commercial user sector experienced a 58.55% increase in electricity consumption over the past decade. The residential sector's consumption was in the range of 1.58 - 2.02 TWh over the past decade.

Wholesale Electricity Market

Estonian wholesale electricity market is in its early stage of liberalization. The Management believes that the Group is the second largest participant in wholesale electricity market, after the state-owned electricity supplier Eesti Energia that holds the biggest market share. Transactions executed on the power exchange are related to export to Finland mainly.

End-user Electricity Market

In April 2010, the Estonian electricity market became partially liberalized and 35% of the Estonian electricity market was opened to competition. During 2010 - 2013, all electricity end-users that consumed in excess of 2 GWh were obliged to choose electricity supplier, whereas all other end-users continued to purchase the electricity with regulated price from the electricity seller chosen by their electricity distribution company. Starting from 1 January 2013 Estonian electricity market will be fully liberalized, meaning that each end-user will be able to choose its electricity seller. The liberalization efforts have been supported by the unbundling of the transmission system operator (Elering) from the state-owned electricity producer and seller Eesti Energia.

Market Prospects

Market liberalization

The current law foresees that the Estonian electricity market will be fully open for all electricity end-users in 2013. This will increase the accessible end-users base and, as prior stages of the market liberalization have shown, should create additional market opportunities for independent electricity suppliers. Construction of new power plant in the region

Development of power plant in the region

Narva Elektriijaamad AS, a subsidiary of Eesti Energia, has undertaken steps in order to upgrade a fossil fuel power plant in Narva, Estonia, fuelled by local oil shale. The works include adding two 300 MW units. The power plant will ensure compliance with the EU emissions directive by substantially reducing emissions.

End of grace period for Narva PP

In 2015, a transitional period regarding environmental protection granted to Narva power plants (the largest electricity generator with 79.49% of total installed electricity generation capacity in Estonia, in the year ended 31 December 2011) during Estonia's accession to the EU will expiry. The Management expects that it will result in an increase in electricity prices in Estonia.

Electricity Market in Russia

Overview

The current structure of the Russian electricity sector emerged in mid-2008 after the breakup of the former Russian electricity quasi-monopoly, Unified Energy Systems of Russia ("UES"). The two main aims of the break-up of UES were unbundling and reducing government involvement. As a consequence, the Russian electricity sector has been unbundled, with a clear separation between the grid operators and power generating companies.

The second goal was to reduce the government's involvement in thermal generation, electricity retailing, and potentially in electricity distribution (*i.e.*, medium/low-voltage transmission of electricity) in order to enable effective competition in the wholesale and retail electricity markets, as well as increase efficiency. These aims have yet to be fully realized. Although UES has officially declared its intention to transfer control over thermal generation into private hands, the government has actively increased its involvement in thermal generation via two holding companies – GazpromEnergoHolding (subsidiary of Gazprom) and INTER RAO UES – as key vehicles for re-consolidation of the thermal generation under government control.

Electricity Generation

Russia has a diversified base of electricity sources, comprised of thermal, hydro and nuclear power plants. Renewable energy power plants are rather undeveloped.

The table below presents data on generation of electricity in Russia, with a breakdown of electricity sources in years 2005-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005
	TWh						
Thermal PPs	729	699	652	710	676	664	629
Hydro PPs	153	168	176	167	179	175	175
Nuclear PPs	173	171	164	163	160	156	149
Total	1,055	1,038	992	1,040	1,015	996	953

Source: Russian Federal State Statistics Service

Electricity generation from thermal PPs is dominated by two holdings and indirectly controlled by the Russian state via GazpromEnergoholding (37 GW of installed capacity) and INTER RAO UES (29 GW of installed capacity). Other significant market participants are both private Russian companies (KES Holding with 16 GW, Eurosibenergo with 4.5 GW, Quadra–Power generation with 3.5 GW, and TKG-2 with 2.5 GW of installed capacity), as well as foreign companies (E.ON (Germany) with 10 GW, Enel (Italy) OGC-5 with 9 GW and Fortum (Finland) with 3.4 GW of installed capacities).

Hydro electricity generation is dominated by the state-controlled RusHydro (35 GW of installed electricity generation capacity) and Eurosibenergo (15 GW of installed electricity generation capacity).

Nuclear energy generation is carried out by the state-owned monopoly Rosenergoatom, which operates 10 NPPs with 32 reactors with an installed electricity generation capacity of 24 GW.

Electricity generation and uses balance sheet

The table below sets forth information on the electricity balance in Russia in years 2005-2011 (in TWh).

	2011	2010	2009	2008	2007	2006	2005
	<i>TWh</i>						
Generation	1,054.8	1,038.0	992.0	1,040.4	1,015.3	995.8	953.1
Imports	10.0	1.9	3.1	3.1	5.7	5.1	10.1
Total (Generation + Imports)	1,064.8	1,039.9	995.1	1,043.5	1,021.0	1,000.9	963.2
Consumption	1,041.1	1,020.6	977.2	1,022.8	1,002.5	980.0	940.7
Exports	23.7	19.3	17.9	20.7	18.5	20.9	22.5
Total (Consumption + Exports)	1,064.8	1,039.9	995.1	1,043.5	1,021.0	1,000.9	963.2

Source: Russian Federal State Statistics Service

The vast majority of electricity generated in Russia is used domestically, whereas export of electricity between 2005-2011 varied between 1.8% and 2.4% of total volume of electricity generated in Russia.

INTER RAO UES is a leader in electricity export and import operations in Russia, and imports and exports the majority of Russian electricity. Trading geography includes: Finland, Lithuania, Kazakhstan, Mongolia, Belarus, Ukraine, and many more countries. Revenue from trading (electricity imports, exports and sales in the wholesale electricity market) accounts for approximately 10% of the total revenue of INTER RAO UES.

Baltiiskaya NPP

Russia plans to construct a nuclear power plant in its Kaliningrad Oblast. The Baltiiskaya NPP is foreseen to secure power supply for the Kaliningrad Oblast and to replace natural gas-based power generation. Electricity generated by the Baltiiskaya NPP may also be exported to neighbouring countries.

A framework construction agreement was signed between the Russian state corporation, ROSATOM, and the Government of the Kaliningrad Oblast on 16 April 2008. Russian Prime Minister Vladimir Putin signed the order for construction in September 2009. Ground preparation work began in February 2010 and the first concrete was poured in February 2012.

The Baltiiskaya NPP is planned to have two power units of 1,194 MW each, with the first unit planned for commissioning in 2017.

Based on an agency agreement between INTER RAO UES and Rosenergoatom, INTER RAO UES will have the right to sell electricity generated by the Baltiiskaya NPP. This right was granted for 20 years from the commissioning of the first reactor at Baltiiskaya NPP.

Nord Pool Spot AS

Nord Pool Spot AS operates the market for electricity trading in Norway, Denmark, Sweden, Finland, Estonia, and Lithuania. Nord Pool Spot AS is owned by the Nordic transmission system operators, Statnett SF, Svenska Kraftnät, Fingrid Oyj, and Energinet.dk, as well as the Baltic transmission system operators, Elering (Estonia) and AB LITGRID. Nord Pool Spot AS is scheduled to operate the Latvian power exchange in 2013.

Trading takes place on two complementary markets – Elspot (for day-ahead trading) and Elbas (for intraday trading).

Elspot works as a day-ahead auction, where hourly market prices are calculated at 12.00 CET for delivery of power the next day. Elspot market is divided into several bidding areas (e.g., Norway is divided into five, Sweden into four, Denmark into two, and each of Finland, Estonia and Lithuania constitute a separate bidding area). The available transmission capacity may vary and congest the flow of electric energy between the bidding areas, and thereby different area prices are established.

Participants place their orders, hour by hour, through the Nord Pool Spot web-based trading system, SESAM. Participants can place their orders up to 12 days in advance, while the gate closure for orders with next-day delivery is 12.00 CET. When all participants have submitted their orders, equilibrium between the aggregated supply and demand curves is established for all bidding areas. The system and area prices are calculated and published, normally between 12.30 and 12.45 CET, with a 3-minute warning. Elspot calculates a system price based on the sale and purchase orders, disregarding the available transmission capacity between the bidding areas in the Nordic market. The system price is the Nordic reference price for trading and clearing of most financial contracts. Settlement of all orders on Elspot is based on area prices.

Elbas is the market for intraday trading. It was designed as a response to unexpected incidents that may take place after the calculation and prior to the delivery that may upset this balance. At Elbas, buyers and sellers can trade power close to its delivery hour in order to bring the market back into balance. They do this while reducing the risk of unknown imbalance costs and potentially improving profits for participants of the Nord Pool Spot power market.

Trading takes place every day around the clock until one hour prior to delivery. Prices are set based on a first-come, first-served principle, where the lowest sell price and highest buy price comes first, regardless of when the order was placed. A web-based trading system is provided by Nord Pool Spot. Participants only have to nominate their trades to their local transmission system operator. Administration and settlement of cross-border trades are handled by Nord Pool Spot. At 14.00 CET, following the closing of the Elspot auction, capacities available for Elbas trading all 24 hours of the following day are published.

As of May 2012, 336 participants traded on the Nord Pool Spot markets — Elspot and Elbas. Three hundred twenty six participants were trading on the Elspot market and 105 participants on the Elbas market. In both markets, participants are major energy companies in the region, plus a number of smaller and more local players. Diversity in the market and a high number of companies trading ensure a highly liquid market and good conditions for correct price-setting.

Macroeconomic Data

Lithuania

Lithuania became a member of the EU in 2004. Since June 2004, Lithuania has been part of the ERM II and committed to observe a central exchange rate of LTL 3.45280 to EUR 1.00, with a fluctuation band of $\pm 15\%$, but Lithuania unilaterally maintains a 0% fluctuation band around the central rate.

The table below presents the main macroeconomic indicators in Lithuania for the years 2007-2013.

	2013	2012	2011	2010	2009	2008	2007
Population (<i>millions</i>)	-	3.00	3.05	3.33	3.35	3.37	3.38
Real GDP growth rate (<i>% change on previous year</i>)	3.1*	2.9*	5.9	1.5	(14.8)	2.9	9.8
GDP per capita, market prices (<i>EUR thousand</i>)	-	-	10.2	8.4	8.0	9.7	8.5
Inflation rate (%)	-	-	4.1	1.2	4.2	11.1	5.8
Unemployment rate (%)	-	-	15.4	17.8	13.7	5.8	4.3

* forecast

Source: Eurostat

Lithuania, with its population of 3 million in 2012, is one of the smallest countries in Europe. Its population has been decreasing over the past five years and this trend continues.

The economic growth of Lithuania after EU accession in 2004 remained one of the highest in the EU and up until the start of the global financial crisis. The Lithuanian economy was heavily affected by the crisis and the GDP growth rate plummeted in 2009 by 14.8%. The Lithuanian government reacted to the crisis by increasing taxes and reducing state pensions, state support and other state expenses. From 2010, the Lithuanian GDP growth rate has been positive and the economy is showing signs of recovery. However, in the coming years it is not expected to return to the high levels of dynamic growth recorded before the crisis. In 2011, GDP in Lithuania increased by 5.9%, compared to 2010 and it is estimated that Lithuanian GDP will continue to increase in 2012 and 2013.

The GDP per capita decreased after 2008 as a result of the crisis, partially reflecting the measures undertaken by the government in response to the economic situation. However, it should be noted that in 2011, GDP per capita in Lithuania exceeded pre-crisis levels.

After accession to the EU, the inflation rate in Lithuania grew continuously and reached its peak in 2008. The dynamic of inflation rate growth in 2008 resulted from an overheating of the economy, fuelled by, among others, easy access to credit. The decrease in the following years was attributable to the down turn of the economy. According to Eurostat, in 2011, the inflation rate in Lithuania was 4.1%.

The unemployment rate in Lithuania increased dramatically, reaching double digits, following the 2008 financial turmoil. In accordance with Eurostat, in 2011, the unemployment rate in Lithuania was 15.4%.

Latvia

In 2004, Latvia became a member of the EU. Since May 2005, Latvia has been part of the ERM II and committed to observe a central exchange rate of LVL 0.702804 to EUR 1.00, with a fluctuation band of $\pm 15\%$, but Latvia unilaterally maintains a 1% fluctuation band around the central rate.

The table below presents the main macroeconomic indicators in Latvia for the years 2007-2013.

	2013	2012	2011	2010	2009	2008	2007
Population (<i>millions</i>)	-	2.04	2.07	2.25	2.26	2.27	2.28
Real GDP growth rate (<i>% change on previous year</i>)	3.6*	4.3*	5.5	(0.9)	(17.7)	(3.3)	9.6
GDP per capita, market prices (<i>EUR thousand</i>)	-	-	9.8	8.1	8.2	10.1	9.2
Inflation rate (%)	-	-	4.2	(1.2)	3.3	15.3	10.1
Unemployment rate (%)	-	-	16.2	19.8	18.2	8.0	6.5

* forecast

Source: Eurostat

Latvia, with its population slightly above 2 million, is one of the smallest countries in Europe. The population has been decreasing over the past five years and this trend continues.

The economic growth of Latvia after EU accession in 2004 remained one of the highest in the EU until the break-out of the global financial crisis. The Latvian economy was heavily affected by the crisis and the GDP growth rate began decreasing in 2008, and plummeted in 2009 by almost 18%. The Latvian government nationalized Parex Bank, the country's second largest bank, and was forced to ask the International Monetary Fund and the EU for emergency bailout loans. The state authorities reacted to the crisis by, among others, increasing in taxes and making sharp cuts to state expenses. In 2011, GDP in Latvia increased by 5.5% compared to 2010, and it is estimated that Latvian GDP will continue to increase in 2012 and 2013.

GDP per capita decreased after 2008 as a result of the crisis, partially reflecting the measures undertaken by the government in response to the economic situation. However, it should be noted that in 2011, GDP per capita in Latvia nearly reached its pre-crisis levels.

Since accession to the EU, the inflation rate in Latvia has been continuously growing, reaching its peak in 2008. The dynamic of inflation rate growth in 2008 resulted from the overheating of the economy, fuelled by, *inter alia*, easy access to credit. The decrease in the following years was attributable to the down turn in the economy. According to Eurostat, in 2011, the inflation rate was 4.2%.

The unemployment rate in Latvia has increased dramatically, reaching double digits following the 2008 financial turmoil. In accordance with Eurostat, in 2011, the unemployment rate in Latvia was 16.2%.

Estonia

Estonia became a member of the EU in 2004. Since 1 January 2011, it has been a part of the Euro zone.

The table below presents the main macroeconomic indicators in Estonia for the years 2007-2013.

	2013	2012	2011	2010	2009	2008	2007
Population (<i>millions</i>)	-	1.34	1.34	1.34	1.34	1.34	1.34
Real GDP growth rate (<i>% change on previous year</i>)	3.1*	2.5*	8.3	3.3	(14.1)	(4.2)	7.5
GDP per capita, market prices (<i>EUR thousand</i>)	-	-	11.9	10.7	10.3	12.1	12.0
Inflation rate (%)	-	-	5.1	2.7	0.2	10.6	6.7
Unemployment rate (%)	-	-	12.5	16.9	13.8	5.5	4.6

* forecast

Source: Eurostat

With its population of 1.34 million, Estonia is the smallest country among the Baltic States.

The economic growth of Estonia following EU accession in 2004 remained one of the highest in the EU until the outbreak of the global financial crisis. The Estonian economy was affected by the crisis and its GDP growth rate began to decrease in 2008, and plummeted in 2009 by over 14%. The state authorities reacted to the crisis by, among others, increasing VAT. In 2011, GDP in Estonia increased by 8.3% compared to 2010, and it is estimated that Estonian GDP will continue to increase in 2012 and 2013.

The GDP per capita decreased after 2008 as a result of the crisis. However, it should be noted that in 2011, GDP per capita in Estonia has nearly reached its pre-crisis levels.

Following accession to the EU, the inflation rate in Estonia grew continuously and reached its peak in 2008. The dynamic of the inflation rate growth in 2008 resulted from the overheating of the economy, fuelled by, *inter alia*, easy access to credit. The decrease in the following years was attributable to the down turn of the economy. According to Eurostat, in 2011, the inflation rate was 5.1%.

The unemployment rate in Estonia has increased dramatically, reaching double digits following the 2008 financial turmoil. In accordance with Eurostat, in 2011, the unemployment rate in Estonia was 12.5%.

REGULATORY OVERVIEW

The information provided in this section is of a general nature, it has been included in the Prospectus exclusively as a summary of selected laws regulating generation, transmission and trading of electricity in countries where the Group conducts its operations, namely Lithuania, Latvia and Estonia, and presents the legal system existing as of the date hereof. Under no circumstances may it be considered as detailed and comprehensive analysis of the legal regulations impacting the Group's operations or as legal advice.

Lithuania

General information

The national regulatory framework of the Lithuanian electricity sector is set by the Parliament (Seimas) through its adopted laws (primary legislation). Procedural and administrative issues, based on the principles established by laws, are further elaborated on via legal acts adopted by the Government, the Ministry of Energy or other competent authorities (secondary legislation). Energy pricing and other powers of economic regulation in the energy sector are vested to an independent national regulatory authority – the National Control Commission for Prices and Energy (the “Commission”).

Commercial activities in the electricity sector are subject to specific authorizations for each respective regulated activity. Authorization powers are shared by the Ministry of Energy and the Commission. Permissions for activities such as the development of power generation capacities, generation of electricity, as well as import and export of electricity, are issued by the Ministry of Energy, while licenses for transmission, distribution and public supply of electricity, and permission for independent supply, are issued by the Commission.

Furthermore, certain market participants are required to report to the Ministry of Energy and/or to the Commission, depending on their respective authorization competences. Producers of electricity, the transmission system operator, distribution system operators, importers and exporters of electricity, as well as public and independent suppliers of electricity are required to report their regulated activities quarterly. Annual financial reports with independent audit are required from producers of electricity, the transmission system operator, distribution system operators, as well as public and independent suppliers of electricity. Costs and income from regulated activities should be accounted for separately of other commercial activities, whereas such costs and income related to electricity infrastructure activities (transmission and distribution) should be accounted for separately of any other activities in the electricity sector.

Political and strategic guidelines for development of the Lithuanian power system are based on increased security and reliability of supply, diversification of electricity imports, enhanced competitiveness of the electricity market, EU integration of the power system and the market, as well as sustainable development and decreasing the negative environmental impact of commercial activities in the electricity sector.

The recent reform of the Lithuanian regulatory framework in the electricity sector was based on mandatory requirements imposed upon the Member States by the EU Third Energy Package with regard to the organization of national electricity markets and regulation of respective activities. Following the EU requirements, the current regulatory scheme of the Lithuanian electricity sector deals with regulated electricity infrastructure activities – transmission and distribution of electricity, which are required to be unbundled from commercial activities in the sector. This also provides a legal framework for partly regulated commercial activities related to the generation, import, export, supply and trading of electricity.

In addition to EU and national legislation, Lithuania has ratified the WTO agreements and the Energy Charter Treaty, which are directly applicable and fully binding for activities in the Lithuanian electricity sector and respective external relations within their scope of regulation.

Authorizations

The following authorizations (licenses and permissions) are required for commercial activities in the Lithuanian electricity sector:

- license for transmission of electricity,
- license for distribution of electricity,
- license for public supply of electricity,
- permission for development of electricity generation capacities,
- permission for generation of electricity,
- permission for construction of direct line,
- permission for export of electricity to non-EU countries,
- permission for import of electricity from non-EU countries,

- permission for supply of electricity required from non-EU suppliers,

More details regarding particular licenses and permissions are provided below.

Generation of Electricity

Authorizations

The generation of electricity in Lithuania is subject to two permissions issued by the Ministry of Energy: (i) permission for development of electricity generation capacities, required in case new power units are intended for construction, or any extension of the existing capacities is planned; and (ii) permission for generation of electricity, required in each case for commercial activities related to the generation of electricity. Each of permissions for the development of electricity generation capacities or for generation of electricity is related to the object (generation capacities), *i.e.* the same entity is required to have separate permissions for respective activities – development or generation – at separate power plants.

Permissions are issued in 30 days after the respective request and required documentation has been submitted to the Ministry of Energy. The fixed stamp duty is equal to LTL 100 (EUR 29) for issuance of the development permission and LTL 200 (EUR 58) for the issuance of the generation permission. Development permissions are issued on a non-discriminatory basis, for 2 or 3 years, with the possibility for extension. Generation permissions are issued for an indefinite time period.

Requirements for activities

Each power plant, whether developed or operating in Lithuania, is required, among others, to comply with safety and reliability requirements, not to have a negative impact upon the power system, not to have a negative environmental or public health impact, and to comply with the requirements for territorial planning and construction, etc.

Particular requirements are set out by secondary legislation and technical standards, and may significantly vary depending on the specific technology used for generation of electricity. For example, renewable energy development is due to more flexible regulatory requirements based on overall promotion of renewable energy; however, nuclear energy development is highly restricted in adherence to international and national nuclear safety requirements.

Pricing

Following the general rule applied under Lithuanian legislation, the electricity generation price is not regulated. Producers of electricity are free to sell electricity under bilateral contracts to suppliers (traders) or to trade in electricity themselves, if duly authorized for independent supply of electricity, as explained herein below.

Irrespective of its generally unrestricted market, the Commission still maintains the right to step in with regulation of the electricity price in the event that market analysis performed by the Commission reveals a major market impact by the particular producer or lack of effective competition. There is no clear concept of a “major market impact”, and is objectively determined by the Commission; however, a dominant market position and ability by the producer to manipulate the market prices are key factors for such a determination by the Commission.

Following the shutdown of the Ignalina NPP in 2009, none of the Lithuanian electricity producers have fallen under the regulation of the electricity generation price.

Specific regulatory regime

A specific regulatory regime is applied for generation of electricity:

- at thermal cogeneration plants – based on EU regulations, guaranteed price is established by the Commission with specifically determined support quota and guaranteed purchase of produced electricity under the terms and conditions provided by legal acts;
- at specifically designated power plants with indicated significance for security of supply or national reserve capacities – this is treated as a public service obligation and is subject to a guaranteed price for electricity and purchase obligations under the terms and conditions provided by legal acts;
- from renewable energy sources.

Following EU and national legal instruments designed for promotion of the use of renewable energy, a specific regulatory regime is applied in Lithuania for generation of electricity from renewable energy sources. The renewable energy support scheme applied in Lithuania covers several privileges guaranteed for renewable electricity producers targeted to improve their competitiveness in the market compared to other electricity producers using conventional fuels, including feed-in tariffs established by the Commission or obtained by the producer at the support quota auction (feed-in tariffs guarantee the respective price for each kilowatt-hour of produced electricity, depending on energy source and installed capacity of the power plant, e.g. the feed-in tariffs for 1 MWh produced by wind turbine varies from LTL 280 (EUR 81) to LTL 370 (EUR 107) depending on its installed capacity), possibility for centralized sale of electricity from renewable sources, obligatory purchases

of all electricity implemented by the public supplier or other entity designated by the Ministry of Energy, reduced price for connection to the grid, release from balancing obligations, priority for transmission of electricity, and other support mechanisms established by legal acts.

Support mechanisms applied to renewable electricity producers are fixed at the day the permission for development of power generation capacities is issued, following legislation in force at the time, and remain unchanged (including the feed-in tariff) for the entire 12-year period, starting from the date of issuance of the permission for generation of electricity.

Following the law, the support mechanisms explained above will be guaranteed by the State up to the defined quota for total installed capacity of renewable power generation units, that is – 500 MW for wind power, 10 MW for solar power, 141 MW for hydropower and 355 MW for biomass. After these quotas are reached, the Government is empowered to take relevant decisions upon further development of renewable electricity generation in Lithuania, and any respective support instruments to be applied thereto. However, a more favourable regime is applied for small wind and solar power plants up to 30 kW of installed capacity, as their total capacities are not calculated to the general quota indicated above, and support mechanisms are guaranteed for them without any quota restrictions.

Transmission and Distribution of Electricity

The electricity transmission is done via high voltage electricity network for transmission of electricity, including cross-border connections, up to the connection with the distribution grid. Electricity distribution is carried out via the medium or low voltage electricity network for transmission of electricity up to the connection points of the end-consumers' internal electricity grids.

Authorizations

The electricity transmission operator in Lithuania is required to hold a licence for the transmission of electricity issued by the Commission. The transmission licence is exclusive and is issued for one single entity for transmission activities within the territory of Lithuania. Currently, LITGRID AB is the only licensed transmission system operator in Lithuania.

The electricity distribution operator in Lithuania is required to hold a license for the distribution of electricity issued by the Commission. Currently, AB LESTO holds the respective distribution licence covering nearly all of the territory of Lithuania, except for the small local systems where distribution of electricity is guaranteed by the other 6 entities licensed as distribution system operators.

The licences are issued 30 days from submission of the respective request and required documentation to the Commission. The fixed stamp duty for issuance of the license is LTL 2,000 (EUR 579). The transmission and distribution licenses are issued for an indefinite time period.

Requirements for activities

The electricity transmission licence may be issued to the entity which owns or otherwise legally possesses the electricity transmission system.

In adherence with EU unbundling requirements, Lithuanian law imposes ownership unbundling on the transmission system operator, which means that the transmission system operator has to be fully separated from any vertically integrated energy company in terms of its management and ownership structure, and shall have no commercial interests in generation or supply (trade) of electricity and vice versa. The final ownership unbundling of the transmission system operator will be implemented by the end of 2012.

The electricity distribution licence may be issued to an entity which owns or otherwise legally possesses the electricity distribution system.

The unbundling requirements are not applied to distribution system operators with less than 100,000 consumers within the territory of their licensed activities. In other cases, the distribution system operator is obliged only for legal, organizational and functional unbundling from commercial activities in the electricity sector, i.e. no ownership unbundling is required. AB LESTO was recently acknowledged by the Commission as being in fulfilment of the unbundling requirements.

Pricing

Electricity transmission and distribution prices are regulated by the Commission through the established cap prices for transmission and distribution services. The cap prices are generally established for a 5-year period and may be recalculated no more frequently than twice per year. Based on the cap prices, the transmission system operator and the distribution system operators establish particular transmission and distribution tariffs applied to consumers and submit these for approval by the Commission.

The following cap prices were established for the period 2009–2012, in MWh:

	2009	2010	2011	2012
Transmission	LTL 120.4 (EUR 34.9)	LTL 81.4 (EUR 23.6)	LTL 89.9 (EUR 26)	LTL 99.8 (EUR 28.9)
Distribution (medium voltage grid)	LTL 72.9/81.4 (EUR 21/23.6)	LTL 54.1/53.2 (EUR 15.7/15.4)	LTL 48.9 (EUR 14.2)	LTL 48.8 (EUR 14.1)
Distribution (low voltage grid)	LTL 110.9/102.3 (EUR 32.1/29.6)	LTL 79.8/67.4 (EUR 23.1/19.5)	LTL 63.9 (EUR 18.5)	LTL 64.1 (EUR 18.6)

Source: National Control Commission for Prices and Energy

Import and Export of Electricity

Authorizations

Cross-border trading in electricity between Lithuania and other EU Member States is free of any authorizations. However, the entity intending to import electricity from third countries (i.e. non-EU Member States) to Lithuania, or to export electricity from Lithuania to third countries, must obtain the import or export permission issued by the Ministry of Energy. Permissions are issued for import from or export to a particular state. Permissions for import or export of electricity may be issued to electricity suppliers duly authorized (see below), the permission for export may also be issued to producers of electricity.

The Group has required import and export permissions for cross-border trading between the Lithuanian power system and the Russian and Belarusian power systems.

Import and export permissions are issued in 30 days after submission of the respective request and required documentation to the Ministry of Energy. The fixed stamp duty is equal to LTL 200 (EUR 58) for issuance of the permission. Electricity import and export permissions are issued for an indefinite time period.

Requirements for activities

Lithuanian law requires that electricity import and export activities be based on justified contractual obligations for the sale or purchase of electricity entered into with entities active in the electricity markets of third countries from which the electricity is imported from or exported to. The import and export permissions are issued only after submission of at least preliminary contractual arrangements for sale and purchase of electricity with the entities operating in third countries. However, there is no future regulatory mechanism to control or otherwise restrict commercial transactions by the importer or exporter, which in principle renders the entity free to change its counterparties without any restrictions imposed by Lithuanian law.

Under Lithuanian law, all electricity imported to Lithuania (irrespective of its origin) has to be sold on the power exchange, as well as all electricity to be exported from Lithuania (irrespective of the export destination). This requirement for mandatory trading on the power exchange also applies for cross-border electricity trading with the EU Member States.

Pricing

The price of imported or exported electricity paid or obtained outside of the Lithuanian electricity market does not fall under Lithuanian jurisdiction and is not regulated to any extent.

However, the fee applicable in internal EU electricity market on the transmission between internal electricity markets and third countries - the input fee - levied on the import/export of electricity to/from the third countries, has to be paid by respective importers and exporters. Following the ITC Clearing and Settlement Agreement, entered by the ENTSO-E member transmission system operators on 22 March 2011, the input fee is equal to 0.8 EUR/MWh. The input fee has to be paid for the actual volume of electricity imported/exported to/from third countries under the contract entered into with the transmission system operator.

Supply of Electricity and Electricity Trading

Regarding the distribution of electricity to end-customers, there are two types of suppliers: public and independent. Under Lithuanian law, all commercial consumers are required to select an independent supplier, otherwise the last resort supply of electricity is guaranteed by the public supplier at the regulated price, with an extra margin for supply of last resort. Household consumers have the right to select an independent supplier, but no obligation is established thereto and no extra margins are applied for the guaranteed supply of electricity by the public supplier.

Authorizations

Under Lithuanian law, the license issued by the Commission is required in order to undertake activities of public supply of electricity. The public supply functions are usually covered by the distribution system operator.

Currently, the major public supplier in Lithuania is AB LESTO. Other 5 distribution system operators possess the respective licence for public supply of electricity in local power systems under their operation.

The previously-required licence for independent supply of electricity was abolished at the beginning of 2012, and currently, each commercial entity may undertake independent supply activities whether under permission issued by the Commission or, if the entity is incorporated in Lithuania or any other EU Member State, by simple notification to the Commission.

The Group is acting as independent supplier.

The licence for public supply of electricity is issued 30 days after submission of the respective request and required documentation to the Commission. The fixed stamp duty for issuance of the license is LTL 2,000 (EUR 579). The stamp duty for the Commission's approval of the legal status of independent supplier, in case of notified respective activities, is LTL 42 (EUR 12). Both the activities of public and independent supply of electricity are not limited in time.

Requirements for activities

Each supplier has the right to purchase electricity under bilateral contracts with producers or other suppliers, or on the power exchange, and to sell electricity under bilateral contracts with other suppliers, on the power exchange or to supply electricity for its final consumption to end consumers.

The Group both purchases electricity under bilateral contracts with producers and other suppliers, as well as on the power exchange. The Group is also active both in the wholesale and retail electricity markets, *i.e.* sells electricity under bilateral contracts with other suppliers, on the power exchange and supplies electricity to end consumers.

Currently, the electricity market fluctuations in Lithuania may be secured only by bilateral forward or future contracts between two suppliers (OTC trading). However, a centralized platform for trading in electricity market derivatives is under development and is expected to be launched by the end of 2012.

Each supplier active in the Lithuanian electricity market is responsible for securing the balance between electricity purchased and sold in the market. For this purpose, each supplier is required to enter into a balancing service agreement, whether with the transmission system operator directly or with another balance provider. Each supplier who enters into a balancing service agreement with the transmission system operator may serve as a balance provider and sell the balancing electricity to other suppliers.

Pricing

The price of electricity supplied by the public supplier is regulated by the Commission through the established cap prices for different groups of customers. The particular prices are set by the public supplier and are applied for a period of 6 months (half of the calendar year) after approval by the Commission.

The following cap prices were established for the period 2009–2012, MWh:

	2009	2010	2011	2012
Public Supply	LTL 199.6-383.5 (EUR 57.8-111.1)	LTL 239.5-373.6 (EUR 69.4-108.2)	LTL 253.6-366.4 (EUR 73.4-106.1)	LTL 263.6-376.5 (EUR 76.3-109)

Source: National Control Commission for Prices and Energy

Following the general rule applied under Lithuanian legislation, the price of electricity supplied by the independent supplier is not regulated, and market-based competition between different independent suppliers is enhanced.

Regardless of the market's generally unrestricted approach, the Commission still maintains the right to step in with regulation of the electricity price in the event its market analysis reveals a major market impact by the particular independent supplier or identifies a lack of effective competition. There is no clear concept of what defines a "major market impact", and this designation is left to the subjective opinion of the Commission. A dominant market position and ability by a particular independent supplier to manipulate market prices may be considered a reason for such statement by the Commission. However, so far there has been no practical example for the Commission to regulate the price of electricity sold by independent suppliers.

The Commission, in its Electricity Market Report 2011, stated that the wholesale electricity market (trading between suppliers) in 2011 was highly concentrated, as four major market participants held more than 82% of the market. However, taking into account that no market abuse was concluded, or any competition infringements were identified, the Commission did not take any regulatory measures in this regard.

The retail electricity market (delivery to end customers) in Lithuania is acknowledged by the Commission in its Electricity Market Report 2011 as highly a competitive market, with approximately 27 authorized independent suppliers active in electricity trading and/or its supply to end consumers.

Power Exchange

The operation of the Lithuanian power exchange is assigned to Nord Pool Spot AS, the operator of the Nordic power exchange, which administers and operates “NPS Lithuania” – the platform for day-ahead electricity spot trading. Establishment of the NPS price area in Lithuania was one of the guideline targets set by the Baltic Energy Market Interconnection Plan (BEMIP), as approved by the Memorandum of Understanding between the European Commission, Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland and Sweden, dated 17 June 2009.

Under Lithuanian law, all electricity cross-border delivered to Lithuania must be sold on the power exchange, as well as all electricity to be exported from Lithuanian domestic market must be purchased on the power exchange. All producers and suppliers of electricity active in the Lithuanian market are allowed to trade on the power exchange.

Electricity trading at NPS Lithuania is subject to registration as a participant of the power exchange and entrance into contractual arrangements with the power exchange operator, Nord Pool Spot AS. Each trader at NPS Lithuania is bound by fixed annual and variable fees applied for Elspot trading and set by Nord Pool Spot AS, including an annual fixed fee of EUR 15,000, a variable trading fee of 0.035 EUR/MWh and variable settlement fee of 0.025 EUR/MWh. All producers and suppliers of electricity active in the Lithuanian market are allowed to trade on the power exchange.

Participants on the power exchange are required to post a minimum collateral of EUR 30,000 or the equivalent to one week's worth of trading on Elspot, including VAT, excluding trading fees. Collateral can be posted as cash on a pledged account or as an on-demand guarantee. For participants who only act as sellers, the collateral requirement is always equal to the minimum collateral requirement. However, for participants who only act as buyers, the collateral requirement is equal to the value of the last 7 days of purchases, including VAT, or at least the minimum collateral. The current collateral call presented by Nord Pool Spot AS can be monitored through the security report delivered to exchange participants on a daily basis. The adjusted collateral has to be available before 11 AM on the same day.

Apart from the power exchange, which serves as a mandatory trade platform for imported and exported electricity, the electricity market participants active in the Lithuanian market are free to trade electricity under bilateral contracts and to undertake activities of electricity supply to end consumers.

Latvia

General information

The basic legislative framework of the electricity industry in Latvia is regulated by the Energy Law, the Electricity Market Law, the Law on Regulators, as well as several subordinated regulations of the Cabinet of Ministers. Energy management, including with respect to renewable resources, is carried out by the Cabinet of Ministers and is implemented by the Ministry of Economics.

Energy supply is a government-regulated public utility and is generally regulated by the Public Utility Commission („PUC”) which acts subordinately to the Minister of Economics.

The electricity market in Latvia has been undergoing a gradual liberalisation. Currently any entity may sell electricity in the open market in Latvia.

The recent reform of the Latvian regulatory framework in the electricity sector was based on mandatory requirements imposed upon the Member States by the EU Third Energy Package with regard to the organization of national electricity markets and regulation of respective activities. Following the EU requirements, the current regulatory scheme of the Latvian electricity sector deals with regulated electricity infrastructure activities – transmission and distribution of electricity, which are required to be unbundled from commercial activities in the sector. This also provides a legal framework for partly regulated commercial activities related to the generation, import, export, supply and trading of electricity.

In addition to EU and national legislation, Latvia has ratified the WTO agreements and the Energy Charter Treaty, which are directly applicable and fully binding for activities in the Latvian electricity sector and respective external relations within their scope of regulation.

Licenses

The following licenses and permissions are required for commercial activities in the Latvian electricity sector:

- permission for generation of electricity,
- license for transmission of electricity,
- license for distribution of electricity.

More details regarding licenses and permissions are provided below.

Generation of Electricity

Authorizations

Generating electricity at power plants requires permission from the ministry of Economy.

Furthermore, where production capacity exceeds 1 MW, the producer wishing to begin electricity production must register with the register of electricity producers maintained by the PUC. The PUC usually registers the producer within a period of one week (however, pursuant to the law, this may take up to one month).

In order to begin electricity generation at power plants and install new generation capacity, a producer needs to obtain a permit from the Ministry of Economics. The Ministry of Economics renders its decision within a period of 30 days.

The producer must start installing the new capacity within the 2-year period from when the Ministry of Economics has adopted its decision. The producer must notify the Ministry of Economics of the commencement of works. If construction does not commence within the 2-year time period, the permission is cancelled. The permit may be prolonged for a subsequent period of two years, subject to the application of the producer.

The validity period of a permit is three years (if the production capacity is 1 MW or less) or five years (if the production capacity exceeds 1 MW).

Requirements for activities

Each power plant, whether in development or currently operating in Latvia, is required to, among others, comply with safety and reliability requirements, not have any negative impact upon the power system, not have any negative environmental or public health impact, and comply with requirements for territorial planning and construction, etc.

The Law on Pollution contains general regulation as to the performance of pollution-producing activities. For example, wind parks with a capacity of over 125 kW are considered Category C pollution-producing activities and consequently, no special permit is required, but the environmental protection institutions shall be notified no less than 30 days prior to commencement of their operation. The application for the commencement of Category C pollution-producing activities should be filed with the respective Regional Environmental Board, which then sends a confirmation letter to the applicant within 14 days of receipt of an application, if the application is complete. In addition, Latvian law requires other authorisations with respect to the impact of wind farms on the environment.

Pricing

Following the general rule applied under Latvian legislation, the electricity generation price is not regulated. Producers of electricity are free to sell electricity under bilateral contracts to suppliers (traders) or to trade in electricity themselves if duly authorized for independent supply of electricity as explained herein below.

Specific regulatory regime

The Latvian government has been promoting the use of electricity generated from renewable energy sources mainly through a feed-in tariff granted in its mandatory procurement procedure. However, the organization of tenders for granting the mandatory procurement rights has been suspended (see more information below).

The Market Law provides for the fundamental regulation on mandatory procurement, which is defined as the obligation to procure electric power. Renewable energy producers may acquire the right to sell the electricity they produce in the form of a volume of electricity to be procured by the public trader. The Ministry of Economics is entrusted with the task of organizing tenders for the acquisition of mandatory procurement rights, while the public supplier („Latvenergo”) has an obligation to purchase electricity from the entitled producers. The costs of this procurement are covered by all end users of electricity in Latvia, in proportion to their consumption, when buying electricity from the public trader.

During the period from 26 May 2011 through 1 January 2013, no tenders will be organized regarding the acquisition of mandatory procurement rights, due to necessity to evaluate whether such support is economically sound and in order to prevent a greater-than-expected increase in the end tariff (as costs are covered by all end users in Latvia in proportion to their consumption). Legislation works are pending, pursuant to which it is planned to extend the validity period of this suspension until 1 January 2016.

Transmission and Distribution of Electricity

In the energy supply sector, transmission of electricity, if the voltage is 110 kV or higher, and distribution of electricity, if the voltage is higher than 1 kV and does not exceed 110 kV, are subject to regulation.

Electricity transmission is carried out via a high voltage electricity network for transmission of electricity, including cross-border connections, up to connection with the distribution grid. Electricity distribution is carried out via a medium or low voltage electricity network for transmission of electricity to the connection points of the end-consumers' internal electricity grids.

Authorizations

There is a single licensed transmission system operator in Latvia, currently AS "Augstspriegumu tīkls". On 1 April 2011, a new company, AS "Latvijas elektriskie tīkli", began operations to comply with the requirements of Directive 2009/72/EC according to which an independent system operator and transmission system owner must be established in Latvia. AS "Latvijas elektriskie tīkli", as transmission system owner, will own all of the 330 kV and 110 kV power lines and substation/distribution points previously serviced by AS "Augstsprieguma tīkls".

The PUC issues licenses to the distribution system operator and determines the operation area of each distribution system operator. The PUC has the right to alter the borders of operation for the already-issued licenses. Any overlapping of the licence operation areas of distribution system operators is not allowed.

Requirements for activities

A transmission system operator is statutorily obligated to transmit via the transmission system the electricity generated and sold by producers on the basis of non-discriminatory criteria.

Pricing

Electricity transmission and distribution prices are regulated by the PUC. The costs of use of the transmission system are ultimately borne by the consumers.

The table below sets out transmission system operator's electricity transmission service tariffs approved by the PUC, differentiated depending on the technical capacities of users, for the indicated period:

	2009 ¹	2010 ²	2011 ³	1 April 2012 ⁴
Electricity Transmission (LVL/kWh)	0.00144- 0.00190	0.00144- 0.00190	0.00214-0.00275	0.00231-0.00308
VAT excluded				
Fee for maintenance and development of transmission capacity (LVL/kW/year)	4.087- 5.362	4.087- 5.362	4.556-5.928	4.947-6.695
VAT excluded				

Source: PUC, Augstsprieguma tīkls AS

The tariffs of the distribution system services are determined by the PUC or by the distribution system operator in accordance with methodology of tariff calculation determined by the PUC and subject to the consent of the PUC. The PUC approves tariffs for each distribution system operator separately.

Import and Export of Electricity

Authorizations

Cross-border trading in electricity between Latvia and other EU Member States is free of any authorizations. Likewise, trading between Latvia and non-EU states is free of any authorizations. However, traders that import or export electricity from or to non-EEA countries have to declare the volume of imported or exported electricity. In addition, those traders must conclude an agreement with a transmission system operator regarding compensation of expenses associated with the transmission of such electricity.

Requirements for activities

Market participants who declare import of electricity from countries not included in the EEA, or export of electricity to countries not included in the EEA, must enter into a contract with a transmission system operator before closing the business transaction where the respective market participant undertakes to cover expenses incurred by a transmission system operator, including payments established in contracts with the European Commission, "The European Network of Transmission System Operators for Electricity" (ENTSO-E) and European Transmission System Operators (input fee) which are associated with the import of electricity from countries not included in the EEA or export of electricity to countries not included in the EEA.

¹ Source for 2009 electricity transmission service tariffs:

http://www.ast.lv/portal/page/portal/CORPORATEPAGES/AST/Latvian/annual_reports/AST_Gada_parsk_2009_final.pdf page 12.

² In 2010 Electricity transmission tariffs were the same as in 2009; these tariffs came into force on August 1, 2007. Source:

http://www.ast.lv/portal/page/portal/CORPORATEPAGES/AST/Latvian/annual_reports/AST_2010_g_parskats.pdf page 12.

³ New tariffs were introduced with 7 May, 2010 decision. Source for electricity transmission service tariffs for 2011:

http://www.ast.lv/portal/page/portal/CORPORATEPAGES/AST/Latvian/annual_reports/Gada_parsk_2011.pdf page 5.

⁴ Source for 2009 electricity transmission service tariffs: <http://www.sprk.gov.lv/?sadala=640&id=12660>

Pricing

The price of imported or exported electricity paid or obtained outside of the Latvian electricity market does not fall under Latvian jurisdiction and is not regulated to any extent.

However, the fee applicable in the EU internal electricity market on the transmission between internal electricity markets and the third countries - the input fee - levied on the import/export of electricity to/from the third countries has to be paid by the network operator to the fund created by the inter-transmission network operator compensation mechanism for electricity transit. Input fees shall be charged on those electricity flows which originate from or end in such countries which have not joined the aforementioned compensation mechanism. The input fee has to be paid for the actual volume of electricity imported/exported to/from the third countries under the contract entered into with the transmission network operator. The amount of the input fee shall be determined each year in an agreement between the network operators, which forms part of the compensation mechanism. In 2012, the relevant fee is equal to 0.8 EUR/MWh.

Supply of Electricity and Electricity Trading

Sales of electricity to any user of electricity in excess of 4,000 MWh total sales volume per year are subject to regulation. Regarding distribution of electricity to end-customers, there are two types of suppliers: public and independent. Commercial and household consumers have the right to select an independent supplier, but no obligation is established thereto and no extra margins are applied for guaranteed supply of electricity by the public supplier.

The state-owned company, Latvenergo, is currently the sole public supplier within the territory of Latvia, and is the company with a distribution licence for the largest validity area in Latvia and the highest number of users connected to networks. Latvenergo has a licence issued for trading electricity with a validity period through 14 October 2013, where Latvenergo has an obligation to perform duties of the public supplier, including an obligation to purchase electricity produced by renewable energy resources under mandatory procurement. Latvian subsidiaries of Latvenergo are the licensed transmission system operator (AS „Latvijas elektriskie tīkli”) and licensed distribution system operator (AS „Sadales tīkls”).

Authorizations

Pursuant to Electricity Market Law, the producer or the trader of electricity who has been registered with the register of electricity producers and traders maintained by the PUC, can trade electricity without any further registration/notification obligations to other traders of electricity (via bilateral agreements with suppliers, the power exchange, or trade in balancing electricity).

Requirements for activities

Each supplier has the right to purchase electricity under bilateral contracts with producers or other suppliers, or on the power exchange, and to sell electricity under bilateral contracts with other suppliers, on the power exchange or to supply electricity for its final consumption to end consumers.

Each supplier active in the Latvian electricity market is responsible for securing the balance between electricity purchased and sold in the market. For this purpose, each supplier is required to enter into balancing service agreements, either with the transmission system operator directly or with another balance provider. Each supplier who enters into the balancing service agreement with the transmission system operator may serve as a balance provider and sell its balancing electricity to other suppliers.

Pricing

The price of electricity supplied by the public supplier (Latvenergo), and other suppliers that supply electricity to eligible customers, is regulated by PUC. These prices differ according to type of consumer, time of day and volume of electricity used.

	2009 ¹	2010 ²	April 1, 2011 ³	2012 ⁴
Price of Electricity LVL/kWh VAT excluded	0.03319-0.08179	0.03319-0.08179	0.04427- 0.10718	0.04427- 0.10718
Price of Electricity per year LVL/per year VAT excluded	9.60-104.52	9.60-104.52	9.60- 104.52	9.60- 104.52

Source: PUC, Latvenergo

The decision of the PUC which established these prices as at the date of the Prospectus has been annulled by the Regional Administrative Court. The litigation in this case is still pending however. The court has ruled that the two different tariffs which were applied to eligible consumers (depending on the volume of electricity consumed within a one-year period), and the factors which were chosen in order to establish which tariff should be applied (any eligible consumer using more than 1200 kW within a one-year period must pay an incensed tariff) are not justified or based on proper economic logic. Even though the decision by the PUC by which the new tariffs were adopted is currently annulled, the new tariffs are still in effect and will remain effective until the PUC adopts a new decision regarding those tariffs.

Power Exchange

The amendments to the Electricity Market Law which have been in effect since August 2011 has introduced the regulation for a power exchange in Latvia. As at the date of the Prospectus no power exchange is active in Latvia. It has been declared by various sources that Latvia has plans to join the NordPool electricity market at the end of 2012 or beginning of 2013.

Estonia

General Information

The national regulatory framework of the Estonian electricity sector is set by the Estonian parliament (Riigikogu) through its adopted laws. The relevant legal requirements are mainly enacted in the Electricity Market Act, and safety aspects related to electricity are regulated in the Electrical Safety Act. Procedural, technical and administrative issues, based on the principles established by laws, are further elaborated on by legal acts adopted by the Government (most important being the Grid Code), the Ministry of Economic Affairs and Communications, or other competent authorities. Additionally, the energy sector is influenced by Environmental Law acts. Surveillance of the energy sector is vested in a Government agency – the Estonian Competition Authority (the “Authority”). More precisely, the issues related to electricity sector regulation are dealt with in the Energy and Water Regulatory Division of the Authority.

Commercial activities in the electricity sector are subject to specific activity licenses granted by the Authority. In relation to nuclear energy, there is a specific need for Parliamentary consent – namely nuclear electricity generation installations can be constructed and electricity can be generated by such installations only on the basis of a resolution of the Estonian Parliament – Riigikogu.

Market participants have certain reporting obligations. The Ministry of Economic Affairs and Communications and the Authority have rights for ad hoc inquiries in several cases specified in the law. The Cabinet of Ministers of the Republic of Estonia has the right to establish additional, duly substantiated requirements for an electricity undertaking regarding its accounts and the disclosure of reports. An electricity undertaking must organise the auditing of its activities. Also, the electricity undertaking must submit information concerning the formation of the price of electricity or network services to Statistics Estonia, pursuant to the procedure established in the Official Statistics Act. Periodic reporting to the transmission network is required for producers of renewable energy in relation to state support (for more specific information, see below). There are also multiple reporting obligations in relation to the balancing responsibility, which are rather detailed and not specifically listed here.

According to the development plan for the electricity sector, the mission of the Estonian energy sector is to ensure a constant, sustainable and reasonably priced electricity supply for Estonian inhabitants.

¹ For 2009 tariffs are in force since the adoption of decision on February 20, 2008. Source: http://www.latvenergo.lv/portal/page/portal/Latvian/latvenergo/main_page/pak_jur/tarifi_juridiskam_personam/tarifu_arhivs/Tarifi_2008_arhiva_m.pdf

² For 2010 tariffs are identical because the same decision applies. Source: http://www.latvenergo.lv/portal/page/portal/Latvian/latvenergo/main_page/pak_jur/tarifi_juridiskam_personam/tarifu_arhivs/Tarifi_2008_arhiva_m.pdf

³ For 2011 tariffs are in force since the adoption of decision on April 1, 2011. Source: http://www.sprk.gov.lv/doc_upl/AS_LE_gala_tarifi_no_2011.gada_1.aprila.pdf

⁴ For 2012 tariffs are identical because the same decision applies. Source: http://www.sprk.gov.lv/doc_upl/AS_LE_gala_tarifi_no_2011.gada_1.aprila.pdf

Recent reform of the Estonian regulatory framework in the electricity sector was based on mandatory requirements imposed upon the Member States by the EU Third Energy Package with regard to the organization of national electricity markets and regulation of respective activities. Following the EU requirements, the current regulatory scheme of the Estonian electricity sector deals with regulated electricity infrastructure activities – transmission and distribution of electricity, which are required to be unbundled from the generation or sale of electricity.

In addition to EU and national legislation, Estonia is a member of the WTO and has ratified the Energy Charter Treaty, which is directly applicable and fully binding for activities in the Estonian electricity sector and respective external relations within their scope of regulation.

Licenses

The following licenses are required for commercial activities in the Estonian electricity sector:

- license for terminating the exploitation of a generating installation which has a net capacity of over 1 MW,
- license for generation of electricity, except for generation by a producer using generating installations which have a total net capacity of less than 100 kW,
- license for transmission of electricity,
- license for distribution of electricity,
- license for conveying electricity via a direct current line crossing the national border,
- license for conveying electricity via a direct line,
- license for supply of electricity.

More details regarding licenses are provided below.

Generation of Electricity

Authorizations

An activity license for the generation of electricity is required, except for generation by a producer using generating installations which have a total net capacity of less than 100 kW. The state fee for issuance of this activity license is EUR 159.7, paid for every year of the validity of the license.

An activity license is required for terminating the exploitation of a generating installation which has a net capacity of over 1 MW. The state fee is EUR 639.11 for issuance of this activity license.

Licenses are issued 60 days after submission of respective data and documentation to the Authority. The license for terminating the exploitation of a generating installation expires on the date designated for termination of the activity as prescribed in the activity license. The license for the generation of electricity shall be issued for an unspecified term.

Requirements for activities

Each power plant, whether under development or currently operating in Estonia, is required, among others, to comply with safety and reliability requirements, to not have any negative impact upon the power system, to not have any negative environmental or public health impact, and to comply with requirements for territorial planning and construction, etc.

Particular requirements are set by different regulations; applicable technical standards for generating installations are enacted by the Grid Code, enacted by the Government. The relevant rules and standards vary depending on the installation and its rated active power. For example, requirements differ for production equipment of power plants with rated active power up to 1 MW, power plants with rated active power between 1 MW and 10 MW, and power plants with rated active power of over 5 MW. Also, wind turbines and wind farms are subject to supplementary requirements.

Pricing

Following the general rule applied under Estonian legislation, the price for electricity generation is not regulated. Pricing of electricity supplies is further considered below.

Specific regulatory regime

A specific regulatory regime is applied to generation of electricity:

- from renewable energy sources (water, wind, solar, wave, tidal and geothermal energy sources, landfill gas, sewage treatment plant gas, biogases and biomass);
- from efficient cogeneration processes.

Following EU and national legal instruments designed for the promotion of the use of renewable energy, a specific regulatory regime is being applied in Estonia for the generation of electricity from renewable energy sources and energy generation from efficient cogeneration processes. There are no limitations for the support, except for producers who use wind as the source of energy (a producer may receive support until the support is paid, up to a total amount of 600 GWh of electricity generated from wind power in Estonia in a calendar year). The current support scheme covers support for renewable electricity producers; producers using efficient cogeneration processes (including the following energy sources – biomass, waste, peat, carbonisation gas obtained as a result of oil shale processing); producers using efficient cogeneration processes for electrical capacity not exceeding 10 MW; waste incineration; and oil shale.

The sums of support paid at the producer's request for each kilowatt-hour of produced electricity are 0.0537 EUR or 0.032 EUR, depending on the exact source of energy or at the rate approved by the Authority, if the electricity is generated in an efficient cogeneration process using a renewable energy source or peat (the latter sums may be applied in the latter case; alternatively, it is not specified on which basis it is decided which rate to apply so that all three options are possible).

Producers using renewable energy resources and efficient cogeneration processes for electricity production that benefit from the state support schemes are subject to some additional obligations and requirements. For example, producers are not allowed to subsidize generation from renewable energy sources at the expense of generation from other sources, and vice versa.

Transmission and Distribution of Electricity

Electricity transmission is carried out via a high voltage electricity network for transmission of electricity, including cross-border connections, up to the connection with the distribution grid or business consumer. Electricity distribution is carried out via the medium or low voltage electricity network for transmission of electricity up to the connection points of the end-consumers' internal electricity grids.

Authorizations

The electricity transmission network operator in Estonia is required to hold an activity license for the provision of network services through a transmission network issued by the Authority. This license is exclusive and is issued for one single entity for transmission activities within the territory of Estonia. Currently, Elering AS is the licensed transmission network operator in Estonia.

The electricity distribution network operator in Estonia is required to hold the activity license for the provision of network services through a distribution network issued by the Authority. Currently, Elektrilevi OU holds the respective distribution license covering the majority of Estonia, except for the small local systems where the distribution of electricity is guaranteed by another 35 entities licensed as distribution network operators.

The licenses are issued 60 days after submission of the respective data and documentation to the Authority. The state fee for issuance of the activity license for the provision of network services through a transmission network is EUR 2,556.46. The state fees for issuance of the activity license for the provision of network services through a distribution network vary between EUR 958.67 and EUR 19,173.49, depending on the annual volume of services. The state fees for issuance of the latter activity licenses are paid for every year of validity of the license. The activity licenses for the provision of network services via a transmission network and via a distribution network are issued for an indefinite time period.

Requirements for activities

Following the EU unbundling requirements, Estonian law imposed an ownership unbundling obligation on the transmission network operator, which means that the transmission network operator has to be fully separated from any vertically integrated energy generation or supply company in terms of its management and ownership structure, and shall have no commercial interests in the generation or supply (trade) of electricity and vice versa. The transmission network operator is owned by the Estonian state and does not belong to a vertically integrated electricity supply company. However, the Ministry of Economic Affairs currently controls both the Elering–Estonian transmission network operator and Eesti Energia – the electricity generation and supply company. As of 1 March 2013, both Elering and Eesti Energia will need to be controlled by separate ministries.

The unbundling requirements are not applied to distribution network operators with less than 100 thousand consumers connected to the distribution network. In other cases, the distribution network operator is obliged only for legal, organizational and functional unbundling from commercial activities in the electricity sector, i.e. no ownership unbundling is required.

The activity licenses for the provision of network services via a transmission or distribution network may be issued to entities that meet certain requirements related to qualified staff, and economic and organizational conditions. Standard conditions for the provision of network services are subject to the Authority's approval.

Pricing

Some of the network charges (the charges payable for network services provided by a network operator) are subject to the Authority's approval (network connection, transmission charge, charge for reactive power taken

from or supplied to the grid, charges for extra services). The Authority approves the charges with respect to every network operator separately. Network charges are paid by the end-customers.

For some network charges, the Authority approves the method for calculating the network charges (connection charge, charge for amendment of conditions). Currently, the Authority has approved – separately for each of them - several network operators' methodologies for calculating network connection charges.

Import and Export of Electricity

Authorizations

Cross-border trading in electricity between Estonia and other EU Member States, as well as EEA countries and Switzerland, is free of any authorizations. The export and import of electricity to/from non-EEA countries is also free of authorizations, however the importers are required to obtain network services from the network operator.

Requirements for activities

Electricity can be imported only by the network operator (Elering AS) or a trader on the electricity exchange (see definition below). A trader on the electricity exchange can import electricity only for sale on the electricity exchange. A trader who wishes to import electricity may ask for the opinion of the network operator as to whether the planned electricity import will be allowed, taking into account the technical capabilities of the system. The network operator has the right to refuse to provide network services for the import of electricity in case the importer of electricity fails to comply with the requirements established by legislation for the import of electricity. The network operator also has the right to restrict or interrupt the import if this is required by the technical limitations of the system or the need to ensure the security of supply.

Pricing

The price of imported or exported electricity paid or obtained outside of the Estonian electricity market does not fall under Estonian jurisdiction and is not regulated.

However, the fee applicable in the EU internal electricity market on the transmission between the internal electricity market and third countries - the input fee - levied on the import/export of electricity to/from third countries (not-EU countries) has to be paid by the network operator to the fund created by the inter-transmission network operator compensation mechanism for electricity transit. Input fees shall be charged on those electricity flows which originate from or end in such countries which have not joined the aforementioned compensation mechanism. The input fee has to be paid for the actual volume of electricity imported/exported to/from the third countries under the contract entered into with the transmission network operator. The amount of the input fee shall be determined each year in an agreement between the network operators, which forms part of the compensation mechanism. In 2012, the relevant input fee is equal to 0.8 EUR/MWh.

Supply of Electricity and Electricity Trading

Except for minor exceptions and eligible consumers, currently until 2013, a domestic market participant may only purchase and/or consume electricity that is sold to it by the network operator to whose network the electrical installation of the market participant is connected, or by the seller designated by the network operator (i.e. Eesti Energia). Starting from 2013, the electricity market will be opened for all customers and every purchaser of electricity will be able to choose its electricity seller.

Electricity to eligible consumers can be supplied on a free market. Currently the notion of eligible consumer is related to a threshold of total electricity consumption during a calendar year, but starting from the year 2013, all consumers will be considered eligible. Each eligible consumer has the right to purchase electricity under bilateral contracts with network operators, or on the power exchange, and to sell electricity under bilateral contracts with other suppliers, on the power exchange or to supply electricity for its final consumption to end consumers, with some exceptions in related to buying and selling obligations.

On 1 January 2013, a new regulatory framework related to general service will enter into force. General service means that a small consumer (defined as a home consumer, apartment association, community of apartment owners and any business consumer whose electrical installation is connected on a low voltage via a main fuse of up to 63-amperes) has the right to buy electricity from a network operator to whose network its/his/her electrical installation is connected, at a price that is reasonable, justified and in accordance with the principle of equal treatment. This price is calculated by the provider of the general service for a calendar month on the basis of the weighted average price between the electricity price sold as a general service during this calendar month, and electricity prices published on the electricity exchange.

Authorizations

An activity license for selling electricity is required under Estonian law. The activity license is issued 60 days after submission of the respective data and documentation to the Authority. The state fee for issuance of this activity license is equal to EUR 639.11. The respective fee is paid for every year of validity of the license.

An activity license for selling electricity is not generally required for the sale of electricity on the power exchange. According to the definition in Estonian law, a power exchange trader is a market participant (except for Eesti Energia) whom the power exchange operator has authorised to trade on the power exchange by

having entered into a corresponding agreement with the trader. The power exchange trader may also be a foreign market participant whose network operator has entered into an agreement with the Estonian network operator to ensure the electricity supply by the relevant market participant. The wording of the Electricity Market Act is not entirely clear as to whether the activity license is necessary to trade on the power exchange. At least with regard to foreign traders, an activity license is not required, as agreements between systems operators is sufficient.

Requirements for activities

Each market participant active in Estonian electricity market is responsible for securing the balance between electricity supplied to the network and/or purchased by the market participant. For this purpose, each market participant is required to enter into a balancing service agreement with one seller (open supplier). The network operator shall be an open supplier with respect to the balance provider. The balance provider shall enter into a balance agreement with the network operator to ensure open supply.

Pricing

Until 31 December 2012, a network operator is subject to a selling obligation which means that it shall sell electricity to a market participant (except for eligible customers) that is connected to the operator's network and that purchases electricity for its own use or sells all purchased electricity to a market participant that is not an eligible customer and has to buy electricity for its own use from a network operator at a price within the limit of the weighted average price as approved by the Authority (as at the date of the Prospectus, the approved average prices are 0.0282 – 0.0404 EUR/kWh¹², excluding VAT, excise and network tariff, and vary for each market participant).

In addition, a network operator is subject to a buying obligation to which an annual average price limit applies in case the seller possesses generating installations with a total net capacity of at least 500 MW located in Estonia, subject to the Authority's approval. These price limits are the same as approved electricity weighted average prices for electricity sold within the framework of the selling obligation; however, with respect to the buying obligation, the prices of Eesti Energia Narva Elektriijaamad AS are relevant (*i.e.* 0.0307 EUR/kWh). The buying obligation applies to covering network losses and for securing respective amounts of electricity for sale to the market participants that are not eligible customers and have to buy electricity for their own use from a network operator.

Power Exchange

Operation of the Estonian power exchange is assigned to Nord Pool Spot AS, the operator of the Nordic power exchange, which administers and operates "NPS Estonia" – the platform for day-ahead electricity spot trading. Establishment of the NPS price area in Estonia was one of the guideline targets set by the Baltic Energy Market Interconnection Plan, as approved by the Memorandum of Understanding between the European Commission, Denmark, Germany, Estonia, Latvia, Lithuania, Poland, Finland and Sweden, dated 17 June 2009.

Under Estonian law, all electricity imported to Estonia by a power exchange trader has to be sold on the power exchange. This restriction does not apply to the network operator.

Electricity trading at NPS Estonia is subject to registration as a participant of the power exchange and entrance into contractual arrangements with the power exchange operator, Nord Pool Spot AS. Each trader at NPS Estonia is bound by fixed annual and variable fees applied for Elspot trading and set by Nord Pool Spot AS, including an annual fixed fee of EUR 15,000, a variable trading fee of 0.035 EUR/MWh and a variable settlement fee of 0.025 EUR/MWh.

Participants on the power exchange are also required to post the minimum collateral of EUR 30,000 or the equivalent to one week's worth of trading on Elspot, including VAT, excluding trading fees. Collateral can be posted as cash on a pledged account or as an on-demand guarantee. For participants who only act as sellers, the collateral requirement will always be equal to the minimum collateral requirement. However, for participants who only act as buyers, the collateral requirement will be equal to the last 7 days of purchases, including VAT, or at least the minimum amount of collateral. The current collateral call presented by Nord Pool Spot AS can be monitored through the security report. This report is distributed as a .pdf attachment to an e-mail in the morning of every clearing day. One of the columns in the security report is titled "collateral call". The total collateral that has to be available is stated in that column. The collateral has to be available before 11 AM on the same day. A sum equal to or larger than this has to be available in cash on the pledged account, or as an on-demand guarantee.

Future Development

Strategic national guidelines for development of the energy sector in Lithuania are set by the National Energy Independence Strategy (the Strategy) adopted by the Parliament, which establishes general objectives and targets by national energy policy for upcoming decades. The Strategy has to be reviewed at least every five

¹² <http://www.konkurentsiamet.ee/file.php?21570>

years and is implemented under the action plan adopted by the Government, and indicates clear projects and defined obligations for their implementation. Development of local power generation capacities in Lithuania is based on two major axes established by the National Energy Independence Strategy: construction of a new nuclear power plant and development of renewable energy sources. The target is that by 2020, nuclear and renewable energy resources should each make up approximately 25% of the total electricity balance in Lithuania, with the remaining portion left for other generation sources and diversified imports.

Latvia has undertaken to achieve a certain share of the total consumption of all electricity end users in Latvia from electricity generated by renewable energy resources, and to increase the share of energy from renewable sources in the gross final consumption of energy from 32.6% in 2005 to 40% in 2020.

A development plan for the electricity sector in Estonia has to be prepared every five years by the Estonian Ministry of Economic Affairs and Communications, and submitted to the Cabinet of Ministers of the Republic of Estonia for approval. Currently, the approved plan is the Development Plan of the Estonian Electricity Sector by 2018. In addition, there is the National Development Plan for the Energy Sector by 2020, approved by Riigikogu, which gives a more general framework and links together the development plan for the electricity sector, national development plan for the use of shale oil, and target program for energy saving.

THE ISSUER

The Issuer is a public limited liability company with its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, Vilnius. It is registered with the Register of Legal Entities of the Republic of Lithuania under number 126119913. The telephone and fax numbers of the registered office are +370 524 21 121 and +370 524 21 122, respectively.

The Issuer was incorporated on 21 December 2002, as a private limited liability company under the name UAB Energijos realizacijos centras. On 12 November 2009, the shareholders of the Issuer adopted a decision to change the name of the Issuer. On 23 December 2009, the new name, UAB INTER RAO Lietuva, was registered with the Register of Legal Entities of the Republic of Lithuania. On 20 July 2012, the General Meeting of the Issuer adopted a decision to transform the Issuer from a private limited liability company to a public limited liability company. The new legal form and name, AB INTER RAO Lietuva, was registered with the Register of Legal Entities of the Republic of Lithuania on 22 October 2012.

Corporate Purpose

The latest version of the Articles of Association was registered with the Register of Legal Entities of the Republic of Lithuania on 22 October 2012.

According to the article 2 of Articles of Association, the purposes of the activities of the Issuer are to engage in the economic activity, to ensure safe and effective operation of the Issuer, rational usage of the Issuer's assets and other resources by developing its business and seek for economic benefit and protect interest of the Issuer and its shareholders. The Issuer may engage in any legal economic-commercial activity, including, but not limited to, generation, transmission, distribution and sale of electricity, investment in the energy sector and implementation of other investment projects. The Issuer is also entitled to engage into any other activity not listed above, if it does not contradict to the purposes of the activity of the Issuer or the laws of the Republic of Lithuania. The Issuer may carry out the licensed activity only if appropriate licences and/or permits are obtained.

The Issuer has the status of independent supplier of energy in Lithuania and is engaged in the import and export of electricity, as well as electricity trading.

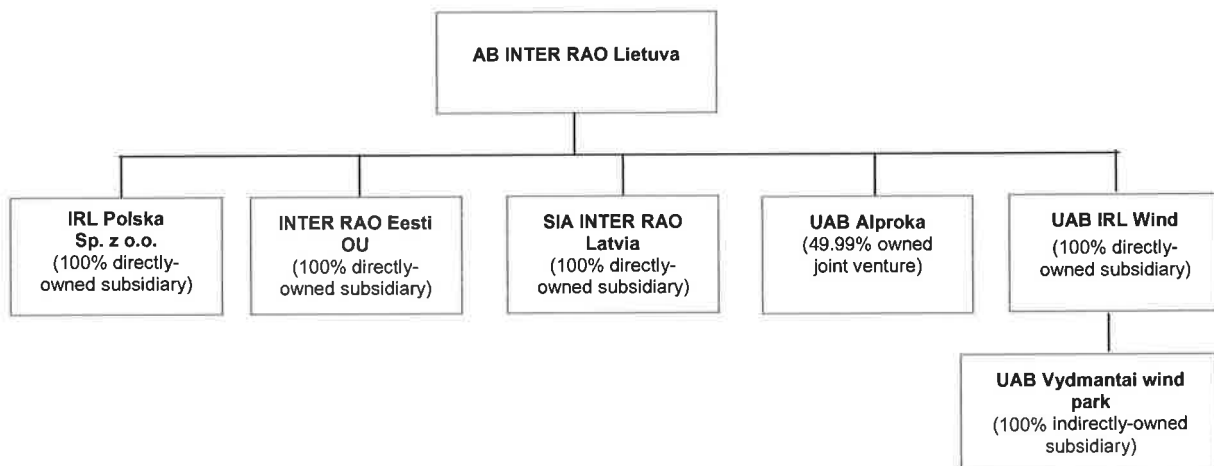
History and Development

2002	The Issuer was incorporated as UAB Energijos realizacijos centras.
2003	<p>The Issuer received its license as independent electricity supplier with permission to export electricity.</p> <p>The Issuer signed sale-purchase agreements with INTER RAO UES and Lietuvos energija AB.</p> <p>The Issuer began electricity trading activities by exporting electricity to Russia and Belarus.</p>
2004	Permission to import electricity was granted to the Issuer.
2005	<p>The Issuer began importing electricity to Lithuania.</p> <p>RAO Nordic OY (the Majority Shareholder), a wholly owned subsidiary of INTER RAO UES, acquired 18% of the Issuer's share capital from UAB VB rizikos kapitalo valdymas.</p>
2006	The Issuer acquired a 49.99% stake in UAB Alproka, a company engaged in real estate development in the Lithuanian seaside resort of Palanga.
2007	UAB Scaent Baltic (the Selling Shareholder) acquired an 82% stake in the Issuer's share capital from Scaent Holdings Cooperatie UA and Bengtsbädd Förvaltning AB.
2008	RAO Nordic OY (the Majority Shareholder) increased its shareholding in the Issuer by acquiring a 33% stake from UAB Scaent Baltic (the Selling Shareholder). The stake of RAO Nordic OY (the Majority Shareholder) in the Issuer's share capital reaches 51%, while the stake of UAB Scaent Baltic (the Selling Shareholder) decreases to 49%.
2009	<p>The Issuer signed electricity sale-purchase agreements with the Belarusian company, Belenergo and the Latvian company, Latvenergo.</p> <p>Cooperation regarding the sale of electricity with the largest electricity consumer in the Baltic States, Orlen Lietuva, was established. Delivery was initiated in 2010.</p> <p>The Issuer changed its name to UAB INTER RAO Lietuva.</p>

- 2010 The Issuer established two wholly-owned subsidiaries, one in Latvia (SIA INTER RAO Latvia) and the second in Estonia (INTER RAO Eesti OU).
SIA INTER RAO Latvia received its license for electricity trading in Latvia.
- 2011 SIA INTER RAO Latvia begins electricity trading operations.
The Issuer begins trading activities in the Estonian area of NordPool Spot.
The Issuer begins operations in electricity generation from renewable energy sources by acquiring the wind park in Vydmantai.
The Issuer signs an agreement with INTER RAO UES on potential export of electricity generated in Baltiiskaya NPP under construction in Kaliningrad Oblast.
- 2012 Decision on public offering and listing of the Issuer's shares on the Warsaw Stock Exchange is made.
Business entity (IRL POLSKA sp. z o.o.) in Poland is established.

Description of the Group

The following chart sets out the Issuer's subsidiaries and interests in those subsidiaries, as well as the structure of the Group, in each case as at the date of the Prospectus. For a more detailed description of the assets, see "*Business Overview*".



Subsidiaries

INTER RAO Eesti OU

Company name	INTER RAO Eesti OU
Legal form	Private limited company
Registered office	Väike-Karja 3/Sauna 2, 10140 Tallinn, Republic of Estonia
Date of registration	19 January 2010
Issued share capital	EUR 31,955
Shares	1 share with a nominal value of EUR 31,955
Shareholders	Issuer – 1 share (100% of the share capital)

Management Bodies	Members of the management board:
	Giedrius Balčiūnas
	Vidas Čebatariūnas
	Paulius Vazniokas
Principal Area of Activity	Gathering information on the Estonian electricity market
INTER RAO Latvia	
Company name	SIA INTER RAO Latvia
Legal form	Limited liability company
Registered office	Elizabetes 15-1, Riga, LV -1010, Republic of Latvia
Date of registration	14 January 2010
Issued share capital	LVL 2,000 (approx. EUR 2,846)
Shareholders	Issuer – 100% of the share capital
Management Bodies	Members of the board of directors:
	Paulius Vazniokas
	Vidas Čebatariūnas
Principal area of activity	Electricity trading
IRL POLSKA sp. z o.o.	
Company name	IRL POLSKA sp. z o.o.
Legal form	Limited liability company
Registered office	Wybrzeże Kościuszkowskie 43/2, 00-347 Warsaw, Poland
Date of incorporation	17 September 2012
Issued share capital	PLN 2,000,000
Shares	40,000 shares with a nominal value of PLN 50 each
Shareholders	Issuer – 40,000 shares (100% of the share capital)
Management Bodies	Members of the management board:
	Vidas Čebatariūnas
	Paulius Vazniokas
Principal area of activity	Electricity trading in Poland (however the company has not started electricity trading as at the date of the Prospectus)
UAB IRL Wind	
Company name	UAB IRL Wind
Legal form	Private limited liability company
Registered office	A. Tumėno 4, LT-01109, Vilnius, Republic of Lithuania

Date of registration	12 April 2011
Issued share capital	LTL 29,348,800 (approx. EUR 8,500,000)
Shares	293,488 ordinary registered shares with a nominal value of LTL 100 each
Shareholders	Issuer – 100% of the share capital
Management Bodies	CEO: Paulius Vazniokas
Principal area of activity	Holding company

UAB Vydmantai wind park

Company name	Vydmantai wind park, UAB
Legal form	Private limited liability company
Registered office	A. Tumėno 4, LT-01109, Vilnius, Republic of Lithuania
Date of registration	15 September 2011
Issued share capital	LTL 220,330 (approx. EUR 63,812)
Shares	22,033 ordinary registered shares with a nominal value of LTL 10 each
Shareholders	UAB IRL Wind (100% owned subsidiary of the Issuer) – 100% of the share capital
Management Bodies	CEO: Raimondas Augustėnas
Principal area of activity	Generation and sale of electricity from wind park

It should be noted that according to the credit agreement with Swedbank AB, UAB IRL Wind shall be merged into Vydmantai Wind Park, UAB by 13 July 2013.

UAB Alproka

Company name	UAB Alproka
Legal form	Private limited liability company
Registered office	Lvovo 25, LT-01109, Vilnius, Republic of Lithuania
Date of registration	8 May 2000
Issued share capital	LTL 800,000 (approx. EUR 231,696)
Shares	8,000 ordinary registered shares with a nominal value of LTL 100 each
Shareholders	Issuer – 49.99% of the share capital (3,999 shares) AB "Panevėžio keliai" – 50.01% of the share capital (4,001 shares)

	CEO:
	Rita Zakalskienė
	Members of the management board:
Management Bodies	Giedrius Balčiūnas
	Remigijus Juodviršis
	Gvidas Drobužas
	Algirdas Šimoliūnas
Principal area of activity	Real estate development

The Issuer directly holds 49.99% of the share capital of UAB Alproka, which was acquired in 2006. The investment in UAB Alproka was a one-time investment and the Issuer does not plan to further participate in the real estate development industry after the project conducted by UAB Alproka is closed.

UAB Alproka is engaged in real estate development in the Lithuanian seaside resort, Palanga. The company has developed a complex of apartments named "Vanagupes namai". The complex consists of 5 buildings with 6 floors each. UAB Alproka has already completed the development of the complex and has begun sales of the apartments. As at 1 October 2012, out of 447 apartments, 13 apartments are still to be sold.

Although under the shareholders' agreement UAB Alproka shall pay no dividends to shareholders until all agreed real estate projects related to construction and final sale are completed, a dividend has been paid in the past by mutual agreement of shareholders. When the sale of all apartments is completed, shares of UAB Alproka owned by the Issuer will be sold to AB Panevėžio keliai or alternatively, UAB Alproka will be liquidated.

Share Capital

As of the incorporation of the Issuer on 21 December 2002, the registered share capital of the Issuer was equal to LTL 100,000, divided into 100 ordinary registered shares with a nominal value of LTL 1,000 each. On 30 March 2006, the shareholders of the Issuer adopted a resolution to increase the share capital from LTL 100,000 to LTL 1,000,000, and to divide the share capital into 1,000 ordinary registered shares with a nominal value of LTL 1000 each. Such an increase of the share capital was made by issuing 900 new ordinary registered shares of the Issuer from the retained earnings of the Issuer and on 25 September 2006, the new share capital was registered with the Register of Legal Entities of the Republic of Lithuania.

On 20 July 2012, the General Meeting adopted a resolution to increase the share capital from LTL 1,000,000 to LTL 20,000,000, and to divide the share capital into 20,000,000 ordinary registered shares with a nominal value of LTL 1 each. Such an increase in share capital was made by converting 1,000 ordinary registered shares of the Issuer with a nominal value of LTL 1,000 into 1,000,000 ordinary registered shares with a nominal value of LTL 1 each, and by issuing 19,000,000 new ordinary registered shares of the Issuer from the retained earnings of the Issuer. The new share capital was registered with the Register of Legal Entities of the Republic of Lithuania on 22 October 2012. As of the date of the Prospectus, the issued and outstanding share capital of the Issuer amounts to LTL 20,000,000, divided into 20,000,000 ordinary registered shares with a nominal value LTL 1 each.

As at the date of this Prospectus, all of the issued and outstanding shares are fully paid up and there is no other authorised class of shares.

No depositary receipts for Shares in the capital of the Issuer have been issued with the agreement of the Issuer, and the Issuer has not been informed that any depositary receipts for Shares in the capital of the Issuer were issued without its agreement.

The Issuer has not issued any shares that do not represent participation in the share capital. No shares in the Issuer are held by or on behalf of the Issuer, or by direct and indirect subsidiaries of the Issuer. The Issuer has not issued any convertible shares or bonds, exchangeable shares or shares with warrants. The Issuer has not issued any acquisition rights or obligations over authorized but unissued capital, or any undertaking to increase the capital. The Issuer has not issued any share options.

Furthermore, there are no provisions of the Issuer's Articles of Association or other documentation that would have an effect of delaying, deferring or preventing a change in control of the Issuer, also governing the ownership threshold, above which the shareholder ownership must be disclosed. Moreover, there are no conditions imposed by the Articles of Association governing changes in the capital, where such conditions are more stringent than is required by law. However, the Shareholders' Agreements contains provisions regarding changes in the shareholding structure. For more information, see "*Shareholders – Shareholders' Agreement*" and "*Shareholders – Lock-up Arrangements*".

All of the Shares, including the Offer Shares, have been issued under the Civil Code of the Republic of Lithuania, the Law on Companies of the Republic of Lithuania, the Lithuanian Law on Securities and other related legal acts.

Rights Attached to Shares

The following is a summary of certain information in relation to the Issuer and of certain significant provisions of Lithuanian corporate and securities laws and the Articles of Association. In addition, it includes certain information on the Principal Shareholders' undertaking under the Shareholder Agreement that may influence the rights of other shareholders in the Issuer, as well as certain information on shareholders' rights after the Admission. This summary is intended to contain all material information in relation to the Issuer and the rights attached to the Shares, but does not purport to be complete. This summary is qualified entirely by reference to the Articles of Association, which can be obtained from the Register of Legal Entities of the Republic of Lithuania, and by Lithuanian corporate and securities laws in effect at the date of this Prospectus.

General Meeting

The General Meeting is the supreme corporate body of the Issuer. The Issuer must hold at least one Annual General Meeting within four months of the end of the financial year. The Annual General Meeting, among other things, is entitled to resolve important corporate matters, such as any amendments to the Articles of Association, any increase and reduction of the share capital of the Issuer, election and removal of members of the Supervisory Board, selection and removal of the audit firm, approval of the annual financial statements and interim financial statements, adoption of a decision on the distribution of profit, dissolution, merger or transformation of the Issuer, and certain other matters.

The right of initiative to convene the General Meeting is vested in the Supervisory Board, the Management Board (if the Management Board is not formed – the CEO) and any shareholders holding at least 1/10 of all votes.

According to the Articles of Association of the Issuer, a notice of convocation of the General Meeting must be made public no later than 21 days before the date of the General Meeting on the Issuer's website (www.interrao.lt) and published in the daily newspaper, "Lietuvos rytas", or by presenting a notice to each of the shareholders in person or by sending a notice to shareholders by registered mail. After the Admission, the convocation notice will be made public through the ESPI system and on the Issuer's website (www.interrao.lt), and published in the daily newspaper, "Lietuvos rytas".

The agenda of the General Meeting shall be prepared by the Management Board or CEO (if the General Meeting is convened by him/her). The General Meeting shall have no right to adopt decisions on issues not announced in the agenda, except when all shareholders with voting rights participate in the General Meeting and no one of them has voted in writing.

The agenda of the General Meeting may be supplemented based on suggestions of the Supervisory Board, the Management Board and any shareholder holding at least 1/20 of all votes, as long as the suggestion is received not later than 14 calendar days prior to the General Meeting. Such suggestion shall be submitted in writing or by means of electronic communication, together with draft decisions, or when no decisions must be adopted, explanations on each of the suggested agenda items shall be submitted.

Shareholders have the right to ask questions regarding items on the agenda of the General Meeting in advance. Under Lithuanian law, the Issuer is obliged to answer these questions before the General Meeting, provided that the questions were received by the Issuer not later than 3 business days prior to the General Meeting. If several questions of identical content are submitted, the Issuer may respond with a single answer.

If the General Meeting is not held due to absence of a quorum (shareholders that have more than half of all votes and participate at the General Meeting constitute a quorum), a repeat General Meeting shall be convened not earlier than in 14 calendar days, and not later than 21 calendar days following the failed General Meeting. The shareholders shall be informed of the convening of the repeat General Meeting in the same manner as the failed General Meeting, but not later than 14 calendar days prior to the repeat General Meeting.

Voting at General Meeting

Each ordinary share of the Issuer confers one vote at the General Meeting. Participation and voting in the General Meeting or the repeat General Meeting shall be reserved only for those who are shareholders on the record date, i.e. those who are shareholders at the end of the fifth business day prior to the General Meeting or prior to the repeat General Meeting. The list of shareholders entitled to participate in the General Meeting is established upon request of the Issuer or the Issuer's Custody Manager presented to the CSDL. Upon such request, the CSDL requests the investment firms maintaining the securities accounts of shareholders of the Issuer to present to the Issuer a list of owners of Shares. After the Admission, the CSDL will also request that the NDS deliver a list of shareholders wishing to participate in the General Meeting, defined as those holding their Shares with the NDS system only. The NDS will further this request to investment firms which clients hold the Shares and investment firms will liaise their clients whether they wish to attend the General Meeting. Details of clients wishing to participate in the General Meeting will be forwarded to the NDS and further to the

CSDL. The CSDL will include such shareholders in the list prepared for the Issuer or the issuer's Custody Manager.

Those authorised by the shareholders and holding a power of attorney issued by means of electronic communication to an individual or a company to participate and vote on his/her behalf at the General Meeting may attend and vote at the General Meeting. Persons with whom an agreement on assignment of voting rights has been concluded may attend and vote at the General Meeting if a shareholder informs the CEO of the Issuer of any transfer of voting rights by providing copies of the respective agreement and (or) authorization. Under the Articles of Association such document must be provided to the Issuer within 7 calendar days of the signing of the respective document.

Anyone attending the General Meeting and entitled to vote must present a document which is a proof of his/her identity. Anyone who is not a shareholder must additionally present a document proving his/her right to vote at the General Meeting.

In addition, shareholders may vote in advance of the General Meeting by filling in written general voting ballots. Shareholders that have voted in advance shall be deemed as participating in the General Meeting and their votes will be counted when establishing the quorum and voting results. If the shareholder so requests, the Issuer, no later than 10 days before the General Meeting, must dispatch a general ballot paper by registered mail or present this against signature, free of charge. The general ballot paper must also be available on the Issuer's website (www.interrao.lt) no later than 21 days before the General Meeting.

Under Lithuanian law the Issuer may provide a possibility for shareholders to attend the General Meeting and to vote by means of electronic communications. The Issuer does not currently provide any possibility to attend the General Meeting and vote by means of electronic communication.

The General Meeting shall be deemed to have taken place and will be able to adopt decisions if the shareholders holding more than half of all votes of the Issuer participate in the General Meeting. If the required quorum is not present, the General Meeting shall be deemed to have failed to take place and a repeat General Meeting shall be convened under the procedure described in the previous subsection, "General Meeting". A repeat General Meeting shall be held based on the agenda of the failed General Meeting and shall not be subject to quorum requirements. General voting ballots of a failed General Meeting will be valid in a repeat General Meeting.

All shareholders participating in the General Meeting have the right to vote and ask questions during the General Meeting. The right to participate and to speak at the General Meeting shall also be held by the members of the Supervisory Board, Management Board, CEO, the General Meeting Inspector and the auditor that prepared the conclusion and the report.

The Issuer must record the voting results for each decision adopted at the General Meeting. The shareholders at the General Meeting shall elect the General Meeting Inspector who determines the total number of votes carried by the shares issued by the Issuer on the day of the General Meeting, the number of valid and invalid general ballot papers filled-in and submitted in advance, the number of valid and invalid proxies submitted, the number of submitted agreements on the disposal of voting rights, the number of voting shares represented at the General Meeting (in person, through proxies, through persons under agreements on the disposal of voting rights, under the general ballot papers filled-in in advance, under other documents entitling to vote), whether the General Meeting has a quorum, and the results of voting at the General Meeting.

If, before the beginning of voting, any shareholder requires a detailed report on voting to be prepared, the General Meeting Inspector shall prepare such report that shall include, with respect to each decision of the General Meeting, the portion of the authorised capital which shall be represented by voting; the number of shares of the shareholders attending the General Meeting whereby it was voted; the total number of votes of shareholders who voted, and from among them – the number of votes for and against each decision.

Not later than within 7 days following the General Meeting, the Issuer must post the voting results of the General Meeting on its website. Shareholders or their representatives that have participated in the General Meeting may become familiar with the meeting minutes, and within 3 calendar days after becoming familiar (but not later than within 10 calendar days of the General Meeting), may submit their comments and opinions in writing.

Electing Members of the Supervisory Board

The members of the Supervisory Board are elected by the General Meeting. Under the Lithuanian law candidates for a supervisory board may be proposed by the Management Board and a shareholder(s) holding shares representing at least 5% of votes. When electing Supervisory Board members, each shareholder has a number of votes equal to the number of votes carried by the shares of the Issuer he/she owns, multiplied by the number of members of the Supervisory Board being elected. A shareholder can distribute votes at his/her own discretion, granting them to one or several candidates. The candidate who receives the highest number of votes prevails. The chairman of the Supervisory Board is elected by the members of the Supervisory Board. If the number of candidates who received an equal number of votes exceeds the number of vacancies on the Supervisory Board, a repeat vote shall be held in which each shareholder may vote only for one of the candidates who received the equal number of votes.

The General Meeting may remove the entire Supervisory Board or its individual members before the expiry of their term of office. Such decision requires a simple majority of votes. If an individual member is removed, resigns or discontinues the performance of his/her duties for other reasons, and the shareholders whose shares carry at least 1/10 of all votes object to the election of individual members of the Supervisory Board, then the entire Supervisory Board shall lose its powers and shall be subject to election. Where individual members of the Supervisory Board are elected, they shall be elected only until the expiry of the term of office of the current Supervisory Board.

Under the Shareholders' Agreement, at all times during the validity of the Shareholders' Agreement, the Principal Shareholders will vote their Shares in order to elect four candidates nominated by the Majority Shareholder, one candidate nominated by the Selling Shareholder. In addition, the Principal Shareholders will vote their Shares to appoint two independent members proposed by the Selling Shareholder, since under Lithuanian law, candidates for a Supervisory Board may be proposed by the Management Board and any shareholder(s) holding shares representing at least 5% of votes.

Furthermore, under the Shareholders' Agreement, the Principal Shareholders undertook to convene the General Meeting and to vote their Shares in order to remove and/or replace a member of the Supervisory Board nominated by any of the Principal Shareholders, including in cases where such member of the Supervisory Board does not follow instructions given by that Principal Shareholder.

Challenging Resolutions of General Meetings and Other Corporate Bodies, Liability of the Management Board

Pursuant to the Civil Code of the Republic of Lithuania, and the Law on Companies of the Republic of Lithuania, a decision of the General Meeting may be invalidated in court if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Issuer, or violates the principles of reasonableness and good faith. A shareholder may file a claim in a competent court of Lithuania within a period of 30 days as of the day on which a shareholder learnt or should have learnt of the challenged decision. In addition, a shareholder also has a right to appeal any resolution of the other corporate bodies (e.g. the Management Board) on the same grounds as specified above and the same procedure shall apply.

Such claims may also be filed by creditors of the Issuer if the decision violates their rights or interests, a member of the Supervisory Board or the Management Board, or other persons specified in the law.

Under Lithuanian civil proceedings rules, the statement of claim should be filed in the Lithuanian language. Generally, the statement of claim will be subject to court fees.

In addition, a shareholder may apply to the competent court of the Republic of Lithuania for the compensation of damages to the Issuer caused by members of the Management Board or the CEO by non-performance or improper performance of their duties as prescribed by the laws of the Republic of Lithuania and the Articles of Association of the Issuer, as well as in other cases laid down by the laws of the Republic of Lithuania.

Annual Accounts

Annual financial statements and an annual report are prepared by the CEO, assessed by the Management Board and commented on by the Supervisory Board. The Annual General Meeting receives annual financial statements and the annual report, together with comments and proposals of the Supervisory Board, and adopts a decision to approve the audited annual financial statements. The same procedure, *mutatis mutandis*, applies to the approval of interim accounts of the Issuer if the General Meeting makes a decision to distribute dividends to the shareholders of the Issuer for a period shorter than the financial year.

The annual financial statements, auditor's report, annual report and other information required under Lithuanian law must be made available to shareholders for review from the date of the notice on convening the Annual General Meeting.

Distribution of Profits

Pursuant to the Law on Companies of the Republic of Lithuania, the Issuer may distribute its profit or assets to shareholders only (i) by paying dividend; (ii) in case of liquidation of the Issuer; or (iii) in case of reduction of the share capital of the Issuer.

Decision to distribute profits of the Issuer, as well as to establish, use, decrease and/or cancel the reserves, is adopted in the General Meeting by the qualified $\frac{3}{4}$ majority of votes of shareholders participating in the General Meeting.

Dividend Payments

The General Meeting may adopt a decision to declare annual and interim dividends by the qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The Issuer is allowed to pay dividends (i) only to the extent that the Issuer's equity exceeds the aggregate nominal value of all of the Issuer's Shares plus the amount of any reserves (mandatory reserve, the revaluation reserve and the reserve for acquisition of own Shares) that the Issuer is required to, or is allowed to, maintain pursuant to the Articles of Association or the provisions of applicable laws; (ii) only if the Issuer has no outstanding non-performed obligations with due

terms before the adoption of the decision to pay out dividends, and (iii) only if the Issuer during the respective financial year or interim financial period has made profit.

Further, payment of interim dividends may be initiated by the proposal of shareholders, holding at least 1/3 of all votes of the Issuer. In addition to the above mentioned conditions, interim dividends are allowed to be paid only if (i) financial statements for the respective period shorter than the financial year are approved by the General Meeting; (ii) profit was generated during the respective period that is shorter than the financial year; (iii) the amount of the paid-out interim dividends do not exceed the following: a) profit generated during the respective period that is shorter than the financial year, plus undistributed profit (accumulated during all earlier years) present at the end of the previous financial year, minus part of the profit generated during the respective period that is shorter than the financial year that must be allocated to reserves under the Articles of Association or the Law on Companies (i.e. if the mandatory reserve is below 1/10 of the registered share capital, deductions must be made to it of not less than 1/20 of the net profit of the respective financial year); (iv) the Issuer has no outstanding obligations which became due before adoption of the decision to pay out interim dividends and after the interim dividends are paid, the Issuer will remain able to meet its obligations for the current financial year.

Dividends are paid to persons who, at the end of the rights record date (i.e. the tenth business day following the day the decision to distribute dividends was adopted by the General Meeting), were shareholders of the Issuer or were otherwise entitled to receive dividends. Each shareholder is entitled to dividends *pro rata* to the number of Shares held by such shareholder. The Issuer must pay dividends within one month of the date of resolution adopted by the General Meeting. The dividend shall be paid to shareholders that will be included in a list of entitled shareholders delivered by the Issuer's Custody Manager. After the Admission, payment shall be processed by the Issuer's Custody Manager, which shall deliver funds to the CSDL, which shall then deliver funds both to investment firms which are CSDL participants maintaining securities accounts of the Issuer's shareholders, and to the NDS. The NDS shall further deliver funds to the investment firms which maintain securities accounts of the Issuer's shareholders in Poland. Shareholders shall not be required to undertake any actions to receive dividends.

For information regarding the provisions of the Shareholders Agreement referring to dividend payments, please see "*Shareholders - Dividend Policy*".

Issuance of Shares

The Issuer may issue new shares pursuant to a resolution of the General Meeting adopted by qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting; no special quorum is required. A qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is also required to issue convertible bonds. The decision of the General Meeting to issue new shares shall be deemed void in case of failure to submit the amended Articles of Association to the Register of Legal Entities of the Republic of Lithuania within six months of the day on which the General Meeting adopted the decision. If this deadline is not met, the contributions for the subscribed shares must immediately be returned, without any deductions at the written request of the subscriber.

The Issuer's share capital may be increased from the Issuer's own funds by issuing new shares. In such case the shareholders are entitled to receive new additional shares for no consideration in proportion to the nominal value of the Shares owned by them on the rights record day (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Issuer's share capital). The Issuer shall deliver the shares through the Issuer's Custody Manager, which shall identify the shareholders entitled to receive newly issued shares based on data provided by the CSDL and the NDS.

A qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is also required to establish the class, number, nominal value, minimal issue price of shares in the Issuer, as well as to convert the Issuer's shares of one class into another class and related procedures.

Pre-emptive Right

Each shareholder holding the Shares at the end of the rights record date (i.e. the tenth business day following the day of the decision of the General Meeting to increase the Issuer's share capital) has a pre-emptive right with respect to all new share issuances or convertible bonds, in proportion to the number of Shares held by such shareholder.

A notice of the offer to acquire by the right of pre-emption the shares or convertible bonds, as well as the period of such exercising, must be announced in the daily newspaper "Lietuvos rytas", and reported to the Register of Legal Entities of the Republic of Lithuania. After the Admission, such notice shall be made public through the ESPI system. The time limit set by the General Meeting for a shareholder to acquire the shares or convertible bonds by the right of pre-emption may not be less than 14 days from the day of the public announcement thereof by the Register of Legal Entities of the Republic of Lithuania.

Pre-emptive rights may be withdrawn by a decision of the General Meeting taken by a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The right of pre-emption to acquire new shares being issued by the Issuer or the convertible bonds may only be withdrawn for all shareholders of the Issuer. A written proposal to withdraw the pre-emptive right must be given by the Management Board, indicating reasons

and causes for such withdrawal, as well as persons who would be offered to acquire the newly issued securities. The General Meeting, taking a decision on withdrawal of the pre-emptive right, must justify the necessity to withdraw such right and specify the person or persons who are given the right to subscribe to newly issued securities or convertible bonds, save for cases when the pre-emptive right is withdrawn because of the intention to make a public offering of securities of the Issuer under the procedure set by the Lithuanian Law on Securities.

Transfer of Shares

According to Lithuanian law, the Issuer is prohibited from introducing any additional restrictions of the shareholders right to dispose of fully paid Shares to another person. There are no restrictions on transfer of the Shares, other than those described in applicable laws. However, the Shares are subject to transfer restrictions as revealed in more detail in: "*Selling Restrictions*". Moreover, the Principal Shareholders are subject to a lock-up as described in "*Shareholders - Lock-up agreements*".

After the Admission, as a matter of principle, effecting of a transaction on the WSE generally requires that the shares subject to trade are recorded in a securities account kept by a participant in the NDS system. Shareholders holding the Shares on securities account maintained by an investment firm in Lithuania not being an NDS participant must transfer a respective amount of Shares they wish to sell to their securities account or omnibus account maintained by an NDS participant.

There are two different methods to transfer the Shares from the CSDL system to the NDS system, depending on whether an investor has a securities account opened with an investment firm that, at the same time, is a participant in both the CSDL and the NDS, or only the CSDL. If, at the same time, an investment firm is a participant in the CSDL and the NDS, then it should be sufficient for an investor to issue appropriate instruction to the entity keeping such investor's securities account in which the Shares are recorded.

If an investment firm is a participant in CSDL only, then in order to transfer the Shares to the NDS system, such investor should also have a securities account opened with an NDS participant. An investor shall issue two instructions - one to the entity keeping such investor's securities being a CSDL participant to transfer the Shares, and the other to the entity keeping such investor's securities being an NDS participant, to accept the Shares to be transferred. In the second case, transferring the Shares will be contingent on the unequivocal identification of the participant of the CSDL system in whose account the Shares are to be recorded. In the event of the absence such possibility to identify the system participant or shareholder in whose securities account the Shares are to be recorded, then the transfer of Shares may be ineffective or delayed. Based on clearance instructions obtained from the CSDL participant, issued pursuant to the shareholder's instructions, and the information obtained through the CSDL, the NDS shall record the shares in the account of the direct NDS participant, and subsequently the shares will be recorded in the investor's securities account.

A transfer of the Shares from the NDS system to the CSDL system is effected in a similar way as a transfer from the CSDL system to the NDS system.

Even though, to the best of the Issuer's knowledge, the NDS and the CSDL have agreed on the abovementioned practices allowing transfers of Shares between NDS and CSDL participants, they are not obliged to carry out these procedures and may interrupt them at any time. Neither the Issuer, the Principal Shareholders, their advisers, the Offering Agent, nor any of their respective representatives assume any responsibility for any of the trade settlement obligations of the CSDL and the NDS or any of their participants.

Acquisition of Own Shares by the Issuer

For an adoption of a resolution on the acquisition of its own shares, a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is required.

Under Lithuanian law, the Issuer may acquire its own Shares if all of the following conditions are met: (i) the acquisition of its own Shares occurs within a specified period (no longer than eighteen months) after the adoption of a resolution by the General Meeting which specifies the conditions, purpose and terms for the acquisition of its own Shares, including the maximum number of Shares to be acquired, the manner in which these Shares may be acquired and the price range within which the Shares may be acquired; (ii) the total nominal value of the Shares redeemed or taken as collateral does not exceed one-tenth of the share capital; and (iii) after the acquisition of its own Shares, the Issuer's equity does not fall below the sum of the paid share capital, mandatory reserve and the reserve for acquisition of own Shares; (iv) consideration of redeemed Shares are paid from the reserve for acquisition of its own Shares which was formed by the Issuer; (v) acquired Shares are fully paid; (vi) acquisition of its own Shares by the Issuer ensures equal possibilities for all shareholders to sell their held Shares to the Issuer.

Shares that were acquired infringing the above listed requirements (i)-(iv) must be sold within twelve months from the acquisition of these Shares. If the Shares are not sold during this period, then the corresponding portion of the share capital of the Issuer must be annulled.

Upon acquisition of its own Shares, the Issuer has no right to exercise property and non-property rights conferred by such Shares.

Reduction of the Share Capital

For an adoption of a resolution to reduce the share capital, a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting is required. Only the Annual General Meeting may adopt a decision to reduce the share capital with the purpose of paying funds to the shareholders, provided that all of the following conditions are met: (i) the annual financial statements and the profit distribution have been approved; (ii) following the reduction of the share capital, the legal reserve of the Issuer does not fall to lower than $\frac{1}{10}$ of the Issuer's share capital; and (iii) no undistributed loss or long-term liabilities are recorded in the annual accounts. Further, resolution to reduce the share capital with the purpose of paying out the Issuer's funds to the shareholders may not be adopted if, on the day of adoption of the resolution, the Issuer is insolvent or would become insolvent upon paying out said funds to the shareholders.

In no case may the reduction of share capital result in a decrease in the share capital to below the minimum amount provided for in the Law on Companies, i.e. LTL 150 thousand. If the decision to reduce the share capital with the purpose of paying out the funds to its shareholders is adopted, then the funds must be paid within one month of the registration of the amended Articles of Association with the Register of Legal Entities of the Republic of Lithuania. The funds are to be paid *pro rata* to the nominal value of the Shares held by each shareholder.

Inquiry Right

One or more shareholders, individually or jointly representing at least $\frac{1}{10}$ of the share capital of the Issuer, may assert their inquiry right. This means that they may appeal to the court in writing to appoint one or more experts to conduct an inquiry of the activity and affairs of the Issuer, i.e. whether the Issuer or the Issuer's corporate bodies or their members acted in the proper manner.

In the event of improper performance of the activity, the following sanctions may be imposed by the court after evaluating the findings reported by the appointed experts: (i) revocation of the resolutions taken by the corporate bodies; (ii) temporary suspension of the powers of the members of the corporate bodies or exclusion of a person from the corporate body; (iii) appointment of provisional members of corporate bodies; (iv) authorisation of non-implementation of certain provisions of incorporation documents; (v) obligation to make amendments to certain provisions of incorporation documents; (vi) transferral to another person of the member's right of the corporate body to vote; (vii) obligation of the Issuer to take or not take certain actions; and (viii) liquidation of the Issuer and appointment of a liquidator.

Statutory Merger and Statutory Demerger

A General Meeting by the qualified $\frac{3}{4}$ majority of votes may resolve that the Issuer enter into a statutory merger or demerger, or adopt a resolution on restructuring the Issuer, as well as change its legal form.

Dissolution and Liquidation

The Issuer may be dissolved pursuant to a resolution of the General Meeting adopted by the qualified $\frac{3}{4}$ majority of votes. Having adopted a decision to liquidate the Issuer, the General Meeting must appoint a liquidator. The General Meeting may not adopt a decision to liquidate an insolvent company. In the event of liquidation of the Issuer, all shareholders are entitled to the Issuer's surplus assets remaining, after satisfaction of all claims of the creditors of the Issuer, in proportion to the aggregate sum of the nominal value of the Shares held by those shareholders.

The liquidator shall publish a notice of the liquidation of the company three times within at least 30-day intervals between publications in the daily newspaper "Lietuvos rytas", or publish such notice once in the newspaper "Lietuvos rytas" and notify all creditors of the Issuer thereof in writing. The assets of the Issuer may be distributed to the shareholders only if at least a two-month period following the completion of publication procedure has expired.

Amendment of Articles of Association

The General Meeting can resolve to amend the Articles of Association by a qualified $\frac{3}{4}$ majority of votes of shareholders participating at the General Meeting. The amended Articles of Association shall come into force on the day of the registration of the Articles of Association with the Register of Legal Entities of the Republic of Lithuania.

The registration of the amended Articles of Association shall take place within 3 business days of the submission of the amended Articles of Association and all the documents to the Register of Legal Entities of Lithuania.

Right to Receive Information

At the written request of any shareholder, the Issuer shall, no later than within 7 days from the day of receipt of such request, submit to the shareholder to become familiar with and (or) present copies of the following documents: the Articles of Association of the Issuer, annual and interim financial statements, annual and interim reports of the Issuer, audit statements and reports, minutes of the General Meeting and other documents containing decisions of the General Meeting, lists of the shareholders, other documents of the

Issuer which must be public by law of the Republic of Lithuania as long as they do not contain any commercial (industrial) secret or confidential information of the Issuer. Upon submission to the Issuer of a written undertaking in the form established by the Issuer not to disclose the commercial (industrial) secret and confidential information, a shareholder or group of shareholders holding or possessing more than half of all the Shares shall have the right to become familiar with all documents of the Issuer. The Issuer has the right to refuse to provide to the shareholder present copies of the documents if it is unable to determine the identity of the shareholder. Refusal to provide to the shareholder with present documents shall be executed by the Issuer in writing at the shareholder's request. Disputes regarding the right of the shareholder to information shall be settled in court.

The Issuer's documents and other information or copies thereof shall be presented to the shareholders at the registered office of the Issuer. The Issuer's documents, their copies and other information shall be presented to the shareholders, free of charge.

Auditor

The Consolidated Financial Statements presented in the Prospectus were audited by UAB Ernst & Young Baltic (license No. 001335), with its seat at Subačiaus 7, LT-01127 Vilnius, Lithuania. UAB Ernst & Young Baltic also reviewed the Interim Condensed Financial Statements included in the Prospectus. Ms Asta Štreimikienė (auditor license No. 000382) is the signatory of the independent auditors' report on the Consolidated Financial Statements and the independent auditors' report on the Interim Condensed Financial Statements, a member of the Lithuanian Chamber of Auditors.

UAB Ernst & Young Baltic has given, and has not withdrawn, its written consent to the inclusion of its report and the reference to itself herein in the form and context in which they are included. UAB Ernst & Young Baltic has no interest in the Issuer.

THE MANAGEMENT

Set out below is a summary of relevant information concerning the CEO, the Management Board, Supervisory Board, and Senior Management, well as a brief summary of certain significant provisions of Lithuanian corporate law, the Issuer's Articles of Association and particular issues from the corporate governance codes with respect to the Management Board and Supervisory Board.

Management Structure

The Issuer has a three-tier management structure consisting of the Management Board, Supervisory Board, and the head of the Issuer – its CEO.

According to Lithuanian law, the CEO is responsible for day-to-day management of the Issuer and is entitled to make decisions regarding the Issuer's business individually, except for decisions requiring consent of the Management Board. He/She is also the only one entitled to represent the Issuer in relations with third parties. Generally, the Management Board is responsible for significant and strategic decisions regarding the Issuer's business. The Management Board is not entitled to represent the Issuer in relations with third parties. The Management Board appoints the CEO. The Supervisory Board supervises the activities of the Management Board and the CEO and appoints members of the Management Board.

A detailed description of the competencies, composition and term of office of the CEO, Management Board and Supervisory Board is included below.

The CEO

The CEO is elected for an undefined period of time and can be recalled by the Management Board. The CEO does not have to be a member of the Management Board. The Management Board also establishes the CEO's salary, incentives, and other conditions of his/her employment and imposes penalties. The CEO's employment contract is signed by the chairman of the Management Board or a member authorised by the Management Board.

Under the Shareholders' Agreement, the Principal Shareholders undertook to cause their nominated Management Board members to vote to elect a candidate nominated by the Selling Shareholder for CEO and to vote to remove and/or replace the CEO in case the Selling Shareholder requests such removal and/or replacement, or when the Selling Shareholder requests the election of a new candidate to fill the vacancy as a result of the resignation of the CEO, or when the Majority Shareholder request for removal of the CEO is based on a justified and substantiated claim that the CEO acted against the lawful interests of the Issuer or violates applicable laws, the Articles of Association, any internal document of the Issuer, lawful decisions of the General Meeting, the Supervisory Board or Management Board which are mandatory for the CEO.

The CEO is responsible for organising and directing the day-to-day business activities of the Issuer. This, among others, includes submitting information and documents to the General Meeting, the Supervisory Board and the Management Board, as well as presenting information to the shareholders. Moreover, it is the duty of the CEO to protect the Issuer's assets, create proper working conditions for the employees and protect the Issuer's commercial secrets and confidential information. The CEO's main competences include the regulation of employment and financial issues, including preparation of draft decisions on the distribution of dividends, disposing of the Issuer's funds, and the opening and closing of bank accounts. The CEO is also responsible for preparation of financial statements, representation of the Issuer in relations with third parties and in court or arbitration proceedings, and performance of other functions entrusted to the CEO, including functions attributed to the CEO in the Articles of Association. The CEO may also authorise other persons to execute the transactions of the Issuer. Under the Articles of Association, certain material transactions adopted by the CEO require Management Board approval, *i.e.* acquisition of tangible long-term assets, the price of which exceeds 1/20 of the authorised share capital of the Issuer, etc. Under the Articles of Association, the CEO has the right to nominate his/her substitution in the event of his/her absence by issuing all the required documents (an order, a power of attorney, etc.). In such case, the substituting person will act within the limits of authorisations granted to him/her by the CEO.

A shareholder (as well as bodies of the Issuer, their members and affected creditors) has the right to appeal in court any resolution of the CEO if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Issuer or violates the principles of general reasonableness and good faith.

Mr Giedrius Balčiūnas has been the CEO since 20 May 2003. For information on Mr Balčiūnas's professional experience, see "*Management Board*" below.

Management Board

The Management Board is responsible for the strategic direction of the Issuer under the supervision of the Supervisory Board. The Management Board is required to invite the CEO to every meeting and provide him/her with the possibility to become familiar with the information on the agenda. Under the Articles of Association, all resolutions of the Management Board must, depending on the type of decision, be adopted either by a simple majority of the votes cast, or unanimously.

The following decisions must be adopted unanimously (defined as all members of the Management Board vote for the adoption of the decision): (i) to approve and amend the by-laws of the Management Board; (ii) election and removal of the CEO, establishment of his/her salary and other employment conditions, to provide him/her incentives and impose penalties; approval of the by-laws of the CEO; (iii) approval of the business strategy of the Issuer; (iv) approval of the management structure and positions of the Issuer; (v) becoming an incorporator or member of other legal entities and acquisition of shares or part of capital in other legal entities; (vi) establishing branches and representative offices of the Issuer, approval of their regulations and nomination of their managers; (vii) investing, transferring of or leasing the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Issuer (calculated individually for each type of transaction); (viii) pledging or mortgaging the tangible long-term assets, the book value of which exceeds 1/20 of the authorised share capital of the Issuer (calculated for the total amount of transactions); (ix) granting surety or guarantee for the discharge of obligations of third persons, the amount of which exceeds 1/20 of the authorised share capital of the Issuer; (x) acquiring tangible long-term assets, the price of which exceeds 1/20 of the authorised share capital of the Issuer; (xi) approval, amendment or termination of the transactions between the Issuer and persons related to shareholders (except for transactions regarding the sale or purchase of electricity and/or transactions that are included in the annual investment program or budget approved by the Management Board); (xii) approval or amendment of the annual budget of the Issuer; (xiii) adopting decisions on issuance of debentures; (xiv) approval of transactions which are outside the scope of an annual investment program approved by the Management Board and investments exceeding EUR 1.5 million; (xv) any decisions related to the exercising of the shareholder's rights or obligations in any controlled legal entity of the Issuer, including (without limitation) voting in the general meetings of shareholders, nomination of the candidates to the governing bodies etc.; (xvi) making transactions or actions for sale or other transfer of the shares, capital or any other form of the membership interest (including any rights carried thereby) held by the Issuer in any legal entity; (xvii) decision of any other issue attributed to the competence of the Management Board by the laws, by the decisions of the General Meeting and by the Articles of Association; (xviii) approval of the annual investment program of the Issuer; and (xix) approval of transactions whereby loans, credits or similar financial arrangements to be obtained by the Issuer or whereby loans, credits or similar financial arrangements to be extended by the Issuer.

A shareholder has the right to appeal in a court any resolution of the Management Board if they contravene the imperative provisions of the law, are in conflict with provisions of the Articles of Association of the Issuer, or violate the basic principles of reasonableness and good faith.

A member of the Management Board may also file a claim in court to invalidate a decision of the General Meeting if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Issuer, or violates the general principles of reasonableness and good faith.

The Issuer's Management Board consists of five board members, including the chairman of the Management Board. Under Lithuanian law, the Management Board may act if at least 2/3 of the number of members established in the Articles of Association are appointed and participate in the Management Board activities. Under the Articles of Association, the members are appointed for a term of four years. Each member may be reappointed. The Supervisory Board elects the Board members by a majority of votes of the members who attended the Supervisory Board's meeting and those who voted in advance. The Chairman of the Management Board is elected by the Management Board. The Supervisory Board may recall the entire Management Board or its individual members before the expiry of the term of their office if at least 2/3 of the Supervisory Board members present at the meeting vote for such a decision.

Under the Shareholders' Agreement, the Principal Shareholders undertook to cause the members of the Supervisory Board nominated by them to vote in order to elect two candidates nominated by the Selling Shareholder and three candidates nominated by the Majority Shareholder. Furthermore, under the Shareholders' Agreement, the Principal Shareholders undertook to cause the members of the Management Board nominated by them to vote in order to appoint a candidate indicated by the Majority Shareholder as the Chairman of the Management Board.

Moreover, under the Shareholders' Agreement, the Principal Shareholders undertook to cause the members of the Supervisory Board nominated by them to convene a Supervisory Board meeting and to vote in order to remove and/or replace a member of the Management Board who was nominated by any of the Principal Shareholders at the request of such Principal Shareholder, including in cases when such member of the Management Board does not follow instructions given by that Principal Shareholder.

The term of office of the Management Board shall commence after the closing of the General Meeting at which it was elected. The Management Board shall perform its functions for a term of four years or until election and commencement of functioning of a new Management Board, but no longer than until the annual General Meeting to be held in the year at the end of the term of office of the Management Board.

As at the date of the Prospectus, the Issuer's Management Board is composed of five members. The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Management Board as at the date of the Prospectus.

Name	Position/Function	Date of Appointment	Expiration of term of office
Karina Tsurkan	Member of the Management Board – Chairman of the Board	21 October 2011	2015
Ilmar Mirsiyapov	Member of the Management Board	20 July 2012	2016
Dmitry Palunin	Member of the Management Board	15 March 2010	2014
Giedrius Balčiūnas	Member of the Management Board – CEO	20 July 2012	2016
Vidas Čebatariūnas	Member of the Management Board – Commerce Director	20 July 2012	2016

The business address of the members of the Management Board is the Issuer's principal place of business at A. Tumėno 4, Vilnius, Lithuania, except for Mr Mirsiyapov, whose business address is at Bolshaya Pirogovskaya 27, Building 3, Moscow 119435, Russian Federation.

Karina Tsurkan, Chairman of the Board

Ms Tsurkan has served on the Issuer's Management Board since 21 October 2011. She currently holds the position of Chairman of the Board, a position she has held since 19 July 2012. Her past functions within the INTER RAO UES group enabled Ms Tsurkan to gain proficiency in the energy sector. She was the Head of the Geographical Unit of Moldova, Romania, Ukraine (2010-2011), and subsequently for Europe (2011-2012) in INTER RAO UES. In 2012, she became a member of the management board of INTER RAO UES and Head of the Trading Unit. Additionally, she is the chairman of the boards of several other energy companies from INTER RAO UES group, such as INTER Green Renewables and Trading (since 2011), Enerji Töptan Ticaret (since 2011), and the Majority Shareholder (since 2011).

Ms Tsurkan holds a Bachelor's degree in law from the International Independent University of Moldova, which she obtained in 1999, and a MBA from the University Consortium of Spain, which she obtained in 2004.

Ilmar Mirsiyapov

Mr Mirsiyapov has served on the Issuer's Management Board since 20 July 2012, after a term of service in a period 2010–2011, followed by a short break. His career includes a number of managerial positions in companies from the energy sector in CIS countries, including the Atomic Energy Power Corporation (2007 – 2008), the State Atomic Energy Corporation Rosatom (2008 - 2010), Armenian Nuclear Power Plant Company (2010 – 2011, membership on the management boards of Territorial Generation Company No. 11 (2010 - 2011). He currently sits on the management boards of various companies from the INTER RAO UES group involved in the energy industry, such as RT–Energotrading, Irkutsk Power Generation and Distribution or Kambarata-1 Hydro Power Plant.

Mr Mirsiyapov holds several degrees: a Bachelor's degree in Management in 2005, a Ph.D. in Sociological Sciences in 2006, both from the Moscow State Institute of International Relations; an Engineer's degree in Oil & Gas Production and Development from the Almet'yevsk State Oil Institute in 2007; and a Ph.D. in Economic Sciences from the Institute of Economics of the Russian Academy of Sciences in 2009. He is currently studying law at the Moscow State Law Academy.

Dmitry Palunin

Mr Palunin has served on the Issuer's Management Board since 15 March 2010. His work enabled Mr Palunin to gain considerable experience in the energy sector within the INTER RAO UES group. His past functions in the group include the Associate Head of the Economics and Finance Department (2005 - 2006), the Head of the Treasury Department (2006 – 2007) and Associate CFO (2007 -2009). He currently sits on the management boards of various companies from the INTER RAO UES group involved in the energy industry, such as TGR Enerji, JSC Electric Networks of Armenia, and United Energy Retail Company.

Mr Palunin graduated from the Moscow State Aviation Institute (Technical University) with a Bachelor degree in Management in 2002 and a Master degree in Engineering in 1992. He has completed studies in the Higher School of International Business at Academy of National Economy under the Russian Federation Government, with a Masters of Business Administration degree in Management in 2008.

Giedrius Balčiūnas, the CEO

Mr Balčiūnas has served on the Issuer's Management Board since 20 July 2012. Mr Balčiūnas has long-lasting relationships with the Group, starting in 2003 when he was appointed as CEO of the Issuer. He serves as INTER RAO Eesti OU member of the management board since 2010, UAB Alproka member of the management board since 2006. He also served as the Issuer member of the management board from 2007 to 2008, UAB Vėjų spektras (Vydmantai Wind Park) member of the management board in 2011. Prior to joining the Group, Mr Balčiūnas held managerial position at JSC "Kauno audiniu komercija" (1997-2003).

Mr Balčiūnas is a graduate of the Kaunas Polytechnic Institute.

Vidas Čebatariūnas, Commerce Director

Mr Čebatariūnas has served on the Issuer's Management Board since 27 April 2007. He was reappointed to the Management Board twice. He currently holds the position of Commerce Director, a position he has held since 1 August 2005, as well as several other posts in the Group Companies. Since 2010, he has also sat on the management board of the Selling Shareholder. He has held managerial positions in the energy industry since 2001, when he received the post of Head of the Economics Department at Lietuvos energija AB (2001-2005). His past professional experience includes managerial positions at the publishing house, Versus aureus leidykla (2008 – 2010), and at the publishing and media group, Baltic Media (2009 – 2011) – both companies from the Selling Shareholder's group.

Mr Čebatariūnas holds a Master's degree in Economic Analysis and Planning from Vilnius University, which he obtained in 2002. In 2000, he obtained a Bachelor's degree in Economics from Vilnius University. His education also includes various other courses in the fields of economics and energy. Mr Čebatariūnas has also been a speaker for courses in economics and energy.

The following table sets out past and current directorships held by the Issuer's Management Board members over the past five years:

Name	Positions held
Karina Tsurkan	<i>Current directorships:</i> the Issuer – member of the Management Board (since 2011) INTER RAO UES – member of the management board – head of trading unit (since 2012) the Majority Shareholder – chairman of the board (since 2011) JSC Moldavskaya GRES – chairman of the board (since 2010) INTER Green Renewables and Trading AB – chairman of the board (since 2011) Mtkvari Energy LLC – member of the supervisory board (since 2011) TGR Enerji Toptan Ticaret A.S. – board member with expanded powers (since 2011) JSC Energoconnect – chairman of the board of directors (since 2012) Kazenergiresource Ltd – member of the supervisory board (since 2012) LLP INTER RAO Central Asia – member of the supervisory board (since 2012) JSC United Energy System Gruzrosenergo – member of the supervisory board (since 2012) JSC Joint Power Supply Company – member of the board of directors (since 2012)
Ilnar Mirsiyapov	<i>Current directorships:</i> the Issuer – member of the Management Board (since 2012) INTER RAO UES – member of the board (since 2009) the Majority Shareholder - member of the board of directors (since 2010) JSC Irkutsk Power Generation and Distribution – member of the board of directors (since 2012) JSC Kambarata-1 Hydro Power Plant - member of the board of directors (since 2012)

	<p>RT – Energotrading LLC - member of the board of directors (since 2012)</p> <p>JSC Sangtuda HPP-1 - member of the board of directors (since 2012)</p> <p>JSC Volga Territorial Generation Company - member of the board of directors (since 2011)</p> <p>JSC Territorial Generation Company No. 6 - member of the board of directors (since 2011)</p> <p>JSC Third Generation Company of the Wholesale Electricity Market - member of the board of directors (since 2011)</p> <p>JSC Mosenergo - member of the board of directors (since 2011)</p> <p>JSC Bashkir of the Power Industry and Electrification - member of the board of directors (since 2011)</p> <p>JSC United Energy Retail Company - member of the board of directors (since 2011)</p> <p>LLC INTER RAO Invest - member of the board of directors (since 2010)</p> <p>JSC Easter Energy Company - member of the board of directors (since 2010)</p> <p><i>Past directorships:</i></p> <p>the Issuer – member of the Management Board (2010 – 2011)</p> <p>JSC Sixth Generation Company of the Wholesale Electricity Market - member of the board of directors (2011)</p> <p>TGR Enerji - member of the board of directors (2010 – 2011)</p> <p>JSC Armenian Nuclear Power Plant - member of the board of directors (2010 – 2011)</p> <p>JSC Territorial Generation Company No. 11 - member of the board of directors (2010 – 2011)</p> <p>JSC INTER RAO Capital - chairman of the board of directors (2010 – 2011)</p> <p>Atomic Energy Power Corporation (Atomenergoprom) – director of the management support team (2007 – 2008)</p> <p>State Atomic Energy Corporation Rosatom – deputy director of the department of corporate management and development (2008 – 2010)</p>
Dmitry Palunin	<p><i>Current directorships:</i></p> <p>the Issuer – member of the Management Board (since 2010)</p> <p>INTER RAO UES – member of the board (since 2010)</p> <p>the Majority Shareholder - member of the board (since 2009)</p> <p>JSC Telasi – a member of the supervisory committee (since 2011)</p> <p>INTER RAO Finance B.V. – member of the supervisory committee (since 2011)</p> <p>INTER RAO Credit B.V. – member of the board of directors (since 2011)</p> <p>TGR Enerji – member of the board (since 2010)</p> <p>JSC Sangtudinskaya GES-1 – member of the board (since 2010)</p> <p>JSC Eastern Energy Company – member of the board (since 2010)</p> <p>LLC INTER RAO Service – member of the board (since 2010)</p> <p>LLC INTER RAO Invest - member of the board (since 2010)</p> <p>LLP Kazenergoresurs – member of the supervisory committee (since 2010)</p> <p>JSC First Generating Company on the Wholesale Electricity Market – member of the board (since 2009)</p> <p>JSC Electroluch - member of the board (since 2009)</p> <p>LLP INTER RAO Central Asia – member of the supervisory committee (since</p>

	<p>2009)</p> <p>JSC Electric Networks of Armenia - member of the board (since 2009)</p> <p>JSC Volzhskaya TKG – member of the board (since 2012)</p> <p>JSC Irkutskenergo – member of the board (since 2012)</p> <p>JSC Radan TPP – member of the supervisory committee (since 2012)</p> <p>LLC INTER RAO UES Finance – deputy board chairmen, member of the board (since 2007)</p> <p><i>Past directorships:</i></p> <p>INTER RAO UES – associate CFO, corporate finance head of corporate department (2008 – 2010)</p> <p>JSC Lukomorie – member of the board (2010 – 2011)</p> <p>JSC Territorial Generation Company No. 11 – member of the board (2010 – 2011)</p> <p>JSC Moldavskaya GRES – member of the board (2009 – 2010)</p> <p>JSC Stend - member of the board (2009 – 2011)</p> <p>JSC Petersburg sales company - member of the board (2010 – 2011)</p>
Giedrius Balčiūnas	<p><i>Current directorships:</i></p> <p>the Issuer – member of the Management Board (since 2012) and CEO (since 2003)</p> <p>INTER RAO Eesti OU – member of the management board (since 2010)</p> <p>UAB Alproka – member of the management board (since 2006)</p> <p><i>Past directorships:</i></p> <p>the Issuer – member of the management board (2007 - 2008)</p> <p>UAB Vējū spektras (Vydmantai Wind Park) – member of the management board (2011)</p>
Vidas Čebatariūnas	<p><i>Current directorships:</i></p> <p>the Issuer – member of the Management Board (since 2007) and Commerce Director (since 2005)</p> <p>SIA INTER RAO Latvia – chairman of the management board (since 2012)</p> <p>INTER RAO Eesti OU – member of the management board (since 2010)</p> <p>IRL POLSKA sp. z o.o. - member of the management board (since 2012)</p> <p>the Selling Shareholder - member of the management board (since 2010)</p> <p><i>Past directorships:</i></p> <p>UAB Versus aureus leidykla - member of the management board (2008 – 2010)</p> <p>UAB SC Baltic Media (former UAB Express Media) - member of the management board (2009 – 2011)</p> <p>UAB Vējū spektras (Vydmantai Wind Park) - member of the management board (2011)</p>

Supervisory Board

The Supervisory Board is responsible for supervising the activities of the Management Board and the CEO. The Supervisory Board may adopt decisions, and its meetings are considered to have been validly held only if more than half of its members are present, or represented during such a meeting. The members of the Supervisory Board who have voted in advance shall also be considered to have attended the meeting. Each member of the Supervisory Board is entitled to one vote. Under the Shareholders' Agreement, the Majority Shareholder will cause the members of the Supervisory Board nominated by the Majority Shareholder not to vote in favour of approval of the Supervisory Board by-laws or their amendments if the members of the Supervisory Board nominated by the Selling Shareholder do not vote in favour of such decision.

A shareholder (as well as corporate bodies of the Issuer, their members and affected creditors) has the right to appeal in court any resolution of the Supervisory Board if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Issuer, or violates the general principles of reasonableness and good faith.

The Supervisory Board consists of five members, including the chairman. Under Lithuanian law, the Supervisory Board may act if at least half of the number of members established in the Articles of Association are appointed and participate in Supervisory Board activities. The members of the Supervisory Board are elected by the General Meeting. The General Meeting may also remove the entire Supervisory Board or its individual members before the expiry of their term of office.

Under the Articles of Association, the members of the Supervisory Board are elected for a term of four years by the General Meeting. The Supervisory Board commences its activities after the closing of the General Meeting which elected the Supervisory Board and shall perform its functions for a period of four years or until a new Supervisory Board is elected, but not for longer than the date of the annual General Meeting to be held during the final year of the term of office of the Supervisory Board.

The Supervisory Board shall have all powers and rights provided for by the laws and these Articles of Association, including: (i) to approval and amendment of by-laws of Supervisory Board; (ii) election of members of the Management Board and removal from the office; (iii) supervision of activities of the Management Board and CEO; (iv) submission of comments and proposals to the General Meeting on the Issuer's operating strategy, annual financial statements, draft of profit (loss) appropriation and the annual report of the Issuer, as well as the activities of the Management Board and CEO; (v) submission of comments and proposals to the General Meeting on draft decision of allocation of dividends for any period shorter than the financial year, and for that purpose composed interim financial statements and annual report; (vi) submission of proposals to the Management Board and CEO to revoke any decisions which are in conflict with the laws, other legal acts, the Articles of Association or decisions of the General Meeting; (vii) request the Management Board and the CEO to submit documents related to the activity of Issuer; (viii) right to make proposals for the reorganization terms; (ix) right to initiate the conveyance of the General Meeting; (x) right to supplement the agenda of the General Meeting; and (xi) a member of Supervisory Board has the right attend and speak at the General Meeting.

A member of the Supervisory Board (as well as other bodies of the Issuer and their members, shareholders and affected creditors) may also file a claim in court to invalidate a decision of the General Meeting, the Supervisory Board itself, the Management Board or CEO, if it contravenes the imperative provisions of the law, is in conflict with provisions of the Articles of Association of the Issuer, or violates the general principles of reasonableness and good faith.

A decision to remove a member of the Management Board from office may be taken if at least 2/3 of the Supervisory Board members present at the meeting, including any who have voted in advance, vote for it.

As at the date of the Prospectus, the Issuer's Supervisory Board is composed of five members. The Issuer expects that additional two members of the Supervisory Board will be elected during the first General Meeting held after closing of the Offering. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.

The table below sets forth the names, positions, appointment date, and terms of office of the current members of the Supervisory Board as at the date of the Prospectus.

Name	Position/Function	Date of Appointment	Expiration of term of office
Anton Badenkov	Member of the Supervisory Board	22 October 2012	2016
Alexander Abramkov	Member of the Supervisory Board	22 October 2012	2016
Jonas Garbaravičius	Member of the Supervisory Board – Counsellor of CEO	22 October 2012	2016
Michail Konstantinov	Member of the Supervisory Board	22 October 2012	2016
Alexander Pakhomov	Member of the Supervisory Board	22 October 2012	2016

The business address of the members of the Supervisory Board is the Issuer's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

Anton Badenkov

Mr Badenkov has served on the Issuer's Supervisory Board since 22 October 2012. Prior to his appointment to the Supervisory Board, Mr Badenkov held the position of Chairman of the Issuer's Management Board. Mr Badenkov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as the Third Generating Company of the Wholesale Electricity Market (since 2011), or Electric Networks of Armenia (since 2010).

Mr Badenkov graduated in 2004 from Lomonosov Moscow State University.

Alexander Abramkov

Mr Abramkov has served on the Issuer's Supervisory Board since 22 October 2012. Mr Abramkov's professional experience in the audit and control departments include position of Deputy General Director for Economy and Finance at JSC National Telecommunications (2008-2009), Deputy General Director for Internal Control and Risk Management at ZAO National Media Group (2009 – 2010) and Head of Internal Audit, Controlling and Risk Management Unit at INTER RAO UES (since 2010). Mr Abramkov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as Mosenergosbyt, or Territorial Generation Company No. 11.

Mr Abramkov holds a Master's degree in Management, which he obtained in 2000 from Saint-Petersburg State University.

Jonas Garbaravičius, Counsellor of CEO

Mr Garbaravičius has served on the Issuer's Supervisory Board since 22 October 2012. He currently holds the position of Counsellor of CEO. He additionally holds the position of chairman of the management board of the Selling Shareholder. In the past, he was chairman of several other companies: Scaent Holdings Cooperatie UA (2009 – 2011), Baltic Brothers Group (2005 – 2007) and UAB Express Media, currently SC Baltic Media (2008 – 2009). Mr Garbaravičius has also gained experience in the energy sector via his position as member of the management board of INTER Green Renewables and Trading, a joint venture of the Majority Shareholder and Shellfour AB (since 2011), as well as Onergo, a Finnish subsidiary from the Selling Shareholder's group (2008 -2009). In years 2008-2012, Mr Garbaravičius was a member of the Management Board of the Issuer.

Mr Garbaravičius holds a Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. He also studied in International Commercial Law at Vytautas Magnus University from 2000 to 2002. He also took part in the Energy Experts Programme in 2002, organised by the Nordic Council of Ministers.

Michail Konstantinov

Mr Konstantinov has served on the Issuer's Supervisory Board since 22 October 2012. Currently, Mr Konstantinov is Director for Corporate Governance of the Corporate and Property relations Unit of INTER RAO UES. His past professional experience also includes managerial positions at Atomic Energy Power Corporation (2007 - 2008), Federal Bailiff Service of the Russian Federation (2008 - 2010) and JSC Bank Sobinbank (2010 - 2012). Mr Konstantinov additionally serves on the management boards of various companies from the INTER RAO UES group involved in the energy sector, such as the Saint Petersburg Energy Sales Company (since

2011), First Generating Company on the Wholesale Electricity Market, as well as the Third Generating Company of the Wholesale Market (both since 2012).

Mr Konstantinov holds a Bachelor's degree in law from the International Environmental and Political University in Moscow, which he obtained in 1999. Additionally he holds a Specialist in Law degree from the Tver Institute of Ecology and Law and a Ph.D. degree in Law from the Moscow Academy of Economics and Law, both of which he obtained in 2003.

Alexander Pakhomov

Mr Pakhomov has served on the Issuer's Supervisory Board since 22 October 2012. His past functions within the INTER RAO UES group enabled Mr Pakhomov to gain proficiency in the energy sector. He was the Deputy Head of the Accounting Department of Financial Direction (2005 - 2007), Deputy Head of Accounting Department – Head of the Tax Planning Department of the Financial Activities Division (2007 - 2008), Legal Department Director (2008 - 2011). In 2012, he became a member of the management board of INTER RAO UES and Head of the Legal Department. Mr Pakhomov additionally serves on the management boards of various companies within the INTER RAO UES group involved in the energy sector, such as RUS Gas Turbines Holding, or TGR Enerji.

Mr Pakhomov holds two diplomas in Jurisprudence from the Military University of the Ministry of Defence of the Russian Federation and from the Academy of Public Administration under the President of the Russian Federation, which he obtained in 1995 and 1999, respectively.

The following table sets out past and current directorships held by the Issuer's Supervisory Board members over the past five years:

Name	Positions held
Anton Badenkov	<p><i>Current directorships:</i></p> <p>the Issuer - member of the Supervisory Board (since 2012)</p> <p>the Majority Shareholder – member of the management board (since 2011)</p> <p>LLC INTER RAO Procurement Management – member of the board of directors (since 2010)</p> <p>JSC Moldavskaya GRES – member of the board of directors (since 2010)</p> <p>JSC Kharamhesi -1 – member of the board of directors (since 2010)</p> <p>JSC Kharamhesi -2 – member of the board of directors (since 2010)</p> <p>JSC Electric Networks of Armenia - member of the board of directors (since 2010)</p> <p>Khrami HPP-3 - member of the board of directors (since 2012)</p> <p>INTER RAO Power Efficiency Center - member of the board of directors (since 2010)</p> <p>INTER RAO Finance B.V. - member of the board of directors (since 2011)</p> <p>INTER RAO Credit B.V. - member of the board of directors (since 2011)</p> <p>JSC Third Generating Company of the Wholesale Electricity Market (OGK -3) - member of the board of directors (since 2011)</p> <p>JSC Third Generating Company of the Wholesale Electricity Market (OGK -1) - member of the board of directors (since 2011)</p> <p>JSC INTER RAO–Electro Generating - member of the board of directors (since 2011)</p> <p>INTER Green Renewables and Trading AB - member of the board of directors (since 2011)</p> <p>JSC Telasi - member of the board of directors (since 2011)</p> <p><i>Past directorships:</i></p> <p>the Issuer - member of the Management Board (2011 – 2012)</p> <p>JSC INTER RAO–Electric Power Plants - member of the board of directors (2011 – 2012)</p> <p>JSC Mosenergosbyt - member of the board of directors (2011 – 2012)</p>

	JSC Territorial Generation Company No. 11 - member of the board of directors (2011 – 2012)
Alexander Abramkov	<p><i>Current directorships:</i></p> <p>the Issuer - member of the Supervisory Board (since 2012)</p> <p>JSC Third Generating Company of the Wholesale Market (OGK -3) – member of the board (since 2011)</p> <p>LLC INTER RAO Procurement Centre – member of the board (since 2010)</p> <p>JSC INTER RAO – Electric Power Plants – member of the board (since 2011)</p> <p>LLC INTER RAO Engineering – member of the board (since 2011)</p> <p>JSC Mosenergosbyt – member of the board (since 2011)</p> <p>Saint Petersburg Energy Sales Company JSC – member of the board (since 2012)</p> <p>JSC Territorial Generation Company No. 11 – member of the board (since 2011)</p> <p>LLC Quartz Management Company – member of the board (since 2011)</p> <p>INTER RAO Finance B.V. – member of the board (since 2011)</p> <p>INTER RAO Credit B.V. – member of the board (since 2011)</p> <p><i>Past directorships:</i></p> <p>ZAO National Media Group – deputy CEO for internal control and risk management (2009 – 2010)</p> <p>JSC National Telecommunications – deputy CEO for economy and finance (2008 – 2009)</p>
Jonas Garbaravičius	<p><i>Current directorships:</i></p> <p>the Issuer – member of the Supervisory Board (since 2012)</p> <p>the Selling Shareholder – chairman of the management board (since 2007)</p> <p>INTER Green Renewables and Trading AB – member of the management board (since 2011)</p> <p><i>Past directorships:</i></p> <p>the Issuer - member of the Management Board (2008-2012)</p> <p>Scaent Holdings Cooperatie UA – chairman of the management board (2009 – 2011)</p> <p>Scaent AB – member of the management board (2005 – 2009)</p> <p>Baltic Brothers Group - chairman of the management board (2005 – 2007)</p> <p>UAB SC Baltic Media – chairman of the management board (2008 – 2009)</p> <p>Onergo Oy – member of the management board (2008 – 2009)</p>
Michail Konstantinov	<p><i>Current directorships:</i></p> <p>the Issuer – member of the Supervisory Board (since 2012)</p> <p>JSC INTER RAO Energy Asset – member of the management board (since 2012)</p> <p>JSC INTER RAO Energy – member of the management board (since 2012)</p> <p>JSC Dominanta Energy – member of the management board (since 2012)</p> <p>JSC Dominanta Management – member of the management board (since 2012)</p> <p>JSC Saint Petersburg Energy Sales Company – member of the management board (since 2012)</p> <p>JSC First Generating Company on the Wholesale Electricity Market (OGK-1) – member of the management board (since 2012)</p>

	<p>JSC Third Generation Company of the Wholesale Electricity Market (WGC-3) – member of the management board (since 2012)</p> <p><i>Past directorships:</i></p> <p>JSC Atomic Energy Power Corporation – deputy director of department (2007 – 2008)</p> <p>Federal Bailiff Service of the Russian Federation – deputy head of directorate (2008 – 2010)</p> <p>JSC Sobinbank – head of Legal Directorate (2010 – 2012)</p>
Alexander Pakhomov	<p><i>Current directorships:</i></p> <p>the Issuer - member of the Supervisory Board (since 2012)</p> <p>JSC RazTES – member of the board of directors (since 2011)</p> <p>TGR Enerji - member of the board of directors (since 2011)</p> <p>Gardabani Holdings B.V. – director A (since 2008)</p> <p>Silk Road Holdings B.V. – director A (since 2008)</p> <p>INTER RAO Management B.V. – director A (since 2008)</p> <p>INTER RAO Holding B.V. – director A (since 2008)</p> <p>RUS Gas Turbines Holdings B.V. - member of the board of directors (since 2010)</p> <p>JSC Irkutskenergo - member of the board of directors (since 2012)</p> <p><i>Past directorships:</i></p> <p>LLC INTER RAO Electrogenation - member of the board of directors (2011)</p>

Senior Management

In the opinion of the Management, except for members of the Issuer's corporate bodies, the following persons are the most important for the Group:

Name	Position/Function
Paulius Vazniokas	Economic Director
Aiste Vaitaityte	Deputy CEO
Edvardas Važgėla	Electricity Trading Development Director
Nerijus Veikša	Legal Department Director

The business address of the members of the Senior Management is the Issuer's principal place of business at A. Tumėno 4, Vilnius, Lithuania.

Paulius Vazniokas

Mr Vazniokas has been the Economic Director of the Issuer since 2007. He currently holds several positions in the Group Companies. Since 2007, Mr Vazniokas has also sat on the management board of the Selling Shareholder. He also holds various positions in companies from the Selling Shareholder's group. Before joining the Group, Mr Vazniokas gained experience as: Head of Commercial Real Estate Department in Kaunas branch of Ober Haus UAB (2000-2002), Real Estate Project Manager and Director at AB Panevėžio keliai group (2002-2004), as well as a CFO and Head of Administration at UAB Realtus (2004-2007).

Mr Vazniokas holds Bachelor's degree in Business Administration from Vytautas Magnus University, which he obtained in 2000. In 2002 he obtained Master's degree in Finance and Banking from Vytautas Magnus University. Mr Vazniokas also obtained Ph. D. degree in Economics from Vytautas Magnus University in 2011. Since 2007, he has lectured at Vytautas Magnus University. Mr Vazniokas also studied law at Vilnius University (2002-2006).

Aiste Vaitaityte

Ms Vaitaityte has been the Deputy CEO of the Issuer since 1 June 2005. She has been associated with the Group since 2003 and, before becoming the Deputy CEO, Ms Vaitaityte held position of Head of Information Analysis and Transmission Division.

Ms Vaitaityte holds Master's degree in Law and Management from Mykolas Romeris University, which she obtained in 2003. In 2000 Ms Vaitaityte obtained Bachelor's degree in Social sciences from Lithuanian University of Educational Sciences.

Edvardas Važgėla

Mr Važgėla has been the Electricity Trading Development Director of the Issuer since 2012. Before joining the Group, Mr Važgėla had, for over 20 years, been associated with Lietuvos energija AB, working as: Leading Engineer (1991-1993), Energy Marketing Services Manager (1993-1996), Energy Trading Center Director (1996-2001), Electricity Market Department Director (2001-2009) and Wholesale Electricity Trading Department Director (2010-2011). Moreover, in years 1977-1991 Mr Važgėla worked for Lithuanian National Energy System, first as an Engineer Inspector and later as an Electrical Inspection Chief.

Mr Važgėla graduated from the Kaunas Polytechnic Institute in 1977 with specialization in electricity engineering. His education also includes various courses in the fields of electricity and energy.

Nerijus Veikša

Mr Veikša has been the Legal Department Director of the Issuer since 2007. He also works as a lawyer at the Selling Shareholder. His past professional experience includes posts of: Director at National Association of Business Administrators (2002-2003), Assistant General Director at Kauno termofikacinė elektrinė (2003-2006), lawyer at UAB Creditum (2007), General Director at UAB Scaent Baltic Energy (2007-2009), Member of the supervisory board at OMX Baltic Benchmark Fund (since 2010) and Member of the management board at UAB SC Baltic Media (2009-2012).

Mr Veikša holds Master's degree in International Commercial Law from the Law Faculty of Vytautas Magnus University, which he obtained in 2002. In 1999, he also obtained Bachelor's degree in Business Administration from Vytautas Magnus University.

The following table sets out past and current directorships held by the Issuer's Senior Management members over the past five years:

Name	Positions held
Paulius Vazniokas	<i>Current directorships:</i> IRL POLSKA sp. z o.o. - member of the management board (since 2012) UAB IRL Wind - CEO (since 2011) SIA INTER RAO Latvia - member of the board of directors (since 2010) INTER RAO Eesti OU - member of the board of directors (since 2010) the Selling Shareholder - member of the management board (since 2007), CEO (since 2011) UAB Orion Asset Management - member of the management board (since 2010) Scaent AB - member of the management board (since 2010) the Offering Agent - member of the management board (since 2009) UAB Orion Capital - member of the management board (since 2009) Scaent Holdings Cooperatie UA - member of the management board (since 2009) UAB SC Baltic Media - member of the management board (since 2008) <i>Past directorships:</i> -
Aiste Vaitaityte	<i>Current directorships:</i> - <i>Past directorships:</i>

	-
Edvardas Važgėla	<p><i>Current directorships:</i></p> <p>-</p> <p><i>Past directorships:</i></p> <p>-</p>
Nerijus Veikša	<p><i>Current directorships:</i></p> <p>OMX Baltic Benchmark Fund - member of the supervisory board (since 2010)</p> <p><i>Past directorships:</i></p> <p>UAB SC Baltic Media - member of the management board (2009-2012)</p>

Committees

In order to properly implement its supervisory function, the Supervisory Board has the right to form its committees. As at the date of the Prospectus, the Supervisory Board has not established any committee. However, it is expected that, as soon as the General Meeting elects two additional, independent member of the Supervisory Board, the Audit Committee will establish from among the members of the Supervisory Board.

Audit Committee

The Audit Committee shall consist of three members, who may be chosen only from the members of the Supervisory Board.

The Audit Committee's term of office shall be the same as the Supervisory Board. The regulations pertaining to the Audit Committee's work shall be approved by the Supervisory Board. Any decisions made by the Audit Committee shall be only of an advisory nature to the Supervisory Board.

The main tasks of the Audit Committee shall include, among others, the monitoring of the Issuer's financial information integrity, the external auditor's independence and objectivity, as well as the effectiveness of the external audit process, the review of internal control and risk management systems.

Contracts and Remuneration

Remuneration and terms of service agreements of members of the Management Board

Save Mr Balčiūnas and Mr Čebatariūnas, none of the members of the Management Board received any remuneration or benefits in kind for their services from the Group in the financial year ended 31 December 2011. The members of the Management Board did not receive any profit distribution for their services from the Group in the financial year ended 31 December 2011.

In the financial year ended 31 December 2011, Mr Balčiūnas and Mr Čebatariūnas received total remuneration of approximately LTL 0.57 million and LTL 0.55 million, respectively.

Save for Mr Balčiūnas and Mr Čebatariūnas, none of the members of the Management Board have entered into any service or employment contract with the Group. Mr Čebatariūnas entered into an employment agreement with the Issuer on 1 August 2005. The employment agreement does not provide for any non-compete compensation or termination fees. Mr Balčiūnas was elected as CEO of the Issuer as of 21 May 2003, and on the same date, Mr Balčiūnas entered into an employment contract with the Issuer. His employment contract is the standard form approved by the Lithuanian Government and does not include any non-compete compensation or termination fees. Bonus or other benefits are not established in the employment contract of the CEO.

The members of the Management Board are not granted any pensions, retirement or similar benefits by the Issuer or the Group Companies. No amounts have been set aside or accrued by the Issuer or the Group Companies to provide pension, retirement or similar benefits to members of the Management Board.

Remuneration and terms of service agreements of members of the Supervisory Board

Save for Mr Garbaravičius, none of the members of the Supervisory Board received any remuneration or benefits in kind for their services from the Group in the financial year ended 31 December 2011.

In the financial year ended 31 December 2011, Mr Garbaravičius received total remuneration of approximately LTL 0.47 million.

Save for Mr Garbaravičius, none of the members of the Supervisory Board entered into any service or employment contract with the Group. Mr Garbaravičius entered into an employment agreement with the Issuer on 14 April 2008. The employment agreement does not provide for any non-compete compensation or termination fees.

The members of the Supervisory Board are not granted any pensions, retirement or similar benefits by the Issuer or the Group Companies. No amounts have been set aside or accrued by the Issuer or the Group Companies to provide pension, retirement or similar benefits to members of the Supervisory Board.

Remuneration and terms of service agreements of members of the Senior Management

In the financial year ended 31 December 2011, Mr Paulius Vazniokas, Ms Aiste Vaitaityte and Mr Nerijus Veikša received total remuneration of approximately LTL 0.53 million, LTL 0.12 million and LTL 0.14 million, respectively. Neither Mr Vazniokas nor Ms Vaitaityte and Mr Veikša received benefits in kind for their services from the Group in the financial year ended 31 December 2011. Mr Edvardas Važgėla was not associated with the Group in the financial year ended 31 December 2011.

In 2007 Mr Paulius Vazniokas entered into an employment contract with the Issuer for an indefinite time period. Ms Aiste Vaitaityte entered into an employment contract with the Issuer on 10 December 2003. Mr Edvardas Važgėla entered into an employment contract with the Issuer on 16 January 2012. Mr Nerijus Veikša entered into an employment contract with the Issuer on 17 April 2007. Employment contract of Mr Paulius Vazniokas, Ms Aiste Vaitaityte, Mr Edvardas Važgėla and Mr Nerijus Veikša are the standard form approved by the Lithuanian Government and do not include any non-compete compensation or termination fees.

The Senior Management is not granted any pensions, retirement or similar benefits by the Issuer or the Group Companies. No amounts have been set aside or accrued by the Issuer or the Group Companies to provide pension, retirement or similar benefits to the Senior Management.

Shareholdings and Stock Options

None of the members of the Management Board, Supervisory Board and/or Senior Management have declared to possess any shares in the Issuer or in its affiliated companies, or options/rights to acquire shares in the Issuer or in its affiliated companies. For information on indirect shareholding of the Group's employees in the Issuer, please see "*Business Overview – Employees*".

Other Information on Management

At the date of this Prospectus, none of the members of the Management Board, Supervisory Board and/or Senior Management have in the previous five years (i) been convicted of any offences related to fraud, (ii) held an executive function at any company at the time of, or immediately preceding, any bankruptcy, receivership or liquidation, (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), or (iv) been the subject of any public prosecution or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Mr Čebatariūnas, Mr Garbaravičius, Mr Vazniokas and Mr Veikša are associated with the Selling Shareholder. Therefore, due to the fact that interests of the Group may not always be in line with the interests of the Selling Shareholder, a conflict of interest may occasionally occur. Furthermore, members of Mr Garbaravičius's family hold various positions in the corporate bodies and senior management of the Selling Shareholder. As a consequence, a potential conflict of interest may arise.

Mr Balčiūnas is a party to a loan agreement with the Selling Shareholder, dated 22 March 2010. As at the date of the Prospectus the outstanding amount is LTL 0.5 million. In addition, Mr Vazniokas is a party to a loan agreement with the Selling Shareholder, executed in 2011, for LTL 1 million over 20 years. As a consequence, a potential conflict of interest may arise.

Mr Mirsiyapov, Mr Palunin, Ms Tsurkan, Mr Abramkov, Mr Badenkov, Mr Konstantinov and Mr Pakhomov are all associated with the Majority Shareholder. Therefore, due to the fact that interests of the Group may not always be in line with the interests of the Majority Shareholder, a conflict of interest may occasionally occur. Furthermore, according to internal procedures these members of the Issuer's corporate bodies could be required to obtain consent from INTER RAO UES prior to voting.

Other members of the Supervisory Board and/or Senior Management have no conflicts of interests with respect to their duties to the Issuer and their private interests and/or other duties.

There are no family relations between members of the Management Board, Supervisory Board and/or Senior Management.

Except as stated above, there are no arrangements or understandings with the Principal Shareholders, customers, suppliers or others pursuant to which any member of the Management Board, Supervisory Board and/or Senior Management was selected as a member of the Management Board, Supervisory Board and/or Senior Management.

Social Responsibility

The Group constantly supports various organizations and initiatives as a part of its business mission. For the financial years ended 31 December 2011, 2010 and 2009, the Group spent LTL 4.07 million, LTL 3.91 million and LTL 3.63 million, respectively, on charity and other support. These costs represent Group's corporate values and culture to support and contribute to the overall social welfare. Support, provided by the Group, is

concentrated on three areas: communities, education, culture and sports. While contributing to the social communities the Group donates to orphanages, hospitals, churches and various other charity and support organizations. When sponsoring culture and education spheres, the Group supports universities, schools, theatres, orchestras and various other organizations and events. Sports sponsorship started at the very beginning of the company's activities, the main attention is paid to basketball, football, car races, tennis and various other sports organizations and events.

Corporate Governance

The Warsaw Stock Exchange has created the WSE Corporate Governance Rules. The WSE Corporate Governance Rules introduce a *comply or explain* principle, according to which an issuer should provide the market with direct information regarding any non-compliance with the corporate governance code. In accordance with the WSE Corporate Governance Rules, should a specific corporate governance rule set forth in the WSE Corporate Governance Rules not be applied on a permanent basis, or be breached incidentally, an issuer shall publish a report containing information as to which rule is not applied at all or has not been applied on an occasion, under what circumstances and for what reasons, and how an issuer intends to remove the effects, if any, of not having applied a given rule on an occasion or what steps it intends to take to mitigate the risk of the corporate governance rules not being applied in the future. The report should be published on an issuer's official website and should be submitted as a current report through the EBI system. The report should be published as soon as the issuer becomes reasonably convinced that a given rule will not be applied at all, or on a specific occasion, and in any case, promptly following an event which represents a breach of a corporate governance rule. Furthermore, any issuer listed on the WSE is required to include a report on the extent of compliance with the WSE Corporate Governance Rules in its annual report, or as a separate report.

The Issuer acknowledges the importance of good corporate governance and intends to apply WSE Corporate Governance Rules as wide as is practicable. However, due to, *inter alia*, differences between Polish and Lithuanian Corporate Law the Issuer will not comply with the following rules:

- Rule II.1.6, according to which the Issuer should publish on its website annual reports on the activity of the Supervisory Board, taking account of the work of its committees, together with the evaluation of the internal control system and the significant risk management system submitted by the Supervisory Board. According to Lithuanian law, the Supervisory Board is not required to draw up an annual report.
- Rule II.3 and Rule III.9, according to which the Supervisory Board should approve a significant transaction/agreement with a related entity at the request of the Management Board. In accordance with Lithuanian law, the Supervisory Board is not entitled to approve any decisions of the Management Board.
- Rule III.1.1, according to which once a year the Supervisory Board should prepare and present to the annual General Meeting a brief assessment of the issuer's standing, including an evaluation of the internal control system and the significant risk management system. According to Lithuanian law, the Supervisory Board is not required to draw up such an assessment.
- Rule III.6, according to which at least two members of the Supervisory Board should meet the criteria of being independent from the Issuer and entities with significant connections with the company. As of the date of the Prospectus none of the members of the Supervisory Board meets criteria of being independent. The Issuer expects that additional two members of the Supervisory Board will be elected during the first General Meeting held after closing of the Offering. It is expected that such additional members of the Supervisory Board shall meet criteria of being independent.
- Rule III.8, according to which annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board should apply to the tasks and the operation of the committees of the Supervisory Board. As at the date of the Prospectus, the Supervisory Board has not established any committee. However, it is expected that, as soon as the General Meeting elects two additional, independent member of the Supervisory Board, the Audit Committee will establish from among the members of the Supervisory Board.

Furthermore, the Issuer will not comply with the following recommendations:

- Recommendation I.5, according to which a company should have a remuneration policy and rules of defining the policy. The Issuer has not adopted such policy, since the Group is developing and the number of employees and members of Management do not justify implementation of a complex set of rules.
- Recommendation I.9, according to which a balanced proportion of women and men in company management and supervisory functions should be ensured. Currently, there is only one woman in governing bodies of the Issuer, Ms Karina Tsurkan, the Chairwoman of the Management Board. However, the Management does not exclude that this recommendation will be implemented in the future.
- Recommendation I.10, according to which, if a company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness

of the enterprise, then the company should publish the rules of its activity in this area. While the Issuer continuously supports sport, culture and education as well as social initiatives as a part of its business mission, it does not consider it practicable to impose rules on its activity within these spheres.

- Recommendation I.12, according to which a company should enable its shareholders to participate in a General Meeting using electronic means of communication. Currently, the Issuer does not envisage such possibility. However, the Issuer does not exclude that relevant solutions will be introduced in the future.

SHAREHOLDERS

Principal Shareholders

As of the date of the Prospectus, 51% of the outstanding share capital of the Issuer is held directly by RAO Nordic OY, a company organised and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at Tammasaarekatu 1, FIN-00180, Helsinki, the Republic of Finland ("Majority Shareholder"). Following the Offering, the Majority Shareholder will continue to directly own 51% of the outstanding share capital of the Issuer.

The Majority Shareholder is a wholly-owned subsidiary of OJSC INTER RAO UES ("INTER RAO UES"), a company incorporated under Russian law, listed on MICEX-RTS under ticker 'IRAO'. INTER RAO UES is a diversified energy holding managing assets in Russia, several countries of the CIS and the EU. Its operations comprise electric power and heat generation, international power trading and electric industry engineering. As of 1 October 2012, its market capitalization was approximately Russian rubles 265 billion.

As of the date of the Prospectus, 49% of the outstanding share capital of the Issuer is held directly by UAB Scaent Baltic, a company organised and existing under the laws of the Republic of Lithuania, registration number 300661378, with its registered office at A. Tumėno 4, LT-01109, Vilnius, the Republic of Lithuania ("Selling Shareholder", together with the Majority Shareholder – the "Principal Shareholders"). Following the Offering, the Selling Shareholder will continue to directly own 29% of the outstanding share capital of the Issuer, assuming all of the Offer Shares are sold to investors.

The Selling Shareholder is a company involved in investment activities in various sectors of industry in Lithuania and abroad, including energy, investment and financial services, media and publishing, food industry and real estate. It is ultimately owned and controlled by Garbaravičius family. The other shareholders are other managers of the Selling Shareholder.

The voting rights of the Principal Shareholders with respect to their shares in the Issuer's shares capital do not differ in any respect from the rights attaching to the Offer Shares. The Principal Shareholders will not have other voting rights from other shareholders, other than the greater or lesser voting power inherent in its percentage ownership in the Issuer's share capital.

Shareholders' Agreement

On 19 July 2012, the Selling Shareholder and Majority Shareholder signed a shareholders' agreement (the "Shareholders' Agreement"), replacing and superseding the previous shareholders' agreement between them, dated 16 May 2008. The Shareholders' Agreement is valid for 10 years and is governed by Lithuanian law. The aim of the Shareholders' Agreement is to establish basic conditions of cooperation between the Principal Shareholders, as well as to prescribe certain rights and obligations of the Principal Shareholders.

The Shareholders' Agreement contains certain non-competition undertakings of the Principal Shareholders. Namely, it was agreed that, during the three-year period following the date of signing the Shareholders' Agreement, the Principal Shareholders will not compete either directly or indirectly through their related persons or entities, except for the controlling shareholders of the Principal Shareholders, with the Issuer in Lithuania, Estonia and/or Latvia, in relation to the business of the Issuer. Under the non-competition undertaking, the Principal Shareholders are thus obliged to not possess any direct or indirect ownership interest or shares (of record or beneficial), except for a financial investment of up to 10% of the voting capital of any entity, or having any interest as an employee, consultant, manager or member of the managing or supervisory bodies in any company, enterprise or other business that engages in the all or part of the same business activities as the Issuer in Lithuania, Estonia and/or Latvia. Furthermore, the Principal Shareholders are prohibited from: (i) soliciting or assisting any other person/entity to solicit any business of the Issuer (other than for the benefit of the Issuer) from any present or past customer of the Issuer, or to influence any present or potential customer of the Issuer to cease its business dealings with the Issuer, (ii) requesting or advising any present or potential customer of the Issuer to withdraw, curtail or cancel its business dealing with the Issuer. Finally, the Principal Shareholders are prohibited from soliciting or encouraging any employee, consultant or service provider of the Issuer to, respectively, leave the employment or terminate the service relationships with the Issuer, unless otherwise is agreed in writing by the Principal Shareholders.

The Shareholders' Agreement contains certain provisions on the transfer of the Issuer's shares held by the Principal Shareholders. First of all, pursuant to the Shareholders' Agreement the Principal Shareholders granted each other a pre-emptive right, allowing each of them to acquire all of the Issuer's shares offered for sale by one of the Principal Shareholders before they may be sold to any third party. It is thus expected that one of the Principal Shareholders shall inform other Principal Shareholders whenever it intends to sell its shares in the Issuer to a third party and shall offer other Principal Shareholders the option to purchase its shares at the same price, terms and conditions as agreed with any potential buyer.

Moreover, pursuant to the Shareholders' Agreement, the Principal Shareholders agreed to a tag-along right granted to the Selling Shareholder. Namely, in case the Majority Shareholder receives an offer to sell all or any of its shares in the Issuer, and such offer is intended to be accepted by the Majority Shareholder, the Selling

Shareholder shall have the right to: (i) exercise its pre-emptive right as described in the paragraph above, or (ii) sell all or any of its shares in the Issuer, together with the Majority Shareholder.

Additionally, the Shareholders' Agreement provides for a certain lock-up period with respect to the shares held by the Principal Shareholders (for more information, please see: "*Shareholders – Lock-up agreements*"), appointment of members of the Supervisory Board, the Management Board and the CEO (for more information, please see: "*The Issuer – Rights attached to Shares - Electing members of the Supervisory Board*"; "*The Management – Management Board*"; and "*The Management – The CEO*") and dividend policy (for more information, please see: "*Shareholders – Dividend Policy*").

Dilution

The tables below indicate the Issuer's shareholding structure as at the date of the Prospectus and after the Offering:

Shareholder	Shares owned prior to the Offering		Shares owned after the Offering ⁽¹⁾		Shares owned after the Offering ⁽²⁾	
	Number of shares	%	Number of shares	%	Number of shares	%
RAO Nordic OY	10,200,000	51.0	10,200,000	51.0	10,200,000	51.0
UAB Scaent Baltic	9,800,000	49.0	6,300,000	31.5	5,800,000	29.0
Public	--	--	3,500,000	17.5	4,000,000	20.0
Total	20,000,000	100.00	20,000,000	100.00	20,000,000	100.00

⁽¹⁾ Assuming complete sale of the Offer Shares and with maximum amount (i.e. 500,000) of Shares purchased by the Offering Agent during stabilisation transactions.

⁽²⁾ Assuming complete sale of the Offer Shares and without any stabilisation transactions executed by the Offering Agent.

Control over the Issuer

As at the date of this Prospectus, so far as the Issuer is aware, there is no arrangement that might result in the change of control over the Issuer.

Dividend Policy

According to the Shareholders' Agreement, the Principal Shareholders shall cause their respective nominees in the Supervisory Board and Management Board to support the distribution of no less than 70% of the relevant year net profit as dividends to shareholders. The Principal Shareholders shall vote their Shares at the General Meeting to ensure such distribution of the net profit, unless the Management Board, in acting in the best interests of the Issuer by approving the annual investment program, decides that the Issuer should make investments with the relevant year's net profit.

Dividend per share declared by the Issuer in the financial years ended 31 December 2011, 2010 and 2009 was equal to LTL 60.79 thousand, LTL 28.98 thousand and LTL 35 thousand respectively.

On 20 July 2012 the Principal Shareholders adopted resolution on the increase of the share capital from the Issuer's own funds from LTL 1,000,000 to LTL 20,000,000. As a consequence the net profit for distribution for the financial year ending 31 December 2012, will be reduced by the amount of the share capital increase.

Lock-up Agreements

In accordance with the Shareholders' Agreement, neither the Majority Shareholder, nor the Selling Shareholder will have the right to sell or otherwise transfer its Shares in the Issuer or any part thereof, except for the Offer Shares, to any third party or create any other third party rights to the Shares or any part thereof, until 31 December 2015, except upon receiving the prior written consent of the other Principal Shareholders.

In addition, pursuant to the Lock-up Agreement, entered into between the Principal Shareholders and the Offering Agent on or about the date of the Prospectus, the Principal Shareholders have agreed to certain restrictions regarding the Shares once they are sold in the Offering. Such restrictions include, but are not limited to: (i) an undertaking not to offer, sell, transfer, vote in favour of, or otherwise dispose of, or publicly announce the issuance, offering, sale or disposal of any Shares (or any other securities convertible into, exercisable for, or exchangeable for Shares, including participations granting, directly or indirectly, the right to acquire or subscribe for Shares); and (ii) an undertaking not to enter (or announce a plan to enter) into any swap or other transaction (such as the granting of purchase options, rights or warrants on shares) that transfers, in whole or in part, the economic consequences of ownership of Shares or options, without the prior written consent of the Offering Agent for a period of a year following the admission and introduction of Shares to trading on the WSE.

Furthermore, pursuant to the Lock-up Agreement the Principal Shareholders authorised the Offering Agent to perform all necessary actions in order to limit disposal of the Shares, the accounting of which is managed by

the Offering Agent acting as a custodian, by applying restrictions on disposal of the Shares at the custodian's level, except for certain exemptions.

OFFERING

General Information

On the basis of this Prospectus, the Selling Shareholder is offering up to 4,000,000 Offer Shares.

The Offering consists of both (i) a public offering to retail investors in the Republic of Poland and Republic of Lithuania (the "Retail Offering") and institutional investors in the Republic of Poland and in the Republic of Lithuania (the "Polish and Lithuanian Institutional Offering" and, together with the Retail Offering, the "Public Offering"); and (ii) a private placement to institutional investors outside the United States (excluding the Republic of Poland and the Republic of Lithuania) in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") (the "International Offering" and together with the Polish and Lithuanian Institutional Offering, the "Institutional Offering"). The Prospectus has been filed with the CBRL, which is the competent authority under the relevant implementing measures of the Prospectus Directive in Lithuania, and was approved on 23 November 2012. Lithuania is the home member state of the Issuer and the CBRL is solely authorized to approve this Prospectus. The Selling Shareholder will be authorised to carry out the Offering in the Republic of Lithuania once the Prospectus has been published. The Selling Shareholder will be authorised to carry out the Offering in the Republic of Poland once the CBRL, which is the competent authority for the purposes of the relevant implementing measures of the Prospectus Directive in the Republic of Lithuania, has approved this Prospectus and notified the PFSA of the approval of the Prospectus and the Prospectus has been published.

For further information on selling restrictions regarding the Offer Shares, please refer to "*Selling Restrictions*", and with respect to the rights pertaining to the Shares, please refer to "*The Issuer - Rights attached to Shares*".

The Offer Shares may be acquired by Retail Investors and Institutional Investors. As at the date of this Prospectus, there is no restriction on the amount of Offer Shares that will be allocated to each category of investors. However, the Issuer and the Selling Shareholder intend to allocate up to approximately 15% of the final number of the Offer Shares to Retail Investors, unless there is insufficient demand to allocate the remaining Offer Shares to Institutional Investors at the set Offer Price, and vice versa, in which case this proportion may be altered by the Issuer and the Selling Shareholder acting in agreement with the Offering Agent. Such an alteration, if any, will be announced, together with the Offer Price and the final number of Offer Shares.

The Offer Shares are being offered at the Offer Price, which will be determined through a book-building process and expressed in EUR. The PLN equivalent of the Offer Price will be established based on the Offer Price in EUR determined through the book-building. The final number of the Offer Shares allotted to the investors will be set by the Selling Shareholder in agreement with the Issuer and the Offering Agent after the Offer Price is determined, but will not be higher than 4,000,000 Shares.

On 20 July 2012, the General Meeting acknowledged public offering of up to 25% of the outstanding Shares to be offered for sale by the Selling Shareholder and adopted resolutions regarding the listing of all outstanding Shares on the WSE. In addition, the General Meeting approved preparation of a prospectus for the purpose of the envisaged offering.

Timetable of the Offering

The timetable below lists key dates related to the Offering. All times and dates referred to in this timetable are based on Warsaw local time:

27 November to 7 December 2012 (until 5 p.m. Warsaw-time)	Subscription period for Retail Investors ("Subscription Period")
27 November to 4 December 2012	Roadshow
5 December to 7 December 2012 (until 5 p.m. Warsaw-time)	Book-building and subscription period for Institutional Investors
Not later than on or about 10 December 2012	Determination and announcement of the Offer Price and the preliminary allotment of the Offer Shares
11 December 2012	Payment for the Offer Shares by Institutional Investors
12 December 2012	Determination and announcement of the final number of the Offer Shares and the allotment between the Retail Investors and the Institutional Investors (the "Allotment Date")
On or about 13 December 2012	Delivery of the Offer Shares to investors and closing of the Offering ("Settlement Date")

On or about 18 December 2012

Start of trading on the WSE ("Listing Date")

After consultation with the Offering Agent, the Issuer, together with the Selling Shareholder, may decide to amend the above dates. Changes made to the stated dates, if any, will be made public in the form of an announcement pursuant to the Lithuanian Law on Securities, and the Polish Public Offering Act. If in the Issuer's opinion, a change of dates for subscriptions would be a material factor affecting the evaluation of the Offer Shares, then such changes would be made public in the form of a supplement to this Prospectus.

Purchase by the current shareholders of the Issuer, the members of the Management Board and Supervisory Board

To the best of the Issuer's knowledge, neither the Majority Shareholder of the Issuer, nor any member of the Management Board or Supervisory Board or the Senior Management intends to purchase any Offer Shares in the Offering. The Issuer is not in possession of any information indicating that anyone intends to subscribe for more than 5% of the Offer Shares in this Offering.

Supplements to the Prospectus

In accordance with regulations in force in the Republic of Lithuania and the Republic of Poland applicable to public share offerings, and the admission of securities to trading on a regulated market (and taking into account that the public offering of the Offer Shares will take place only in the Republic of Poland and the Republic of Lithuania), any significant new factor, material error or inaccuracy related to the information included in this Prospectus which could affect the assessment of the Offer Shares, and which arises or becomes known between the date of approval of this Prospectus and the Listing Date, will be communicated through a supplement to this Prospectus. If a supplement is published no later than on the Settlement Date, then the investors who have placed their subscription orders before publication of the supplement shall have the right to withdraw their subscriptions within 5 business days of its publication, and any paid-in moneys shall be repaid to the investors not later than within 10 business days. In such case, and if necessary, the Allotment Date will be adjusted in order to enable the investors to withdraw their subscriptions.

Cancellation of the Offering

The Selling Shareholder may cancel the Offering and/or modify the terms and dates of the Offering at any time prior to the Subscription Period, without disclosing any reason for doing so. Information on modification of the terms of the Offering will be made available publicly in the form of the supplement to the Prospectus to be approved by the CBRL and notified to the PFSA, published in the same manner as this Prospectus. Any information on cancellation of the Offering will be made available publicly in the form of an announcement.

The Selling Shareholder may also cancel or suspend the Offering at any time after the opening of the Subscription Period up until the Settlement Date if it considers there are reasons to believe that proceeding with the Offering is, or has become, impracticable or inadvisable. Such reasons may include, but are not limited to: (i) the suspension of, or material limitation in, trading in securities generally on the WSE, as well as any other official stock exchange in the U.S. or European Union; (ii) a sudden and material adverse change in the economic or political situation in the Republic of Poland, Republic of Lithuania, and/or any other jurisdictions in which the Issuer operates worldwide; (iii) a material loss, or interference with the Issuer's business; (iv) an insufficient, in the opinion of the Issuer or the Offering Agent, expected free float of the Shares on the WSE; (v) any change or development in, or affecting, the general affairs, management, financial position, Principal Shareholders' equity or results of the Issuer's operations or the operations of its subsidiaries in a materially adverse way; or (vi) an unsatisfactory level of demand for the Offer Shares in the book-building process. In such an event, subscription orders for the Offer Shares that have been made will be disregarded, and any subscription payments received will be returned without interest or any other compensation, net of transfer costs, no later than 7 business days after the date of the notice of cancellation of the Offering is made public.

Maximum Price, Offer Price and Final Number of Offer Shares

The Offer Price will not be set at higher than EUR 6.55 and its PLN 26.92 equivalent per one Offer Share (based on the EUR/PLN average exchange rate of 1 / 4.1092, quoted by the European Central Bank on 22 November 2012 (the "Maximum Price").

During the book-building process amongst Institutional Investors invited by the Offering Agent, such Institutional Investors subscribing for the Offer Shares will indicate the number of the Offer Shares they will be willing to acquire and the price, not higher than the Maximum Price, they will be willing to pay. Retail Investors will not participate in the book-building process.

The Offer Price will be determined by the Selling Shareholder in agreement with the Offering Agent and will not be higher than the Maximum Price. The Offer Price will be determined based on: (i) the volume and price sensitivity of the demand estimated in the book-building process; (ii) the current and forecast situation in the capital markets; and (iii) development outlook, risk factors and other information concerning the Issuer's business. The Offer Price will be the same for both Retail Investors and Institutional Investors.

The PLN equivalent of the Offer Price will be established based on the average EUR/PLN exchange rate as quoted by the European Central Bank on the business day preceding the day of determination of the Offer Price.

The Offer Price, its PLN equivalent and information on the preliminary allotment of the Offer Shares will be filed with the CBRL, the PFSA and then publicised on the website of the Issuer (www.interrao.lt) and the Offering Agent (www.orion.lt) as soon as available.

Placement of Subscription Orders

The subscription order placed by an investor must be given with respect to at least one Offer Share and not more than 999,999 Shares. Orders may be withdrawn (and new orders placed) at any time until the end of the Subscription Period. All investors have the right to place multiple subscription orders. Subscription orders from the same investor for a number of Offer Shares greater than 999,999 Shares shall be considered to be orders for 999,999 Shares.

By placing subscription orders, each of the prospective investors will be deemed to have (i) read the Prospectus; (ii) accepted the terms of the Offering as described in the Prospectus; and (iii) consented to being allotted a lower number of Shares than the number specified in such investor's subscription orders, or not be allotted any Shares at all, pursuant to the terms and conditions set forth in the Prospectus.

Subscriptions by Retail Investors in Poland

If an investor in Poland wishes to subscribe for the Offer Shares, such investor must have a securities account opened with the Offering Agent or with other entity of investor's choice, licensed to provide such services within the territory of the Republic of Poland (e.g., Polish brokerage house). An investor wishing to subscribe for the Offer Shares should submit a subscription order for the Offer Shares using the subscription order forms made available by the Offering Agent. The subscription form will be made available on the website of the Offering Agent (www.orion.lt). The investor may use any method that the Offering Agent offers to such investor to submit a subscription order (e.g. physical, email, fax). If the order is delivered via e-mail or fax, the physical form should follow via traditional post.

Retail Investors may place their subscriptions in EUR at the Maximum Price or in PLN at the PLN equivalent of the Maximum Price, indicating the number of the Offer Shares they are willing to buy.

An investor must ensure that all information contained in the subscription order is correct, complete and legible. The Issuer and the Selling Shareholder reserve the right to reject any subscription orders that are incomplete, incorrect, unclear or ineligible, or that have not been completed and submitted during the Subscription Period and in accordance with all requirements set out in these terms and conditions.

An investor will be liable for the payment of all fees charged by the Offering Agent in connection with the cancellation or amendment of the subscription order.

For information on detailed rules governing the placing of subscription orders by Retail Investors, in particular: (i) the documents required if a subscription order is placed by a statutory representative, proxy or any other person acting on behalf of an investor; and (ii) the possibility of placing subscription orders and deposit requests in a form other than written (e.g. via the Internet), Retail Investors should contact a customer service centre of the Offering Agent. Contact details of the Offering Agent will be published on the Issuer's website (www.interrao.lt) and on the website of the Offering Agent (www.orion.lt) no later than at the beginning of the Subscription Period.

Subscriptions by Retail Investors in Lithuania

If an investor in Lithuania wishes to subscribe for the Offer Shares, an investor must have a securities account opened with the Offering Agent or may subscribe through other entity of investor's choice, licensed to provide such services within the territory of the Republic of Lithuania (e.g., Lithuanian brokerage house). An investor wishing to subscribe for the Offer Shares should submit a subscription order for the Offer Shares using the subscription order forms made available by the Offering Agent. The investor may use any method that the Offering Agent offers to such investor to submit a subscription order (e.g. physical, email, fax). If the order is delivered via e-mail or fax, the physical form should follow via traditional post.

Retail Investors will place their subscriptions in EUR at the Maximum Price, indicating the number of Offer Shares they are willing to buy.

An investor must ensure that all information contained in the subscription order is correct, complete and legible. The Issuer and the Selling Shareholder reserves the right to reject any subscription orders that are incomplete, incorrect, unclear or ineligible, or that have not been completed and submitted during the Subscription Period and in accordance with all requirements set out in these terms and conditions.

An investor may submit a subscription order either personally or via a representative whom the investor has authorized (in the form required by law) to submit the subscription order.

An investor will be liable for the payment of all fees charged by the Offering Agent in connection with the cancellation or amendment of the subscription order.

Subscriptions by Institutional Investors

The Offering Agent will invite Institutional Investors to participate in the book-building process and, at the same time, to deliver subscription orders. Subscription orders from Institutional Investors will be accepted by the Offering Agent.

After the Offer Price is established and the preliminary allotment is made, the Institutional Investors, whom the Offer Shares were preliminary allotted, will be informed about their preliminary allotment by the Offering Agent.

The Institutional Investors should contact the Offering Agent for information on detailed rules governing the placement of subscription orders, in particular: (i) the documents required if an order is placed by a statutory representative, proxy or any other person acting on behalf of an investor; and (ii) the possibility of placing orders and deposit instructions in non-written form.

Institutional Investors that manage assets on behalf of third parties may submit an order in favour of their customers, attaching a list of such customers.

Payment for the Offer Shares

Payment by Retail Investors in Poland

Subscription orders placed by Retail Investors must be paid in full on the day when the subscription order is placed or not later than at the end of the Subscription Period, or their order will be deemed null and void.

The amount of the payment should be equal to the multiple of the number of the Offer Shares for which the investor is placing the subscription order and the Maximum Price or the PLN equivalent of the Maximum Price. An investor in Poland, who has a securities account opened with the entity other than the Offering Agent, shall transfer the amount of the payment to the bank account of the Offering Agent, indicated in the subscription order. The Offering Agent will enable the payments to be transferred to its bank accounts opened with a Polish bank and denominated in EUR or PLN. In case of investor having a securities account opened with the Offering Agent the payment shall be transferred to the bank account of the Offering Agent, indicated in the subscription order, or will be blocked on the investor's account held by the Offering Agent. The payment is considered as made, if the required amount is credited in the bank account of the Offering Agent indicated in the subscription order form or if the required amount is available for blocking in the investor's investment account held by the Offering Agent.

By placing subscription orders in PLN at the PLN equivalent of the Maximum Price, each prospective investor will be deemed to have consented to being allotted a lower number of the Offer Shares than the number specified in such investor's order (also as a result of a shortfall in funds paid in due to the PLN equivalent of the Maximum Price being lower than the PLN equivalent of the Offer Price). Should there be any shortfall of funds due to the PLN equivalent of the Maximum Price being lower than the PLN equivalent of the Offer Price, the Offering Agent will adjust the number of the Offer Shares allocated to such investor to ensure his/her full payment for the Offer Shares at the Offer Price.

Retail Investors who have not been allotted any Offer Shares or whose subscriptions have been reduced will receive reimbursements of the payment made upon placing the subscription order in accordance with instructions provided by each Retail Investor in the subscription order. The reimbursement will take place within 7 business days of the Settlement Date or from the date of the publication of the supplement on the cancellation of the Offering. Moreover, any overpayments resulting from establishment of the PLN equivalent of the Offer Price will be returned within 7 business days of the Settlement Date. The payments shall be returned without any reimbursement for costs incurred by the investors in the course of subscribing for the Offer Shares, and be net of all transfer expenses and without interest.

Payment by Retail Investors in Lithuania

Subscription orders from the Retail Investors in Lithuania should be submitted at the Maximum Price indicated in the Prospectus. Payments for the Offer Shares by the Retail Investors in Lithuania must be made in EUR in full on the day when the subscription order is placed.

The amount of the payment should be equal to the multiple of the number of Offer Shares for which the investor is placing the subscription order and the Maximum Price. The amount of the payment shall be transferred to the bank account of the Offering Agent, indicated in the subscription order, or will be blocked on the investor's account held by the Offering Agent.

Retail Investors who have not been allotted any Offer Shares or whose subscriptions have been reduced will receive reimbursements of the payment made upon placing the subscription order in accordance with instructions provided by each Retail Investor as required under the procedures applicable at the investment firm with which the subscription order was placed. The reimbursement will take place within 7 business days of the Settlement Date or from the date of the publication of the supplement on the cancellation of the Offering. Moreover, any overpayments resulting from determination of the Offer Price will be returned within 7 business days of the Settlement Date. The payments shall be returned without any reimbursement for costs incurred by the investors in the course of subscribing for the Offer Shares, and be net of all transfer expenses and without interest.

Payment by Institutional Investors

On the day when the Institutional Investor are informed on the preliminary allotment of the Offer Shares by the Offering Agent the Institutional Investors will be required to pay for the Offer Shares in the amount equal to the multiple of a number of the Offer Shares preliminary allotted to them and the Offer Price in EUR or the PLN equivalent of the Offer Price.

The Institutional Investors should pay for the Offer Shares preliminary allotted to them in a manner agreed with the Offering Agent. If an investor does not pay-up in full for the Offer Shares preliminary allotted to such investor, its subscription shall be valid for the number of Shares corresponding to the amount paid by the investor, ignoring fractional entitlements. Payments may be done in EUR or PLN and should be transferred to such accounts as indicated by the Offering Agent.

Allotment of the Offer Shares

The total number of the Offer Shares allotted to the Retail Investors and the Institutional Investors will be determined by the Issuer and the Selling Shareholder with the Offering Agent at their discretion. The Issuer, the Selling Shareholder and the Offering Agent are not obliged to allocate any Shares to any investors participating in the Offering but, where they have determined to do so, the minimum allocation will be one Offer Share.

The final number of the Offer Shares and the allotment between the Retail Investors and the Institutional Investors, including the reduction of order placed, will be announced on the Allotment Date and published on the website of the Issuer (www.interrao.lt) and the Offering Agent (www.orion.lt) as soon as available

Allotment to Retail Investors

The allotment of the Offer Shares to Retail Investors will be made by the Offering Agent.

In the event of an oversubscription, the Offer Shares shall be allotted to the Retail Investors participating in the Offering *pro rata* to the size of each order placed. Fractional allocations (after the proportional reduction, if any) will be rounded down to the nearest integer value, and the remaining Offer Shares will be allocated to the Retail Investors who subscribed for the largest number of the Offer Shares.

Allotment to Institutional Investors

Offer Shares shall be allotted, subject to payment and in accordance with the provisions set forth in this Prospectus, to those Institutional Investors who have been invited by the Offering Agent to participate in the book-building and have submitted subscription orders, have been included in the preliminary allotment list prepared by the Issuer and the Selling Shareholder based upon the recommendation and with the agreement of the Offering Agent, and have paid-up in full for the Offer Shares preliminary allotted to them. The allocation of the Offer Shares to particular Institutional Investors participating in the Offering will be determined by the Offering Agent, at its discretion, subject to the consent of the Issuer and the Selling Shareholder. The Institutional Investors participating in the Offering will be notified of their allocations of Offer Shares by the Offering Agent.

Registration and Settlement

As at the date of the Prospectus, the Shares are in a book-entry form, registered on the Issuer's securities account maintained by the Issuer's Custody Manager. In accordance with applicable Lithuanian regulations, all Shares of the Issuer, including the Offer Shares, are electronically registered with CSDL (in Lithuanian: *Lietuvos Centrinis Vertybinių Popierių Depozitoriumas*), the clearing and settlement institution in Lithuania, with its seat at Lvovo 25, LT-09320 Vilnius, Lithuania. The Shares of the Issuer have been assigned ISIN code LT0000128621. *Krajowy Depozyt Papierów Wartościowych* (National Depository for Securities or the "NDS"), with its seat at Książęca 4, 00-498 Warsaw, Poland, which is the Polish central clearinghouse and depository for securities, will act as a secondary depository for the Shares, including Offer Shares. After the Allotment Date, the Issuer shall file an application for entering all of the Shares with the NDS.

All Shares are in book-entry form and, therefore, shareholders may only hold them through their respective securities accounts opened with and maintained by investment firms and custodians that are NDS or CSDL participants.

In order to deliver Offer Shares to the NDS, the Issuer's Custody Manager on behalf of the Selling Shareholder will give instruction to the CSDL to deliver a respective amount of Shares to the NDS. The delivery of the Offer Shares will be made in accordance with instructions made by the investors in the subscription orders, through the facilities of CSDL, and onward through the facilities of the NDS in accordance with standard NDS procedures applicable to the settlement of public offerings of shares. Delivery of the Offer Shares is expected to take place on or around 13 December 2012, barring unforeseen circumstances. The exact delivery dates will depend on the timing of the Share transfer from the CSDL to NDS system.

Shares subscribed by and allotted to the Retail Investors in Poland, having a securities account opened with the Offering Agent will be recorded on the omnibus account held for the Offering Agent with an investment firm in Poland. Shares subscribed by and allotted to the Retail Investors in Poland, having a securities accounts

opened with entities of investors' choice, licensed to provide such services within the territory of the Republic of Poland (e.g., Polish brokerage house), will be recorded on securities accounts held by such entities, as indicated in the subscription forms.

Shares subscribed by and allotted to the Retail Investors in Lithuania, having a securities accounts opened with the Offering Agent, will be recorded on the omnibus account held for the Offering Agent with an investment firm in Poland. Each Retail Investor, having a securities account opened with the Offering Agent, may request the Offering Agent to transfer the Shares held by a particular Retail Investor from the NDS system to the CSDL system and *vice versa*. However, in order to execute trades on the WSE, the Shares must be recorded in the NDS system.

Shares subscribed by and allotted to the Retail Investors in Lithuania, having a securities accounts opened with entities of investors' choice, licensed to provide such services within the territory of the Republic of Lithuania (e.g., Lithuanian brokerage house), other than the Offering Agent, will be recorded on securities accounts, as indicated in the subscription forms.

Shares allotted to the Institutional Investors will be recorded on securities accounts as agreed by each Institutional Investor with the Offering Agent.

Notices of the recording of the Offer Shares in the investor's securities account will be delivered to investors in accordance with the rules of a given investment firm. However, the date of the delivery of such notice to the investors will have no impact on the date of starting the listing of the Issuer's shares, including the Offer Shares, on the WSE, as the notices may be delivered to the investors after the listing has commenced.

Listing of the Shares

As of the date of this Prospectus, the Shares of the Issuer are not listed on any regulated or equivalent market. The Issuer intends to make an application to the Warsaw Stock Exchange for the admission of all of the Shares (including Offer Shares) for listing on the main market on the continuous trading system or the parallel market, depending on the requirements fulfilled at the moment of filing an application to the WSE.

The admission and introduction of the Shares, including the Offer Shares to trading on the WSE requires, *inter alia*: (a) the approval of the Prospectus by the CBRL and notification to the PFSA; (b) execution by the Issuer of an agreement with the NDS to register the Shares, including the Offer Shares, in the NDS; and (c) an application to be made, and resolutions of the WSE's management board passed, to admit and introduce the Shares to trading on the WSE. Several days may elapse between the Settlement Date and the Listing Date on the WSE.

Trading in the Shares is expected to commence on or about 18 December 2012. Any dealings in the Offer Shares prior to the start of trading on the WSE will be at the sole risk of investors concerned. In particular, as such transactions are not carried out on a regulated market, they are likely to result – depending on the particular circumstances of each transaction and the parties to it – in a stamp duty or similar tax being assessed.

Investors trading on the WSE should consider that since the Offer Shares are currently existing shares, the Offer Shares will be eligible for listing on the WSE, subject to completion of necessary registration procedures at the NDS, on par with all other Shares of the Issuer. The Issuer will not be seeking to apply for listing of temporary share receipts, such as "rights to shares" within the meaning of Article 3 of the Polish Trading in Financial Instruments Act.

The Issuer intends to agree with the Offering Agent on its commitment to act in secondary trading in the Shares or provide liquidity through bid and offer rates. Such activities, if any, will be conducted after the end of the stabilisation period.

Offering Agent

The Issuer and the Selling Shareholder have appointed UAB FMI Orion Securities, with its registered address at A. Tumėno 4, B Corp., floor 7, LT-01109 Vilnius, Lithuania, to act as the intermediary with respect to the Offer Shares for the purposes of the Offering in Lithuania and Poland ("Offering Agent") and admission of the Shares to trading on the main market of the WSE ("Listing Agent").

No paying agent has been established for the purpose of the Offering.

Public Announcement of the Offering Results

Information on the results of the Offering will be made public within two weeks of its completion on the website of the Issuer (www.interrao.lt) and the Offering Agent (www.orion.lt).

PLACEMENT AND STABILISATION

No Underwriting

No underwriting of the Offering is envisaged.

Placement Agreement

The Issuer and the Selling Shareholder intend to enter, prior to the Allotment Date, into a placement agreement (the "Placement Agreement") in respect of the Offering with, *inter alia*, the Offering Agent, in which the Offering Agent will commit to undertake certain actions in connection with organization of the Offering and Admission.

The Placement Agreement will contain standard terms and conditions, which are customary in placement agreements executed with transactions similar to the Offering.

Stabilisation

In connection with the Offering, the Offering Agent, acting as the stabilisation manager, or its affiliates or agents may engage in transactions on the WSE with the aim of supporting the market price of the Shares at a level higher than that which might otherwise prevail for a period of 30 calendar days following the Listing Date. Such stabilisation, if commenced, shall be conducted in accordance with the rules set out in the European Commission Regulation (EC) No. 2273/2003 of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council regarding exemption for buy-back programmes and stabilisation of financial instruments ("Stabilisation Regulation"). There is no obligation on the Offering Agent or its affiliates or agents to undertake stabilisation transactions and thus, no assurance can be given that stabilisation transactions will be effected. If stabilisation measures are undertaken, they may be discontinued at any time without prior notice, and must be brought to an end 30 days after the Listing Date. The stabilisation transactions, if any, may result in a market price of the Shares that is higher than the price that would otherwise prevail. Stabilisation of the Shares will not, in any circumstances, be executed above the Offer Price.

The Selling Shareholder will grant the Offering Agent an option, under which the Selling Shareholder will be obliged to acquire from the Offering Agent up to 500,000 Shares acquired by the latter in course of any stabilisation transactions.

The Offering Agent shall disclose details of any stabilisation transactions effected by it to the Issuer no later than at the end of the seventh daily market session following the date of execution of such transactions. Within one week of the end of the stabilisation period, the Issuer will be notified as to: (i) whether or not stabilisation was undertaken; (ii) the date on which stabilisation began; (iii) the date on which stabilisation last occurred; and (iv) the price range within which stabilisation was carried out, for each of the dates during which stabilisation transactions were carried out. This information shall be subsequently disclosed to the public in the Republic of Poland. The CBRL and PFSA will be also notified.

Commissions Payable to the Offering Agent

In connection with the Offering, the Issuer has agreed to pay the Offering Agent a combined management, placing commission of EUR 1.1 million and/or its equivalent, as well as to reimburse it for reasonable expenses incurred in connection therewith.

The Investors will bear their own costs connected to the evaluation of and participation in the Offering. In particular, Retail Investors will pay customary brokerage fees when placing subscription orders for the Offer Shares.

Other Relationships with the Offering Agent

The Offering Agent and its respective affiliates may, in the future, engage in investment banking or other financial services and other commercial dealings with the Issuer and its affiliates. The Offering Agent and its respective affiliates, may receive in the future any customary fees and commissions for these transactions and services.

The Offering Agent or its related parties may acquire financial instruments issued by the Issuer, its related parties, or financial instruments related to the financial instruments issued by any of these entities.

In connection with the Offering, the Offering Agent or its affiliates may also, acting as an investor on his own account, purchase the Offer Shares in the Offering, and either hold, sell or otherwise dispose of them. The Offering Agent will be obliged to deliver information regarding the purchase of the Offer Shares or performance of the transactions described above in the event the obligation to disclose such information arises under general binding laws or regulations.

The Offering Agent is an affiliate of the Selling Shareholder. The Selling Shareholder ultimately owns 50% and 1 share in the share capital of the Offering Agent. The remaining 49% share stake is owned by Dutch investment holding.

SELLING RESTRICTIONS

Prospectus

This Prospectus constitutes a prospectus within the meaning of the Prospectus Directive and the Lithuanian Law on Securities (which implemented the Prospectus Directive into Lithuanian law), for the purpose of providing any information with regard to the Issuer and the Offer Shares that the Selling Shareholder intends to offer, pursuant to the Prospectus, that is necessary to enable prospective investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Prospectus constitutes a prospectus in the form of a single document within the meaning of Article 5 of Prospectus Directive and Article 6 (4) of the Lithuanian Law on Securities. The Prospectus has been filed with, and was approved on 23 November 2012, by the CBRL, which is the competent authority in Lithuania to approve this document as a prospectus. Under the Prospectus Directive and the Lithuanian Law on Securities, the Prospectus, once approved by the competent authority in Lithuania may be used for making a public offering in Lithuania. Furthermore, under the Prospectus Directive and the Lithuanian Law on Securities, the Prospectus, once approved by the competent authority of one member state of the EU ("Home Member State"), may be used for making a public offering and admission of securities to listing on a regulated market in any other Member State of the EU ("Host Member State"), provided that the competent authority of the Home Member State provides the competent authority of the Host Member State with a certificate of approval of the Prospectus (in accordance with Article 18 of the Prospectus Directive and Article 12 of the Lithuanian Law on Securities).

The Selling Shareholder intends to undertake a public offering of the Offer Shares in Poland and Lithuania. The Selling Shareholder will be authorised to carry out the Offering to the public in Lithuania, once the CBRL has approved the Prospectus together with a summary of the Prospectus in the Lithuanian language and after the Prospectus in the English language and its summary in the Lithuanian language have been made available to the public in Lithuania.

The Selling Shareholder will be authorised to carry out the Offering to the public in Poland once the CBRL has provided the PFSA with (1) a certificate of approval of the Prospectus (in accordance with Article 12 of the Lithuanian Law on Securities, Art. 18 of the Prospectus Directive, and Art. 37 of the Polish Public Offering Act) and (2) a copy of the Prospectus, together with a summary of the Prospectus (in the Polish language), and after the Prospectus in English language, along with its summary in the Polish language, have been made available to the public in Poland, which is the equivalent of authorising the Offering to the public in Poland.

For the purposes of the public offering in Poland, a Polish translation of the summary of the Prospectus will be published. For the purposes of the public offering in Lithuania, a Lithuanian translation of the summary of the Prospectus will be published.

No Public Offering Outside Poland and Lithuania

This Prospectus has been prepared on the basis that there will be no public offers of the Offer Shares other than the Offering to the public in the territories of Poland and Lithuania in accordance with the Prospectus Directive, as implemented in Lithuania and Poland, respectively. Accordingly, any person making or intending to make any offering, resale or other transfer within the European Economic Area (the "EEA"), other than in Poland and/or Lithuania, of the Offer Shares may only do so in circumstances under which no obligation arises for the Issuer, the Selling Shareholder or the Offering Agent to produce an approved prospectus or other offering circular for such offering. Neither the Issuer, Selling Shareholder, nor the Offering Agent have authorised, nor will any of them authorise, the making of any offer of the Offer Shares through any financial intermediary other than offers made by the Offering Agent under this Prospectus.

No action has been or will be taken by the Issuer, Selling Shareholders or the Offering Agent in any jurisdiction other than Poland and Lithuania that would permit a public offering of the Offer Shares, or the possession or distribution of the Prospectus or any other offering material related to the Issuer or the Offer Shares in any jurisdiction where action for that purpose is required. Accordingly, the Offer Shares may not be offered or sold, directly or indirectly, and neither the Prospectus, nor any other offering material or advertisements in connection with the Offer Shares may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction.

The distribution of the Prospectus and the Offering in certain jurisdictions may be restricted by law and therefore, persons into whose possession the Prospectus comes should inform themselves of and observe any such restrictions on the distribution of the Prospectus and the Offering, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions. The Prospectus does not constitute an offer to subscribe for or buy any of the Offer Shares offered hereby to any person/entity in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any Offer Shares (including by means of

a resale or other transfer) may not be made in that Relevant Member State, other than the offer in Poland and Lithuania contemplated in the Prospectus once the Prospectus has been approved by the CBRL (being the competent authority in Lithuania), and published in Lithuania together with the translation of the summary into the Lithuanian language in accordance with the Prospectus Directive as implemented in Lithuania, as well as passported into Poland accompanied by the translation of the summary into the Polish language, and published in Poland in accordance with the Prospectus Directive as implemented in Lithuania and Poland, respectively, with the exception that an offer to the public in that Relevant Member State of any Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if and as they have been implemented in that Relevant Member State:

- to legal entities which are qualified investors as defined in the Prospectus Directive;
- by the Offering Agent to fewer than 100, or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior written consent of the Offering Agent nominated by the Issuer for any such offers; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, and
- provided that no such offer of Offer Shares shall result in a requirement for the Issuer or the Offering Agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the provisions and representations above, the expression an “offer to the public” in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering and the Offer Shares to be offered so as to enable an investor to decide to purchase any Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

United Kingdom

In the United Kingdom, the Prospectus may be distributed only to and directed only at (a) persons who have professional experience in matters related to investments which fall within Article 19(5) of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005, as amended (the “Order”); (b) high net worth entities falling within Article 49(2) (a) to (d) of the Order; or (c) other persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as “relevant persons”).

Neither the Prospectus, nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the United Kingdom. The Offer Shares may not be offered or sold to persons in the United Kingdom, with the exception of “qualified investors” as defined in section 86(7) of the Financial Services and Markets Act of 2000, as amended (the “FSMA”). The Offering Agent has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of any of the Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

In relation to member states of the EEA other than the United Kingdom, there may be further rules and regulations of such country or jurisdiction within the EEA related to the Offering of the Offer Shares or distribution or publication of the Prospectus or any other offering material or advertisement; persons into whose possession the Prospectus comes should inform themselves about and observe any restrictions on the distribution of the Prospectus and the offer of the Offer Shares applicable in such EEA Member State.

United States

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the U.S. Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made in a manner other than in accordance with an available exemption from registration under the U.S. Securities Act.

The Offering Agent has agreed that it will not offer, sell or deliver the Offer Shares within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the Offering and the closing date, and that it will have sent to each dealer to which it sells the Offer Shares during the distribution compliance period, confirmation or other notice setting forth the restrictions on offers and sales of the Offer Shares within the United States or to, or for the account or benefit of, U.S. persons.

The Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Offer Shares outside of the United States by the Selling Shareholder and for the listing of the Shares on the Warsaw Stock Exchange. The Issuer, the Selling Shareholder and the Offering Agent reserve the right to reject any offer to purchase the Offer Shares, in whole or in part, for any reason.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended), and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan (which term as used herein includes any corporation or other entity organised under the laws of Japan), or to others for offering or sale, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law of Japan and (ii) in compliance with any other applicable requirements of Japanese law.

Switzerland

The Prospectus does not constitute a prospectus within the meaning of Articles 652a or 1156 of the Swiss Federal Code of Obligations, or a listing prospectus according to Article 27 et seq. of the Listing Rules of the SIX Swiss Exchange. The Offer Shares will not be listed on the SIX Swiss Exchange and therefore, the Prospectus does not comply with the disclosure standards of the Listing Rules of the SIX Swiss Exchange.

Accordingly, the Offer Shares may not be offered to the public in or from Switzerland, but only to a selected and limited group of investors which do not subscribe for the Offer Shares with a view to distribution to the public. The investors may be individually approached by the Offering Agent from time to time. The Prospectus is personal to each offeree and does not constitute an offer to any other person. The Prospectus may only be used by those persons to whom it has been handed out in connection with the offer described herein, and may neither directly, nor indirectly be distributed or made available to other persons without the express consent of the Issuer. It may not be used in connection with any other offer and shall, in particular, not be copied and/or distributed to members of the public in or from Switzerland.

CAPITAL MARKET REGULATIONS

The Issuer intends to apply for admission to trading and to list all of the Shares on the main market of the WSE. As a result, the Issuer will be subject to certain Polish securities and capital market regulations. Moreover, the Issuer, being incorporated under the laws of Lithuania will be subject to certain aspects of the European Union and Lithuanian securities regulation. The Issuer will also be subject to the supervision of relevant regulatory authorities, in particular the CBRL and, to a limited extent, the PFSA.

The information set out below describes certain aspects of the Lithuanian and Polish securities market regulations regarding mandatory takeover bids, squeeze-out and sell-out rules that may be applied to the Shares once the Shares are admitted to trading on the WSE, and is included for general information purposes only. This summary does not purport to be a comprehensive description of all Lithuanian and Polish securities market regulatory considerations that may be relevant to a decision to acquire, hold or dispose of the Shares. Moreover, conclusions derived from the description below may not fully reflect a proper interpretation of Lithuanian and Polish laws. Each prospective investor should consult a professional legal adviser regarding the legal consequences of acquiring, holding and disposing of the Shares under the laws of their country and/or state of citizenship, domicile or residence.

This summary is based on legislation, published case law, treaties, rules, regulations and similar documentation in force as at the date of the Prospectus, without prejudice to any amendments introduced at a later date and implemented with retroactive effect.

European Union Tender Offer Regulations

Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004, on takeover bids ("Takeover Directive") was adopted by the Council on 30 March 2004, and became effective on 20 May 2004. It has been implemented into the laws of Lithuania by the Law on Securities of the Republic of Lithuania, dated 18 January 2007, as amended ("Lithuanian Law on Securities") and has been implemented into the laws of Poland primarily through the Polish Public Offering Act.

The relevant conflict of law provisions of the Takeover Directive do explicitly state that if the offeree company's shares are not admitted to trading on a regulated market in the Member State in which the company has its registered office, and if the offeree company's shares are admitted to trading on regulated markets in another Member State, then the authority competent to supervise the bid for all the remaining shares in the company shall be that of the Member State of the market on which the shares are admitted to trading, *i.e.* in the present case, the competent financial authority in Poland, the PFSA.

With respect to governing law, matters related to the consideration offered in the case of a bid for all of the remaining shares in the company in particular, the price, and matters related to the bid procedure in particular, the information on the offeror's decision to make a bid, the contents of the offer document and the disclosure of the bid, shall be dealt with in accordance with the rules of the Member State of the competent authority, *i.e.* in the present case, the competent financial authority in Poland, the PFSA. However, the Lithuanian Law on Securities has also a conflicting provision, which states that the requirements with respect to the consideration offered in case of mandatory takeover bid established by the Lithuanian Law on Securities *mutatis mutandis* shall be applicable with respect to securities of the Lithuanian company which are not traded on the Lithuanian regulated market or the Lithuanian multilateral trading facility. In the absence of regulatory guidance, a clear resolution as to such conflicts of laws cannot be provided.

However, in matters related to the information to be provided to the employees of the offeree company and in matters related to company law in particular, the percentage of voting rights which confer control and any derogation from the obligation to launch a bid for all the remaining shares in the company, the applicable rules and the competent authority shall be those of the Member State in which the offeree company has its registered office, *i.e.* in the present case, the CBRL which is the competent authority in Lithuania.

Lithuanian Regulations

Mandatory takeover bids

Provisions of the Lithuanian Law on Securities regulating notification of the employees of the target issuers, relevant thresholds, exemptions from obligation to announce mandatory takeover bid, protective measures and other company law issues shall apply to takeover bids implemented with respect to Lithuanian-based issuers, including those whose shares are not traded on the Lithuanian regulated market.

Under Lithuanian law, the trigger for a mandatory takeover bid is more than 1/3 voting power in the issuer. More specifically, the obligation to implement a mandatory takeover bid applies in case of one of the following:

- a person, acting alone or in concert with other persons, acquires shares that together with the block of shares held by it/him or by any other persons acting in concert, entitles it/him to more than 1/3 votes at the general meeting of shareholders of an offeree issuer; and
- a person acquires control of the entity which owns shares entitling it to more than 1/3 votes at the general meeting of shareholders of the relevant issuer.

Pursuant to the Lithuanian Law on Securities, control is defined as: (i) more than half of the total voting rights of the entity; or (ii) shareholding of the entity whereas the shareholder has the right to appoint or recall a CEO, majority of the management board or supervisory board of the entity; or (iii) the right of a shareholder of the entity under agreements with other shareholders to decide how to use more than half of the voting rights in the general meeting entity; or (iv) the ability of a person exercise essential influence on the entity.

In calculation of the 1/3 threshold the following votes are deemed to be held by a person and must be aggregated together:

- (i) the votes that are conferred by the shares owned by that person itself (except when such shares are pledged and the pledge agreement establishes the transfer of the voting rights to the pledgee);
- (ii) the votes that are held by another person with whom that person has concluded a voting agreement regarding the fulfilment of long term management policy of the issuer in question;
- (iii) the votes that are held by another person with whom an agreement regarding the temporary transfer of voting rights is concluded;
- (iv) the votes that are granted to it by the shares that have been pledged or transferred to it as a financial collateral provided the person is entitled to use the voting rights attached to such shares;
- (v) the votes that are granted to it by the shares in which he has the life long interest under a right of usufruct;
- (vi) the votes that are held or may be exercised within the meaning of items (i)-(v) by the entity controlled by that person;
- (vii) the votes that are granted by the shares deposited with that person where a person can exercise such voting rights at its discretion in the absence of other instructions;
- (viii) the votes that are granted by the shares held by a third party in such party's name on behalf of that person;
- (ix) the votes that may be exercised by that person as a proxy at its own discretion or under any other form of authorisation;
- (x) the votes that are granted by the shares held by the spouse of a person except for cases when under marital agreements the shares are held in personal ownership of each of the spouses.

If the threshold is exceeded, the acquirer of the shares must (i) offer to purchase all of the remaining voting shares and other securities granting the right to acquire voting securities of the issuer, or (ii) transfer the voting power which is above the triggering threshold. As a consequence of exceeding the threshold, the person/entity shall be deprived of all the votes at the general meeting of shareholders of the issuer from the moment of crossing the threshold, until the exercise of one of the above-mentioned actions.

Squeeze-out rules

The right of squeeze-out allows the shareholder of the issuer, meeting certain conditions, to require that all of the remaining shareholders of the issuer sell the voting shares owned by them.

Under the Lithuanian Law on Securities, the right for squeeze-out is triggered when a shareholder of an issuer, acting independently or in concert with other persons, acquires shares constituting not less than 95% of the voting capital of the issuer and not less than 95% of the total votes at the general meeting of shareholders of the issuer. The procedure of the squeeze-out must be initiated within three months of the implementation of the mandatory or voluntary takeover bid.

The price at which the shares are squeezed-out must be fair, but not lower than the compensation provided in the mandatory takeover bid. If the squeeze-out is initiated following the voluntary takeover bid, the price of squeeze-out can be equal to the takeover bid price if at least 90% of eligible shareholders have accepted the voluntary takeover bid. Otherwise the buying shareholder would be under the obligation to hire an independent expert to establish the "fair" price. Such price should be approved by the CBRL in advance.

Sell-out rules

The sell-out rule established by the Lithuanian Law on Securities allows any minority shareholders that did not sell their shares during the mandatory or voluntary takeover bid, to require the controlling shareholder to buy their shares within 3 months of the completion of the takeover bid. The minority shareholders are entitled to implement the sell-out if, after the takeover bid, the controlling shareholder, acting independently or in concert with other persons, controls shares constituting not less than 95% of the voting capital of the issuer and not less than 95% of the total votes of the issuer. The price which minority shareholders may request to be paid must be fair. The procedure for the determination of the price is the same as in case of the squeeze-out.

Polish Regulations

Takeover bids

The Takeover Directive allows the Member States to introduce, next to the mandatory takeover bids, additional protection of the interests of the minority shareholders, such as the obligation to make a partial bid where the offeror does not acquire control of the company. Poland has introduced such additional instruments.

Pursuant to Article 72 of the Polish Public Offering Act, any acquisition of shares in a public company in secondary trading and within a period shorter than 60 days by a shareholder holding shares entitling it to less than 33% of votes at a general meeting, leading to the increase of its share in the total number of voting rights by more than 10%, should be effected exclusively through a public tender offer.

Furthermore, any acquisition of shares in a public company by a shareholder who holds shares entitling it to at least 33% of votes at a general meeting, in secondary trading and within a period shorter than twelve months leading to the increase of its share in the total number of voting rights by more than 5%, should be effected exclusively through a public tender offer.

Additionally, any shareholder that wishes to cross the 33% voting rights threshold is obliged to launch a public tender for shares that will entitle it to hold 66% of votes. However, if the indicated thresholds are exceeded due to the acquisition of shares in a public offering, in-kind contribution, merger or division of a company, amendments to the articles of incorporation of the company, or occurrence of certain other events, the shareholder must either launch a public tender as described above within three months, or sell the appropriate amount of shares so that the number of votes to which the shareholder is entitled is no more than 33% of votes.

It should be noted that Polish law explicitly excludes the application of Polish regulations concerning thresholds only with respect to 66% threshold as the mandatory threshold under the Takeover Directive. In such case, the Lithuanian threshold of 1/3 shall apply. The additional threshold of 33% stipulated in Polish law is a separate obligation imposed by Poland irrespective of the Takeover Directive. Therefore, the announcement of a takeover bid when exceeding 1/3 voting power to satisfy the obligations imposed by the Takeover Directive should be deemed a different obligation from the obligation to announce a bid for 66% of votes when exceeding 33% of votes to satisfy additional Polish requirements.

The regulations set a number of detailed conditions to be followed in connection with a public tender offer, including, without limitation, the rules for determining the tender price, required security and settlement.

Sell-out and squeeze-out rules

It should be noted that Polish law does not explicitly exclude the application of Polish regulations concerning squeeze-out and sell-out in public companies to companies listed on the WSE which are incorporated outside of Poland.

Pursuant to Article 82 of the Polish Public Offering Act, a shareholder in a public company that, on its own or together with its subsidiaries or parent companies, or with companies which are parties to an agreement regarding the purchase of shares, voting in concert at the general meeting or conducting long-term policy against the company, reaches or exceeds 90% of the overall number of votes in such public company, may demand, within three months from the date on which such shareholder reaches or exceeds the relevant threshold, that the remaining shareholders sell all of the shares held by them to such shareholder.

Pursuant to Article 83 of the Polish Public Offering Act, a shareholder in a public company may demand that any other shareholder that has reached or exceeded 90% of the total number of votes purchase from it the shares it holds in such company. The demand is to be made, in writing, within three months from the date on which such shareholder reaches or exceeds the relevant threshold.

The Warsaw Stock Exchange

The WSE operates one of the two regulated markets in Poland within the meaning of the MiFID. The other regulated market (operated as an OTC market by BondSpot, a subsidiary of the WSE) concentrates mainly on bond trading. The WSE is a listed joint-stock company and is controlled by the Polish State. Members of the WSE include banks, Polish and international brokers.

Shares listed on the WSE may be traded via the continuous price-setting system or via the single-price auction system, depending on capitalisation and intensity of trading. In addition, there are two markets for shares: main and parallel, the latter being for smaller, less liquid issuers. Listed companies are classified into four segments according to their capitalisation: MINUS 5, 5 PLUS, 50 PLUS or 250 PLUS. To be traded in a specific market and segment, certain non-statutory criteria must be met by the securities in addition to the statutory listing criteria. Shares of companies which have high price volatility, or which are under bankruptcy or winding-up proceedings may be classified into the Alert List segment and then moved to listing under the single-price auction system.

Settlement of all transactions executed on the WSE is handled by the NDS, a joint-stock company in which the WSE has a 33.3% stake (with the remaining shares held by the National Bank of Poland and the State Treasury of the Republic of Poland) and the NDS subsidiary, KDPW_CCP.

As of the date of the Prospectus the electronic trading system used by the WSE is WARSET, a trading system similar to the system used in Paris, Brussels, Amsterdam, Chicago, and Singapore.

As of 9 November 2012, shares of 436 companies were listed on the WSE.

TAX SECTION

Tax Regulations in Lithuania

The following is a summary of certain Lithuanian tax implications of ownership and disposal of the Shares. The summary is based on the tax laws of Lithuania as in effect on the date of this Prospectus, and is subject to changes to such laws, including changes that could have a retroactive effect. The summary does not purport to be a comprehensive description of all of the tax implications that may be relevant for making a decision to purchase, own or dispose of the Shares. You are advised to consult your own professional tax advisors as to the Lithuanian, Polish and other tax implications of the Offering and the purchase, ownership and disposition of the Offer Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to taxes.

Taxation on Capital Gains

Lithuanian Tax Residents

Legal persons

No specific capital gains tax is established under the Lithuanian tax legislation. Therefore, capital gains received by Lithuanian legal entities or by a foreign legal entities acting through its permanent establishment in Lithuania from the sale of shares are included in the taxable income for the corporate income tax purposes.

The standard rate of corporate income tax is 15%. An exemption is available, and capital gains are not subject to the corporate income tax if the following conditions are met: 1) an entity, the shares of which are being transferred, is registered in the EEA Member State or country with which Lithuania has concluded a treaty for the avoidance of double taxation (e.g. the Polish–Lithuanian Tax Treaty), and this entity is a payer of corporate income or equivalent tax; and 2) an entity transferring shares has been in control of more than 25% of voting shares for an uninterrupted period of at least two years. The exemption is not applied if shares are transferred to the issuer.

Lithuanian entities and permanent establishments of foreign entities have the right to carry forward losses due to the disposal of securities and/or derivative financial instruments for five consecutive years for the purpose of the Lithuanian corporate income tax. The said losses can be covered only by income generated from disposals of securities and/or derivative financial instruments.

Individuals

Capital gains received from the sale of shares by Lithuanian residents are subject to 15% personal income tax.

Capital gains from the sale of shares are not taxed if the shares are sold not earlier than 366 days after the date of their acquisition, and if the individual had not held more than 10% of the shares of the entity for the three years preceding the end of the tax period during which the shares were sold. The application of the said exemption is restricted with respect to the shares received by the shareholder free-of-charge due to the increase in the issuer's share capital from its own funds, or in case the nominal value of the sale shares was increased from the issuer's own funds (in which case the application of the exemption will be restricted solely to the amount of income equal to the amount of the increase in the nominal value of the sale shares). Moreover, the application of the said exemption is restricted if shares are transferred to the issuer.

The personal income tax on capital gains received by individuals should be calculated, paid and declared by individuals by the 1st of May of the calendar year following the taxable year.

Non-Lithuanian Tax Residents

Legal persons

Capital gains received by foreign legal persons from the disposal of shares of Lithuanian companies are not subject to the Lithuanian corporate income tax.

Individuals

Capital gains received from the disposal of shares of Lithuanian companies by individuals who are not considered to be Lithuanian residents for tax purposes are not taxed in Lithuania.

Lithuanian Withholding Tax on Dividends

Lithuanian Resident Holders

Lithuanian Corporate Investors

Dividends received from a Lithuanian company by Lithuanian entities are subject to the corporate income tax at a rate of 15%. Dividends are not subject to the corporate income tax when a recipient Lithuanian entity has been, or intends to be, in control of not less than 10% of the voting shares of the Lithuanian company distributing dividends for an uninterrupted period of at least 12 months (including the moment of distribution of dividends).

The obligation to calculate, withhold and pay the withholding tax on dividends arises for any Lithuanian legal person (the payer of dividends).

Lithuanian Individual Investors

Dividends received from a Lithuanian company by Lithuanian individuals are subject to the personal income tax at a rate of 20%.

The obligation to calculate, withhold and pay the withholding tax on dividends arises for any Lithuanian legal entity (the payer of dividends).

Non-Lithuanian Resident Holders

Foreign Corporate Investors

Dividends received from a Lithuanian company by foreign entities are subject to the corporate income tax at a rate of 15%. Dividends are not subject to the corporate income tax when a recipient foreign entity company has been, or intends to be, in control of not less than 10% of the voting shares of the Lithuanian company distributing dividends for an uninterrupted period of at least 12 months (including the moment of distribution of dividends). This participation exemption does not apply if dividends are paid to foreign entities registered or otherwise organized in a tax haven jurisdiction as listed in the Order No 344 of the Minister of Finance of the Republic of Lithuania, dated 21st December 2001, as amended.

If dividends are paid out to entities that are residents of a foreign country with which Lithuania has concluded a treaty for the avoidance of double taxation (e.g. the Polish–Lithuanian Tax Treaty), and such a treaty limits the rights of Lithuania to tax dividends, then such rules set out in that treaty will be applied unless better treatment is foreseen in internal legislation.

The obligation to calculate, withhold and pay the withholding tax on dividends arises for any Lithuanian legal person (the payer of dividends).

Foreign Individual Investors

Dividends received from a Lithuanian company by non-resident individuals are subject to the personal income tax at a rate of 20%.

If dividends are paid out to individuals who are residents of a foreign country with which Lithuania has concluded a treaty for the avoidance of double taxation (e.g. the Polish–Lithuanian Tax Treaty), and such a treaty limits the rights of Lithuania to tax dividends, then such rules set out in that treaty will be applied.

The obligation to calculate, withhold and pay the withholding tax on dividends arises for any Lithuanian legal entity (the payer of dividends).

Lithuanian Gift, Estate and Inheritance Tax

Lithuanian Resident Holders and Non-Lithuanian Resident Holders

If the shares are given as a gift to a natural person, generally the acquisition of shares is subject to personal income tax at a rate of 15%, charged on income received at the transfer of the shares as a gift. The tax is not applicable when a spouse, child, parent, brother, sister, grandchild or grandparent gives shares as a gift or where shares are given as a gift to a non-Lithuanian resident. Furthermore, donation income received from other persons are not subject to taxation, unless such income exceeds LTL 8,000 in a calendar year.

Inherited shares are subject to inheritance tax as follows: if the taxable value of the inherited property does not exceed LTL 500,000, the tax rate is 5%; if the taxable value of the inherited property exceeds that amount, the tax rate is 10%. The property is exempted from the tax where the property is inherited by a spouse upon the death of the other spouse, by parents (adoptive parents), children (adopted children), grandparents, grandchildren, brothers, sisters, guardians (custodians), wards (foster children), the value of the inherited property does not exceed LTL 10,000, or where the shares are inherited by a non-Lithuanian resident.

Lithuanian Value-Added Tax (“VAT”)

Generally, under effective laws, share acquisition or transfer transactions are not subject to value added tax (VAT) in Lithuania.

Tax Regulations in Poland

The following is a summary of certain Polish tax implications of ownership and disposal of the Shares. The summary is based on the tax laws of Poland as in effect on the date of this Prospectus, and is subject to changes in such laws, including changes that could have a retroactive effect. The summary does not purport to be a comprehensive description of all the tax implications that may be relevant for making a decision to purchase, own or dispose of the Shares. You are advised to consult your own professional tax advisors as to the Lithuanian, Polish and other tax implications of the Offering and the purchase, ownership and disposition of the Offer Shares. Prospective investors who may be affected by the tax laws of other jurisdictions should consult their own tax advisors with respect to taxes.

Taxation on Capital Gains

Polish Tax Residents

Individuals

In accordance with Art. 3, section 1 of the Personal Income Tax Act, natural persons residing within the territory of the Republic of Poland are liable to pay tax on all of their worldwide income (revenue), regardless of the location of the source of revenue (unlimited tax obligation). A natural person is deemed a resident of the territory of the Republic of Poland if: (i) the centre of his/her personal or economic interests is situated within the territory of Poland, or (ii) he/she resides within the territory of Poland for more than 183 days in any given tax year.

In case of the disposal of shares in a Lithuanian company by a Polish tax resident, the Double Tax Treaty concluded between Poland and Lithuania applies. According to Art. 13, section 4 of the Treaty, capital gains from the disposal of shares are taxed exclusively in the country of residence of the person disposing of the shares. Thus, according to the above stated rules, income from the disposal of the Offer Shares earned by Polish residents shall be taxed in Poland.

Pursuant to Art. 30b, section 1 of the Personal Income Tax Act, income earned on the transfer of securities in exchange for any form of consideration constitutes a separate source of income and is taxed at a flat rate of 19%. Taxable income is computed as the difference between proceeds from the disposal of securities (including shares) and the tax-deductible costs, including expenditures related to the acquisition of securities (including shares). Such income is subject to taxation as income due - even if it has not yet actually been received. It is not aggregated with other types (sources) of income derived by an individual and is taxed separately.

An individual who earns gains on the sale of securities is required to calculate and pay taxes due, as well as to submit a relevant tax return, by 30 April of the calendar year immediately following the year in which such gains/losses arose. The tax is settled on an annual basis. There is no requirement to pay tax advances during the tax year.

The above regulations do not apply if a sale of securities for any form of consideration is performed as part of business activity. In such case, revenues and relevant costs should be settled according to the terms that apply to the taxation of a business activity.

It should be noted that if the value of securities expressed in the price specified in the agreement on the disposal of securities differs materially, without a legitimate reason, from the market value of the shares, then this may be challenged by the tax authorities.

It should also be noted that pursuant to Art. 9, section 6 of the Personal Income Tax Act, any losses incurred during a fiscal year on account of the disposal of shares may be deducted from the income received from that source over five consecutive fiscal years, provided that the amount of the deduction does not exceed 50% of the amount of the loss in any single fiscal year of the five-year period.

Corporate Persons

In accordance with Art. 3, section 1 of the Corporate Income Tax Act, any taxpayer with a legal seat or place of effective management within the territory of the Republic of Poland are liable to pay tax on all of their worldwide income, regardless of the location of the source of revenue.

According to Art. 13, section 4 of the Polish-Lithuanian Tax Treaty, any gains from the disposal of shares for any form of consideration are subject to taxation exclusively in the country of the legal seat of the corporate person disposing of the shares. Thus, any income from the disposal of the Offer Shares earned by corporate persons who are Polish tax residents is taxed in Poland. This income is aggregated with the business income of the given fiscal year, and subject to the general 19% CIT rate. The income is computed as the difference between the revenue (in principle, the price agreed for the shares) and tax deductible costs (in principle, the costs of acquisition of the shares and costs related to the sale).

However, it should be noted that if the value of shares expressed in the price specified in the agreement on the disposal of shares differs materially, without a legitimate reason, from the market value of the shares, such agreed price may be challenged by the tax authorities.

Non- Polish Tax Residents

Individuals

In accordance with Art. 3, section 2a of the Personal Income Tax Act, natural persons, if they do not reside within the territory of the Republic of Poland, are liable to pay tax exclusively on income (revenue) obtained within the territory of the Republic of Poland (limited tax obligation).

Polish tax law does not give clear direction as to whether income from a sale of securities of a Lithuanian company should be treated as income derived from Poland if the securities are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock

Exchange shall be treated as a Polish source of income. Consequently, as a rule, such income should be subject to Polish income tax and settled on general rules. In practice however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

Corporate Persons

In accordance with Art. 3, section 2 of the Corporate Income Tax Act, taxpayers not being Polish tax residents, are liable to pay Polish corporate income tax exclusively on income obtained within the territory of the Republic of Poland.

Polish tax law does not give clear direction as to whether income from a sale of securities of a Lithuanian company should be treated as income derived from Poland if the securities are traded on the Warsaw Stock Exchange. It seems that the prevailing approach of the tax authorities is that trades on the Warsaw Stock Exchange shall be treated as a Polish source of income. Consequently, as a rule, such income should be subject to Polish income tax and settled on general rules. In practice however, most of the tax treaties would exempt such income from taxation in Poland. This should be verified on a case-by-case basis.

Polish Tax on Dividends

Polish Tax Residents

Individuals

Taxation of dividend income obtained by an individual being a Polish tax resident from a company residing in Lithuania is regulated by the provisions of the Polish–Lithuanian Tax Treaty. Pursuant to Art. 10 of the Treaty, dividends paid by a company with a seat in Lithuania to a person that is a resident in Poland may be taxed in Poland. Pursuant to Art. 30a, section 1, point 4 of the Personal Income Tax Act, dividend income and other income from a share in the profits of legal persons is not aggregated with income from any other sources, and is subject to taxation at a flat rate of 19% of the income earned. However, according to Art. 25 of the Polish–Lithuanian Tax Treaty, a credit for the tax withheld on dividends in Lithuania should be applied in Poland. These dividends may also be taxed in Lithuania, but the tax levied in this country cannot exceed 15% of the dividend. The actual taxation rules regarding dividend income are governed by Lithuanian tax law.

It is not absolutely clear whether the tax due on dividend income earned by a Polish tax resident from a company with its seat in Lithuania shall be withheld by a Polish brokerage house assisting in the payment or not. There is a regulation (Art. 41, section 4 of the Personal Income Tax Act) that clearly imposes on brokerage houses the obligation to withhold the tax. However, there is a regulation which provides that amounts of tax due on dividends earned outside of Poland and the amounts of tax paid outside of Poland on such dividends should be reported by a taxpayer (*i.e.* Polish tax resident) in his annual tax return (Art. 30a, section 11 of the Personal Income Tax Act).

Most tax advisers seem to regard the latter provision as overruling the first, and are thus of the opinion that a Polish brokerage house should not withhold any tax. This conclusion seems to be confirmed by the changes introduced to the Personal Income Tax Act on 1 January 2012. Under Art. 41, section 4d of the Personal Income Tax Act, a Polish brokerage house is required to withhold the income tax in relation to dividends paid to the Polish tax resident only if two conditions are jointly met: (i) the dividend income is earned within the territory of Poland and is strictly related to securities registered on brokerage accounts kept by a Polish brokerage house, and (ii) the dividend income is paid out to the Polish tax resident through a Polish brokerage house. It should be noted that under the prevailing approach, dividends from a company with its seat in Lithuania should not be treated as income earned within the territory of Poland, even if the company is listed on the WSE. Thus, the first condition specified above shall not be met in relation to dividends and other income (revenue) actually earned on holding shares in a company with its seat in Lithuania.

However, in case of any doubt, a tax adviser should be consulted by a taxpayer.

Corporate Persons

According to the Polish–Lithuanian Tax Treaty, dividends paid by a company with a seat in Lithuania to a legal person being a Polish tax resident may be taxed in Poland at a flat rate of 19% of the income earned. These dividends may also be taxed in Lithuania, but the tax levied in this state cannot exceed 5% of the gross amount of the dividend distributed if the dividend is received by a company holding at least 25% of the share capital of the company paying the dividend, and 15% of the dividend in other cases.

The applicable withholding tax rate according to the relevant Lithuanian laws was indicated in description of Lithuanian tax regime.

Pursuant to Art. 20, section 3 of the Corporate Income Tax Act, income (revenue) from dividends and other revenue from participation in profits generated by Lithuanian companies are tax exempt if all of the following conditions are satisfied jointly:

- the entity paying out the dividends and other revenue from participation in profits generated by legal persons, is a company liable to pay income tax in any of the EU member states other than the Republic of

Poland or in any other country of the European Economic Area, with respect to its world-wide income, regardless of the place where it is generated;

- the entity receiving income (revenue) from dividends and other revenue from participation in profits generated by legal persons, as referred to in section (i), is a company liable to pay income tax in the Republic of Poland and has its registered seat or place of effective management within the territory of the Republic of Poland and is not exempt from income tax in relation to its world-wide income; and
- the company referred to in section (ii) has at least 10% direct shareholding in the share capital of the company which pays out the dividend (company referred to in section (i)).

The above stated exemption applies if the company receiving income (revenue) from dividends and other revenue from participation in profits generated by Lithuanian companies has at least 10% uninterrupted shareholding in the Lithuanian company for two years. The exemption also applies if the two-year period of uninterrupted holding of shares in the required amount by a company gaining income (revenue) from participation in profits generated by the Lithuanian company ends after the date of obtaining such income (revenue). In the case of failure to satisfy the condition of uninterruptedly holding shares in the required amount for two years, the company which benefited from the exemption is obliged, under the relevant regulations, to submit a corrected declaration for the fiscal years of gaining the exemption.

The above exemption will not apply, however, if distributions are made upon liquidation of a company or upon buy-back of shares.

Non-Polish Tax Residents

Individuals

As indicated above, under the prevailing approach, dividends from a company with its seat in Lithuania should not be treated as income earned within the territory of Poland, even if the company is listed on the WSE. Thus, dividends distributed by a Lithuanian company to non-Polish tax residents should not be subject to taxation in Poland.

Corporate Persons

As indicated above, under the prevailing approach, dividends from a company with its seat in Lithuania should not be treated as income earned within the territory of Poland, even if the company is listed on the WSE. Thus, dividends distributed by a Lithuanian company to non-Polish tax residents should not be subject to taxation in Poland.

Transfer Tax (Tax on Civil Law Transactions)

The tax on civil law transactions ("TCLT") is levied on agreements providing for the sale or exchange of rights, provided that these rights are executed in Poland or, if executed abroad, that the purchaser is a Polish tax resident and that the transaction is effected in Poland.

The tax rate on the sale of shares and the exchange of shares is 1.0% of their market value and should be paid within 14 days of the date on which the tax obligation arose (that is, the date the share or exchange agreement was concluded), unless the sale of shares and the exchange of shares agreements are concluded in the form of a notary deed. In such case, the tax due should be collected by the notary public acting as tax remitter. The purchaser of shares is liable for paying the tax due on civil law transactions. In the case of an exchange of shares, the liability for paying the tax due is borne jointly and severally by the parties to the exchange of the share transaction.

Exemptions from the TCLT apply, without limitation, to transactions concerning the sale of shares to investment companies or to foreign investment companies or, through them, the sale of such instruments within a regulated market, and the sale of such instruments made by investment companies or foreign investment companies outside a regulated market, provided that such instruments were acquired by those companies within a regulated market, as defined in the Polish Trading in Financial Instruments Act. In general, trading in shares on the WSE is exempt from the TCLT.

Taxation of Gifts and Inheritance

The inheritance and donation tax is charged on the acquisition by natural persons of shares within the territory of Poland, by way of, among others, inheritance, bequest or donation. The inheritance and donation tax is also charged on the acquisition by natural persons of shares outside the territory of Poland, provided that at the moment of inheritance or conclusion of a donation, the acquirer was a Polish citizen or his/her place of residence was within the territory of Poland.

The tax is not charged on an acquisition of shares within the territory of Poland if, on the date of such acquisition, neither the transferee, nor the testator were Polish citizens and had no place of permanent residence or registered office within the territory of Poland.

The tax liability is borne by the person acquiring shares and may arise at different times, depending on the legal form of such acquisition.

The amount of tax depends on the degree and type of kinship or relationship or other personal ties between the testator and the heir, or the donor and the beneficiary. Generally, the tax rates increase progressively from 3% to 12% of the tax base, depending on the tax group in which the transferee qualifies. There is a tax-free amount defined for each of these groups.

Shares acquired by the closest relatives (spouse, descendants, ascendants, stepchildren, siblings, stepfather and stepmother) are tax-exempt, subject to filing an appropriate notice with the head of the relevant tax office in due time. The aforementioned exemption applies if, at the time of acquisition, the acquirer was a citizen of Poland, another Member State, European Free Trade Association member state being party to the EEA Agreement, or was a resident of Poland or such state.

Unless the tax is collected by the tax remitter, the taxpayers are required to file, within one month from the date on which the tax liability arose, a tax return disclosing the acquisition of shares in the appropriate form, with the head of the relevant tax office. The tax is payable within 14 days of receiving a decision of the head of the relevant tax office assessing the amount of the tax liability.

ADDITIONAL INFORMATION

Throughout this Prospectus, the terms "Issuer", "the Group" and similar terms refer to AB INTER RAO Lietuva and its direct and indirect consolidated subsidiaries, unless the context requires otherwise. Unless otherwise noted, references to "Management" are to the members of the Management Board and the Senior Management (defined below), and statements as to the Issuer's beliefs, expectations, estimates and opinions are to those of the Issuer's Management. The term "subsidiaries" refers to the consolidated direct and indirect subsidiaries of the Issuer.

This Prospectus has been prepared by the Issuer in connection with the Offering and the Admission, solely for the purpose of enabling any prospective investor to consider an investment in the Offer Shares. The information contained in the Prospectus has been provided by the Issuer and other sources identified herein.

Prospective investors are expressly advised that an investment in the Offer Shares entails financial risk and that they should, therefore, read the Prospectus in its entirety, and in particular, the section "*Risk Factors*" when considering an investment in the Offer Shares. The contents of the Prospectus are not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal adviser, independent financial adviser or tax adviser for legal, financial or tax advice, and not rely exclusively on the legal, financial or tax information contained in the Prospectus.

Save for the provisions of mandatory laws, no person is or has been authorised to give any information or to make any representation in connection with the Offering and/or the Admission, other than as contained in the Prospectus, and if given or made, any other information or representation must not be relied upon as having been authorised by the Issuer, the Selling Shareholder or by the Offering Agent.

Capitalised terms used in the Prospectus and not otherwise defined herein have the meaning ascribed to such terms in Annex I "*Defined Terms*".

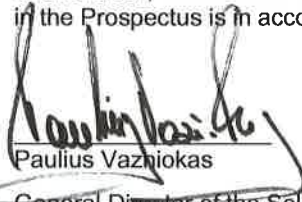
Persons Responsible for the Information

The Issuer accepts responsibility for the information contained in the Prospectus, except for sections that the Selling Shareholders is responsible for. To the best of the knowledge and belief of the Issuer which has taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its importance.


Giedrius Balciūnas

General Director of the Issuer

The Selling Shareholder accepts responsibility for the information contained in the following sections of the Prospectus: "*Use of Proceeds*" (in part relating to the Selling Shareholder), "*Shareholders - Principal Shareholders*" (in part relating to a description of the Selling Shareholder), "*Shareholders - Shareholders' Agreement*", "*Shareholders - Dividend Policy*" (in part relating to a description of the Shareholders' Agreement), "*Shareholders - Lock-up Agreements*" (in part relating to a description of the Shareholders' Agreement), "*Offering*" and "*Placement and Stabilisation*". To the best of the knowledge and belief of the Selling Shareholder, which have taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is in accordance with the facts and contains no omission likely to affect its importance.


Paulius Vazniokas

General Director of the Selling Shareholder

Neither the delivery of the Prospectus, nor any sale made hereby at any time after the date hereof shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, any of its subsidiaries, or the Group since the date hereof, or that the information contained herein is correct as of any date subsequent to the earlier of the date hereof or any date specified with respect to such information.

Neither the Offering Agent, nor legal advisers to the Issuer, the Selling Shareholder or the Offering Agent accept any responsibility whatsoever for the contents of the Prospectus, or for its transaction, or for any other statement made or purported to be made by any of them, or on their behalf, in connection with the Issuer or the Offering. The Offering Agent, its legal advisers and the legal advisers to the Issuer and the Selling Shareholder accordingly disclaim all and any liability, whether arising in tort or contract, which they might otherwise have in respect of the Prospectus or any such statement. No representation or warranty, express or implied, is made by the Offering Agent as to the accuracy or completeness of the information set forth herein, and nothing

contained in the Prospectus is, or shall be, relied upon as a promise or representation, whether as to the past or the future.

Market, Economic and Industry Data

All references to market, economic or industry data, statistics and forecasts in the Prospectus consist of estimates compiled by professionals, state agencies, market and other organisations, researchers or analysts, publicly available information from other external sources, as well as the Issuer's knowledge of its sales and markets and assessments made by its management.

Certain statistical data and market, economic, industry or operating information and forecasts relating to the energy sector have been extracted and derived by the Issuer from reports and analysis produced by various authorities as well as information made publicly available by, *inter alia*, the following entities:

- Eurostat (www.ec.europa.eu);
- Ministry of Energy in Lithuania (www.enmin.lt);
- National Control Commission for Prices and Energy in Lithuania (www.regula.lt);
- Central Statistical Bureau of Latvia (www.csb.gov.lv);
- Statistics Estonia (www.stat.ee);
- Russian Federal State Statistics Service (www.gks.ru);
- Augstsprieguma tīkls AS (www.ast.lv);
- Lietuvos energija (www.le.lt);
- Baltpool (www.baltpool.lt);
- Nord Pool Spot AS (www.nordpoolspot.com).

While the Issuer has compiled, extracted and reproduced market or other industry data from external sources, including third parties or industry or general publications, neither the Issuer and the Selling Shareholder, nor the Offering Agent have independently verified this data. The information in the Prospectus that has been sourced from third parties has been accurately reproduced and, as far as the Issuer is aware and able to ascertain from the information published by the cited sources, no facts have been omitted that would render the reproduced information inaccurate or misleading. Subject to the foregoing, neither the Issuer, Selling Shareholder nor Offering Agent can assure investors of the accuracy or completeness of, or take any responsibility for, such data. The source for such third party information is cited whenever such information is used directly in the Prospectus.

With respect to certain industry data, some estimates and assessments could not be substantiated by reliable external market and/or industry information, as such information is not often available or may be incomplete.

While the Issuer has taken every reasonable care to provide the best possible assessments of the relevant market situation and information regarding the relevant industry, such information may not be relied upon as final and conclusive. Investors are encouraged to conduct their own investigations of the relevant markets or employ a professional consultant. Industry publications generally state that their information is obtained from sources they believe to be reliable, but that the accuracy and completeness of such information is not guaranteed and that the projections they contain are based on a number of significant assumptions. The Issuer has relied on the accuracy of such data and statements without carrying out an independent verification thereof, and therefore cannot guarantee their accuracy and completeness. Furthermore, while the Management believes that its estimates and assessments are accurate and reliable, they have not been verified by independent external professionals. Consequently, the Issuer can guarantee neither their accuracy and completeness, nor that estimates or projections made by another entity relying on other methods of collection, analysis or market data assessment would be the same as the Issuer's.

Save where required by mandatory provisions of law, the Issuer does not intend to and does not undertake to update market, economic, industry or operating data, statistics and forecasts contained in the Prospectus.

Industry trends may change or significantly differ from the one projected in the Prospectus. Therefore investors should be aware that estimates made in the Prospectus may not be relied upon as indicative of the Issuer's future performances and actual trends.

In the Prospectus, the Issuer makes certain statements regarding its competitive position, growth and market leadership. The Issuer believes these statements to be true based on market data and industry statistics regarding the competitive position of certain of the Group's competitors. In presenting the overview of the Issuer's competitive position in the relevant markets, the Issuer also relied on management's assessments and analysis of such competitive position. In making such assessments and analysis, the Management has used market information collected by its own employees and advisers for such purpose, either available on the basis of public information or derivable from the same.

Presentation of Financial and Other Information

The Issuer maintains its financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), and as applicable in the respective years. The IFRS Financial Statements included in this Prospectus comprise the Consolidated Financial Statements and the Interim Condensed Financial Statements.

The Consolidated Financial Statements and the Interim Condensed Financial Statements included in the Prospectus are presented in LTL, which is the accounting currency of the Issuer.

The Group Companies maintain their accounting records in local currencies in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the Financial Statements and the Interim Financial Statements which have been prepared based on the Group Companies' local statutory accounting records reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

Certain figures contained in the Prospectus, including financial information, have been subject to rounding adjustments.

Accordingly, in certain instances, the sum of the numbers in a column or row in tables contained in the Prospectus may not conform exactly to the total figure given for that column or row. Some percentages in the tables in the Prospectus have also been rounded and the totals in these tables may not add up to 100%.

Potential investors should consult their own professional advisers to gain an understanding of the financial information contained herein.

Documents Incorporated by Reference

No documents or content of any website are incorporated by reference in the Prospectus.

Documents on Display

The copies of the following documents will be available free of charge at the registered office of the Issuer during the normal business hours from the date of the Prospectus and for a period of one year from the date the Prospectus was made available to the public:

- the most recent version of the Articles of Association;
- the Consolidated Financial Statements;
- the Interim Condensed Financial Statements;
- copies of all corporate resolutions mentioned in the Prospectus;

Moreover, the following documents will be available through the Issuer's web site (www.interrao.lt):

- the Prospectus, together with a summary translated into Polish and Lithuanian, as well as any supplements to the Prospectus, and
- the most recent version of the Articles of Association.

Notice to Prospective Investors

The distribution of the Prospectus and the Offering of the Offer Shares in certain jurisdictions may be restricted by law. The Prospectus may not be used for, or in connection with, and does not constitute, any offer to sell, or any solicitation or invitation to purchase, any of the Offer Shares offered hereby in any jurisdiction in which such an offer, solicitation or invitation would be unlawful. Persons in possession of the Prospectus are required to inform themselves about and to observe any such restrictions, including those set out under "*Selling Restrictions*". Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

As a condition to the purchase of any Offer Shares in the Offering, each purchaser will be deemed to have made, or in some cases be required to make, certain representations and warranties and will be required to take certain actions described in particular in section "*Offering*", which will be relied upon by the Issuer, the Selling Shareholder, the Offering Agent and others. Each of the Issuer and the Selling Shareholder reserves the right, at its sole and absolute discretion, to reject any purchase of Offer Shares that the Selling Shareholder, the Offering Agent or any agents believe may give rise to a breach or a violation of any law, rule or regulation. See, in particular, "*Selling Restrictions*".

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of the Offering or the accuracy or adequacy of the Prospectus. Any representation to the contrary is a criminal offence in the United States.

Forward-looking Statements

Some of the statements in some of the sections in the Prospectus include forward-looking statements that reflect the Issuer's current views with respect to future events and financial performance of the Group. Such forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "expects", "estimates", "anticipates", "intends", "plans", "may", "will", "should", "would", "could" or, in each case, their negatives or other variations or comparable terms. Such items in the Prospectus include, but are not limited to, statements under "*Risk Factors*", "*Business Overview*", "*Market Overview*" and "*Operating and Financial Review*".

By their nature, forward-looking statements involve known and unknown risk and uncertainty, and other factors that may cause the Group's actual results, performances and achievements to differ materially from any future results, performances, achievements or developments expressed in or implied by such forward-looking statements. The Issuer has based these forward-looking statements on numerous assumptions regarding the Group's present and future business strategies, the Group's current expectations and projections about future events and the environment in which the Group will operate in the future. These forward-looking statements are subject to uncertainties, assumptions and risks about the Group, described under "*Risk Factors*".

The forward-looking statements speak only as at the date of the Prospectus. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, whether to reflect any new information, future events, any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based, except as required by law, including under the Lithuanian Law on Securities and the Polish Public Offering Act.

In light of these risks, uncertainties and assumptions, the forward-looking events discussed in the Prospectus might not occur. Any statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future.

Prospective investors are cautioned not to place any undue reliance on such forward-looking statements which are based on facts known to the Issuer only as at the date of the Prospectus.

FINANCIAL INFORMATION

1. Interim Condensed Financial Statements.	F-1
2. Consolidated Financial Statements.....	F-15

UAB INTER RAO LIETUVA

**UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDING 30 JUNE 2012,
prepared in accordance with International Financial Reporting Standards,
as adopted by the European Union**



ERNST & YOUNG

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Juridinio asmens kodas 110878442
PVM mokėtojo kodas LT108784411
Juridinių asmenų registras

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www.ey.com/lt

Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Report on review of Interim condensed consolidated financial statements to the shareholders of UAB INTER RAO Lietuva

We have reviewed the accompanying interim condensed consolidated financial statements of UAB INTER RAO Lietuva, a private limited liability company registered in the Republic of Lithuania, and its subsidiaries (hereinafter the Group) as at 30 June 2012, comprising of the Interim consolidated statement of financial position as at 30 June 2012 and the related Interim consolidated statements of comprehensive Income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these Interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2410. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335


Asta Streimikienė
Auditor's licence
No. 000382

The review was completed on 25 September 2012.

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED 30 June 2012
(all amounts are in LTL thousand unless otherwise stated)

Interim consolidated statement of financial position

	Notes	As at 30 June 2012 (unaudited)	As at 31 December 2011 (audited)
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	4	6,926	6,926
Patents and licences		35,519	37,609
Other intangible assets		159	318
Total intangible assets		42,604	44,853
Property, plant and equipment	5		
Land	7	2,979	2,657
Buildings and structures		16,296	12,893
Machinery and equipment		69,455	71,837
Other property, plant and equipment		260	288
Total property, plant and equipment		88,990	87,675
Investment property		576	662
Investments into joint venture		1,864	2,630
Other non-current financial assets		3,577	3,573
Total non-current assets		137,611	139,393
Current assets			
Prepayments	12	1,614	6,723
Trade receivables		39,219	45,086
Other receivables and other current assets		327	355
Cash and cash equivalents	6	27,780	33,885
Total current assets		68,940	86,049
Total assets		206,551	225,442

The accompanying notes are an integral part of these financial statements.

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED 30 June 2012
(all amounts are in LTL thousand unless otherwise stated)

	Notes	As at 30 June 2012 (unaudited)	As at 31 December 2011 (audited)
EQUITY AND LIABILITIES			
Equity			
Share capital		1,000	1,000
Legal reserve		100	100
Retained earnings		29,804	63,050
Total equity		30,904	64,150
Liabilities			
Non-current liabilities			
Non-current borrowings	7	43,121	43,121
Financial lease obligations	7	48,913	52,499
Deferred income tax liability	9	7,846	8,041
Total non-current liabilities		99,880	103,661
Current liabilities			
Current portion of non-current borrowings		29	82
Current portion of financial lease obligations	7	8,307	8,600
Trade payables	12	25,780	31,797
Income tax payable		7,140	6,673
Other current liabilities	8	34,511	10,479
Total current liabilities		75,767	57,631
Total equity and liabilities		206,551	225,442

The accompanying notes are an integral part of these financial statements.

General Director

Giedrius Balčiūnas



25 September 2012

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED 30 June 2012
(all amounts are in LTL thousand unless otherwise stated)

Interim consolidated statement of comprehensive income
For the six months ended 30 June

	Notes	2012	2011
		Unaudited	
Sales		453,350	419,678
Cost of sales		(406,015)	(375,166)
Gross profit		47,335	44,512
General and administrative expenses		(9,082)	(8,982)
Other operating income		89	-
Other operating expenses		(5)	-
Profit from operations		38,337	35,530
Finance income		195	348
Finance expenses	7	(2,350)	-
Share of profit (loss) of joint venture		(16)	217
Profit before tax		36,166	36,095
Income tax expenses	9	(5,389)	(4,924)
Net profit		30,777	31,171
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		30,777	31,171
Net profit attributable to:			
The shareholders of the Company		30,777	31,171
Total comprehensive income attributable to:			
The shareholders of the Company		30,777	31,171
Basic and diluted earnings per share (LTL)	10	30,777	31,171

The accompanying notes are an integral part of these financial statements.

General Director

Giedrius Balčiūnas



25 September 2012

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED 30 June 2012
(all amounts are in LTL thousand unless otherwise stated)

Interim consolidated statement of changes in equity

For the six months ended 30 June 2012

	Attributed to owners of the parent			
	Share capital	Legal reserve	Retained earnings	Total
Balance as at 1 January 2012	1,000	100	63,050	64,150
Profit for the period	-	-	30,777	30,777
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	30,777	30,777
Dividends declared	-	-	(64,023)	(64,023)
Balance as at 30 June 2012	1,000	100	29,804	30,904

For the six months ended 30 June 2011

	Attributed to owners of the parent			
	Share capital	Legal reserve	Retained earnings	Total
Balance as at 1 January 2011	1,000	100	62,645	63,745
Profit for the period	-	-	31,171	31,171
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	31,171	31,171
Dividends declared	-	-	(60,795)	(60,795)
Balance as at 30 June 2011	1,000	100	33,021	34,121

The accompanying notes are an integral part of these financial statements.

General Director

Giedrius Balčiūnas



25 September 2012

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE 6 MONTH PERIOD ENDED 30 June 2012
(all amounts are in LTL thousand unless otherwise stated)

Interim consolidated statement of cash flows
For the six months ended 30 June

	For the six months ended 30 June	
	2012	2011
	unaudited	
Cash flows from (to) operating activities		
Net profit	30,777	31,171
Adjustments for non-cash items:		
Income tax expenses	5,389	4,924
Depreciation and amortisation	5,302	150
Interest (income)	(195)	(348)
Interest expenses	2,350	-
Share of net profit (loss) of joint venture	16	(217)
	<u>43,639</u>	<u>35,680</u>
Changes in working capital:		
Decrease in trade receivables	5,867	672
Decrease in prepayments and other current assets	1,639	581
(Decrease) in trade payables	(2,522)	(18,631)
Income tax (paid)	(5,116)	(1,031)
Decrease in advances received and other current liabilities	(2,475)	(15,781)
Net cash flows from (to) operating activities	<u>41,032</u>	<u>1,490</u>
Cash flows from (to) investing activities		
(Acquisition) of non-current assets	(3,957)	(20)
Dividends received	750	2,580
Interest received	106	175
Net cash flows (to) investing activities	<u>(3,101)</u>	<u>2,735</u>
Cash flows from (to) financing activities		
Dividends (paid)	(37,453)	(28,645)
Interest (paid)	(2,679)	-
Financial lease (payments)	(3,904)	-
Net cash flows from financing activities	<u>(44,036)</u>	<u>(28,645)</u>
Net increase (decrease) in cash and cash equivalents	<u>(6,105)</u>	<u>(24,420)</u>
Cash and cash equivalents at the beginning of the year	<u>33,885</u>	<u>81,932</u>
Cash and cash equivalents at the end of the six month period ended 30 June	<u>27,780</u>	<u>57,512</u>
Supplemental information of cash flows:		
Non-cash financing activity:		
Dividends payable netted with current loans receivable from shareholder	-	14,202

The accompanying notes are an integral part of these financial statements.

General Director

Giedrius Balčiūnas

25 September 2012

Notes to the interim condensed consolidated financial statements

1. General information

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 were authorised by the management of the Company on 25 September 2012.

UAB INTER RAO Lietuva (hereinafter "the Company") is a private limited liability company registered in the Republic of Lithuania. The Company's core line of business is trade of electricity. The Group companies operate in electricity trading and production sectors. The principal activities of the Group are described in Note 3.

2. Basis of preparation and changes to the Group's accounting policies

The interim condensed consolidated financial statements for the six months ended 30 June 2012 were prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011, except for the adoption of new standards and interpretations as at 1 January 2012, noted below:

- **IAS 12 - Deferred Tax: Recovery of Underlying Assets (Amendment)**

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012. The Group has no investment properties valued at fair value and assets under IAS 16 valued at revaluation model, therefore it has no impact on the financial statement of the Group.

- **IFRS 7 - Disclosures - Transfers of financial assets (Amendment)**

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements. This amendment has no impact on the financial statement of the Group.

- **IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)**

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted. This amendment has no impact on the financial statement of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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3. Segment information

Operating segments

The following tables present information regarding the Group's operating segments for the six months ended 30 June 2012.

Six month ended 30 June 2012	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	444,176	9,174	453,350	-	453,350
Total revenue	444,176	9,174	453,350	-	453,350
Results					
Depreciation and amortisation	230	5,072	5,302	-	5,302
Interest income	50	145	195	-	195
Interest expenses	-	2,350	2,350	-	2,350
Share of profit of joint venture	-	-	-	(16)	(16)
Segment operating profit	35,768	2,569	38,337	-	38,337
Segment assets	67,116	139,435	206,551	-	206,551
Segment liabilities	58,047	102,614	160,661	14,986	175,647

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures

Interest in a joint venture	-	-	-	1,864	1,864
Capital expenditure	3,957	-	3,957	-	3,957

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of liabilities

30 June 2012

Segment operating liabilities	160,661
Deferred tax liabilities	7,846
Current income tax payable	7,140
Group total liabilities	175,647

Deferred tax liabilities and current income tax liabilities are not allocated to segments as they are managed on a Group basis.

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The following tables present revenue and results information regarding the Group's operating segments for the six months ended 30 June 2011 and operating segments assets and liabilities as at 31 December 2011.

Six month ended 30 June 2011	Electricity purchases and sales	Electricity production and sales	Total segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	419,678	-	419,678	-	419,678
Total revenue	419,678	-	419,678	-	419,678
Results					
Depreciation and amortisation	150	-	150	-	150
Interest income	348	-	348	-	348
Interest expenses	-	-	-	-	-
Share of profit of joint venture	-	-	-	217	217
Segment operating profit	35,530	-	35,530	-	35,530
Segment assets as at 31 December 2011	83,081	142,361	225,442	-	225,442
Segment liabilities as at 31 December 2011	41,302	105,276	146,578	14,714	161,292

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures

Interest in a joint venture as at 31 December 2011	-	-	-	2,630	2,630
Capital expenditure for six month ended 30 June 2011	20	-	20	-	20

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

Reconciliation of liabilities

31 December 2011

Segment operating liabilities	146,578
Deferred tax liabilities	8,041
Current income tax payable	6,673
Group total liabilities	161,292

Adjustments and eliminations

Finance income and expenses are allocated to individual segments as the underlying instruments are managed on each separate Company basis.

Taxes and certain financial liabilities are not allocated to operating segments as they are managed on a Group basis.

4. Goodwill impairment

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate the carrying value may be impaired. The Group's impairment test for goodwill is based on value-in-use calculations that use a discounted cash flow model. The key assumptions used to determine the recoverable amount for the wind electricity cash generating unit was disclosed in the annual financial statements for the year ended 31 December 2011. As at 30 June 2012 there were no indications that the Group's goodwill might be impaired.

5. Property, plant and equipment

During the six months ended 30 June 2012 the Group acquired assets with the cost of LTL 3,957 thousand. The main part represents acquired office premises and parking space. Increase in land carrying value is due to the change in management estimate as described in Note 7 below.

No significant disposals were made during the six months ended 30 June 2012.

6. Cash and cash equivalents

For the purpose of the interim consolidated statement of cash flows, cash and cash equivalents comprise the following:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Cash at bank	27,362	33,885
Cash in transit	418	-
	<u>27,780</u>	<u>33,885</u>

7. Financial obligations and interest expenses

Financial lease obligations and interest expenses

The assets leased by the Group under financial lease contracts consist of wind power plants, transformation equipment and other assets and equipment with the net book value of LTL 81,909 thousand as at 30 June 2012 (as at 31 December 2011 LTL 84,730 thousand). The term of financial lease is 5 years.

The Group accounts for land rent from individuals as a financial lease. The contractual lease terms approximate to 50 years, but for the financial reporting purpose the judgmental period of 26 years from the inception date (representing expected usage of wind farm) was used by the management in these financial statements and represents change of estimate previously made for the reporting purpose as at 31 December 2011 when 21 years was used (change impact amounts to LTL 400 thousands recorded under non-current liabilities and non-current assets as described in Note 5). The carrying value of the land is LTL 2,979 thousand as at 30 June 2012 (as at 31 December 2011 LTL 2,657 thousand).

All amounts of financial lease payables as at the period ended 30 June 2012 amounted to LTL 57,220 thousand. During the 6 month period ended 30 June 2012 the Group made payments for the financial lease in the amount of LTL 3,904 thousand.

As at 30 June 2012 the interest rate on the financial lease obligations is fixed and equals 4.8 %. Finance lease interest expenses accounted for the six month period ended 30 June 2012 amounts to LTL 1,372 thousand (none for the period ended 30 June 2011).

Repayment of lease obligations is subject to further restructuring and repayment date extension as described below.

Non-current borrowings and interest expenses

The Group's company UAB IRL Wind has concluded a credit agreement with Swedbank AB with the interest rate of 6 months EURIBOR + 2.95 %, according to which 100 % of all cash inflows into UAB IRL Wind bank accounts, 100 % of UAB IRL Wind shares and 100 % of Vydmantai wind park UAB shares are pledged. The loan is denominated in EUR and the original repayment date is 13 July 2013, however, the agreement contains a binding requirement to merge UAB IRL Wind and Vydmantai wind park UAB until the same date, and upon the merger, the amended repayment date is 31 December 2020 (the same maturity amendment is applicable to the

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finance lease obligations described above). Interest expenses of non-current borrowings accounted for the six month period ended 30 June 2012 amount to LTL 978 thousand (none for the period ended 30 June 2011). The loan balance as at 31 December 2011 and 30 June 2012 amounts to LTL 43,121 thousand.

As at 30 June 2012 and 31 December 2011 the Group complied with all debt covenants as set in the financial agreements.

8. Other current liabilities

For the purpose of the interim consolidated statement of financial position, other current liabilities are comprised of the following:

	<u>30 June 2012</u>	<u>31 December 2011</u>
Dividends payable	26,571	-
Payable VAT	7,325	10,061
Payroll related liabilities	548	287
Other current liabilities	67	131
	<u>34,511</u>	<u>10,479</u>

9. Income tax

The Group calculates the period income tax expenses using the tax rate that would be applicable to the expected total annual earnings, i.e., the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

The major components of income tax expenses in the interim consolidated statement of comprehensive income are:

	<u>For the six months ended 30 June</u>	
	<u>2012</u>	<u>2011</u>
Income taxes		
Current income tax expenses	5,584	5,278
Change in deferred income tax	(195)	(354)
Income tax expenses	<u>5,389</u>	<u>4,924</u>
Income tax recognised in other comprehensive income	-	-
Total income taxes	<u>5,389</u>	<u>4,924</u>

10. Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Group has no diluting instruments; therefore, basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

	<u>30 June 2012</u>	<u>30 June 2011</u>
Net profit attributable to the shareholders	30,777	31,171
Number of shares (thousand), opening balance	1	1
Number of shares (thousand), closing balance	1	1
Weighted average number of shares (thousand)	1	1
Basic and diluted earnings per share (LTL)	<u>30,777</u>	<u>31,171</u>

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11. Dividends per share

	30 June 2012	31 December 2011
Approved dividends*	64,023	60,795
Number of shares (in thousands)**	1	1
Approved dividends per share (LTL)	64,023	60,795

* The year when the dividends are approved.

** At the date when dividends are approved.

12. Related party transactions

The parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group during the six month periods ending 30 June 2012 and 2011 and as at 30 June 2012 and 31 December 2011 were as follows:

OJSC INTER RAO UES (ultimate parent);

RAO Nordic Oy (one of the shareholders);

UAB Scaent Baltic (one of the shareholders);

UAB Alproka (joint venture);

Other related parties include:

UAB Scaent Baltic Group companies (the same shareholder).

Management

13. Related party transactions

For the six month period ended 30 June 2012		Purchases	Sales	Paid (received) dividends	Prepayments	Payables
OJSC INTER RAO UES	a)	345,515	-	-	-	22,396
Oy RAO Nordic	c)	-	-	19,101	-	13,551
UAB Scaent Baltic	b), c)	149	-	18,352	-	13,043
UAB Alproka		-	-	(750)	-	-
		345,664	-	36,703	-	48,990

2011		Purchases*	Sales *	Paid (received) dividends*	Prepayments	Payables
OJSC INTER RAO UES	a)	355,168	-	-	6,485	25,439
Oy RAO Nordic		-	153	20,995	-	-
UAB Scaent Baltic	b)	175	-	7,650	-	43
UAB Alproka		-	-	(2,580)	-	-
Other related parties		-	-	-	-	17
		355,343	153	26,065	6,485	25,499

- a) The Group performs electricity trading transactions with OJSC INTER RAO UES.
- b) The Group purchased rent of premises and accounting services from UAB Scaent Baltic.
- c) The Group's payables to shareholders Oy RAO Nordic and UAB Scaent Baltic as at 30 June 2012 represent dividends payable in LTL 13,551 thousand and LTL 13,019 thousand respectively.

Management remuneration and other benefits

The Group's management includes each of the companies managing director, deputy director and board members. During the six month period ended 30 June 2012 salaries and bonuses for the Group's management amounted to LTL 1,098 thousand (during the six month period ended 30 June 2011 – LTL 733 thousand).

On 1 December 2005, under a credit agreement, a loan of EUR 29 thousand was granted to one of the members of the Group's management. As at 30 June 2012 and 31 December 2011 the balance of the loan amounted to EUR 4 thousand. The maturity date is 5 December 2015. The interest rate of the loan is 6 month EURIBOR + 0.1 %.

No other guarantees were issued to the Group's management and no other amounts were paid or calculated, and no assets were disposed of.

14. Subsequent events

On 5 July 2012 the Group's company Vydmantai wind park UAB signed an annex to the finance lease agreement and agreed to return an additional portion of finance lease liabilities in 579,240 EUR (equivalent LTL 2,000,000) no later than on 30 July 2012. The remaining lease liabilities schedule was adjusted subsequently.

On 29 June 2012 the Group's company UAB IRL Wind signed an interest rate swap agreement for the loan taken from a financial institution, the effective date of which is 17 July 2012 and the termination date is 17 October 2020. Interest rate is fixed at 1.65%.

On 13 July 2012 the Board of UAB INTER RAO Lietuva approved the decision to establish a 100% owned subsidiary in Poland, which was officially registered on 17 September 2012.

On 19 July 2012 the Board (on 20 July 2012 the shareholders) of UAB INTER RAO Lietuva approved reorganization of the company from a private limited liability company to a public limited liability company and to increase share capital up to LTL 20,000 thousand.

No other material subsequent events occurred in the Group after the balance sheet date.

UAB INTER RAO LIETUVA

Consolidated financial statements for the year ended
31 December 2011, 2010 and 2009
prepared in accordance with
International Financial Reporting Standards,
as adopted by the European Union,
presented together with independent auditor's report



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Juridinių asmenų registras

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Code of legal entity 110878442
VAT payer code LT108784411
Register of Legal Entities

Independent auditor's report to the shareholders of UAB INTER RAO Lietuva

We have audited the accompanying consolidated financial statements of UAB INTER RAO Lietuva, a private limited liability company registered in the Republic of Lithuania (hereinafter "the Company"), and its subsidiaries (hereinafter the Group), which comprise the consolidated statements of financial position as at 31 December 2011, 2010 and 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes (comprising a summary of significant accounting policies and other explanatory information).

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, 2010 and 2009 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335


Asta Štreipikienė
Auditor's licence
No. 000382

The audit was completed on 25 September 2012.

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Statement of financial position


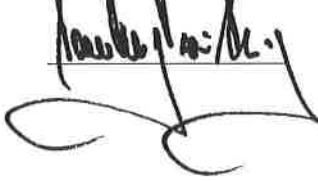
	Notes	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
ASSETS					
Non-current assets					
Intangible assets					
Goodwill		6,926	-	-	-
Patents and licenses		37,609	-	-	-
Other intangible assets		318	-	-	-
Total intangible assets	6	44,853	-	-	-
Property, plant and equipment					
Land		2,657	-	-	-
Buildings and structures		12,893	-	-	-
Machinery and equipment		71,837	-	-	-
Other property, plant and equipment		288	390	539	752
Total property, plant and equipment	7	87,675	390	539	752
Investment property	8	662	835	906	1,062
Interest in a joint venture	3, 9	2,630	5,343	7,243	6,562
Other non-current financial assets	10	3,573	150	242	2,183
Total non-current assets		139,393	6,718	8,930	10,559
Current assets					
Inventories and prepayments					
Inventories		-	111	21	20
Prepayments	11	6,723	8,346	50	137
Total inventories and prepayments		6,723	8,457	71	157
Accounts receivable					
Trade receivables	12	45,086	45,672	8,731	7,341
Other receivables	13	34	14,054	2,994	10,846
Total accounts receivable		45,120	59,726	11,725	18,187
Prepaid income tax		-	-	5,493	665
Other current assets		321	600	100	-
Cash and cash equivalents	14	33,885	81,932	19,786	31,395
Total current assets		86,049	150,715	37,175	50,404
Total assets		225,442	157,433	46,105	60,963

The accompanying notes are an integral part of these financial statements.

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	Notes	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
EQUITY AND LIABILITIES					
Equity					
Share capital	1	1,000	1,000	1,000	1,000
Legal reserve	15	100	100	100	100
Retained earnings	3	63,050	62,645	32,566	52,613
Equity attributable to equity holders of the parent		64,150	63,745	33,666	53,713
Total equity		64,150	63,745	33,666	53,713
Liabilities					
Non-current liabilities					
Non-current borrowings	16	43,121	-	-	-
Financial lease obligations	17	52,499	-	-	-
Deferred income tax liability	25	8,040	801	1,087	1,312
Total non-current liabilities		103,660	801	1,087	1,312
Current liabilities					
Current portion of non-current borrowings	16	82	-	-	-
Current portion of financial lease obligations	17	8,600	-	-	-
Trade payables	19	31,797	70,503	11,127	5,521
Income tax payable		6,673	5,309	-	-
Other current liabilities	20	10,480	17,075	225	417
Total current liabilities		57,632	92,887	11,352	5,938
Total equity and liabilities		225,442	157,433	46,105	60,963

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		25 September 2012
Economic Director	Paulius Vazniokas		25 September 2012

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Statement of comprehensive income

	Notes	2011	2010	2009
Sales	21	919,080	750,389	104,539
Cost of sales	22	(827,115)	(670,927)	(78,877)
Gross profit		91,965	79,462	25,662
General and administrative expenses	23	(18,710)	(10,932)	(9,307)
Other operating income		11	1	-
Other operating expenses		(2)	-	-
Profit from operations		73,264	68,531	16,355
Finance income	24	482	445	450
Finance expenses	24	(2,432)	(8)	(6)
Share of profit of joint venture	3	286	100	680
Profit before tax		71,600	69,068	17,479
Income tax	25	(10,400)	(10,007)	(2,526)
Net profit		61,200	59,061	14,953
Other comprehensive income		-	-	-
Total comprehensive income for the year, net of tax		61,200	59,061	14,953
Net profit attributable to:				
Owners of the parent		61,200	59,061	14,953
Total comprehensive income attributable to:				
Owners of the parent		61,200	59,061	14,953
Basic and diluted earnings per share (LTL)	26	61,200	59,061	14,953

The accompanying notes are an integral part of these financial statements.


General Manager	Giedrius Balčiūnas		25 September 2012
Economic Director	Paulius Vazniokas		25 September 2012

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Statement of changes in equity

Equity attributable to equity holders of the parent				
Notes	Share capital	Legal reserve	Retained earnings	Total
Balance as at 1 January 2009	1,000	100	52,613	53,713
Net profit for the year	-	-	14,953	14,953
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	14,953	14,953
Dividends declared	26	-	(35,000)	(35,000)
Balance as at 31 December 2009	1,000	100	32,566	33,666
Net profit for the year	-	-	59,061	59,061
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	59,061	59,061
Dividends declared	26	-	(28,982)	(28,982)
Balance as at 31 December 2010	1,000	100	62,645	63,745
Net profit for the year	-	-	61,200	61,200
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	61,200	61,200
Dividends declared	26	-	(60,795)	(60,795)
Balance as at 31 December 2011	1,000	100	63,050	64,150

The accompanying notes are an integral part of these financial statements.

General Manager	Giedrius Balčiūnas		25 September 2012
Economic Director	Paulius Vazniokas		25 September 2012

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Statements of cash flows

	Notes	2011	2010	2009
Cash flows from (to) operating activities				
Net profit		61,200	59,061	14,953
Adjustments for non-cash items:				
Income tax expenses	25	10,400	10,007	2,526
Depreciation and amortisation	22, 23	4,893	371	383
Impairment of goodwill	6	3,000	-	-
Interest (income)	24	(478)	(423)	(450)
Interest expenses	24	2,307	-	-
Share of net profit of joint venture		(286)	(100)	(680)
		81,036	68,916	16,732
Changes in working capital:				
(Increase) decrease in inventories		110	(90)	(1)
(Increase) decrease in trade receivables, other receivables and other current assets		2,406	(36,447)	4,401
(Increase) decrease in prepayments and other non-current assets		1,753	(8,191)	21
(Increase) decrease in trade payables		(38,902)	59,376	5,606
Income tax (paid)		(1,547)	(2,185)	(2,703)
(Increase) decrease in other current liabilities		(15,982)	19,632	(5,156)
Net cash flows from operating activities		28,874	101,011	18,900
Cash flows from (to) investing activities				
(Acquisition) of non-current assets		(49)	(150)	(14)
Proceeds from sale of non-current assets		-	2,000	2,000
(Acquisition) of investments in subsidiaries (net of cash acquired in the Group)	5	(71,355)	(120)	-
Interest and dividends received		3,326	2,193	2,233
Loans repaid		5	17,269	196
Loans (granted)		-	(31,075)	(17,264)
Other investing activities		666	-	-
Net cash flows (to) investing activities		(67,407)	(9,883)	(12,849)

The accompanying notes are an integral part of these financial statements.

UAB INTER RAO LIETUVA, company code 126119913, A.Tumėno str. 4, Vilnius, Lithuania
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		<u>2011</u>	<u>2010</u>	<u>2009</u>
III. Cash flows from (to) financing activities				
III.1 Dividends (paid)	31	(46,593)	(28,982)	(17,660)
III.2 Proceeds from loans		43,121	-	-
III.3 Interest (paid)		(2,242)	-	-
III.4 Financial lease (payments)		(3,800)	-	-
Net cash flows (to) financing activities		<u>(9,514)</u>	<u>(28,982)</u>	<u>(17,660)</u>
IV. Net increase (decrease) in cash and cash equivalents		(48,047)	62,146	(11,609)
V. Cash and cash equivalents at the beginning of the year		<u>81,932</u>	<u>19,786</u>	<u>31,395</u>
VI. Cash and cash equivalents at the end of the year		<u>33,885</u>	<u>81,932</u>	<u>19,786</u>

The accompanying notes are an integral part of these financial statements.

General Manager

Giedrius Balčiūnas

25 September 2012

Economic Director

Paulius Vazniokas

25 September 2012



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Notes to the financial statements

1. General information

UAB INTER RAO Lietuva, named UAB Energijos Realizacijos Centras until 23 December 2009, (hereinafter, "the Company").

is a private limited liability company registered in the Republic of Lithuania. Its registered office is located at:

A.Tumėno str. 4, Vilnius

Lithuania

The Company was registered on 21 December 2002. The Company's core line of business is supply of electricity. On 7 March 2003 the Company received a license No. L1-NET-14 of an independent electricity supplier entitling the Company to supply electricity in Lithuania. On 23 October 2003 the Company received a termless permission No. LE-0004 for electricity export, and on 31 May 2004, the unlimited-term permission No. LI-0002 for electricity import in Lithuania.

The subsidiary SIA INTER RAO Latvia received a license No. E14036 of an independent electricity supplier in Latvia, which is valid until 28 February 2015. On 10 October 2011 the subsidiary Vydmantai Wind Park UAB received a termless permit to produce electricity No. LG - 0238.

As at 31 December 2011, 2010 and 2009, the shareholders of the Company were as follows:

	Number of shares held	Interest held
RAO Nordic Oy, company code 1784937-7, Tammasaarekatu 1, Helsinki, Finland	510	51%
UAB Scaent Baltic, company code 300661378, A.Tumėno str. 4, Vilnius, Lithuania	490	49%
Total	1,000	100%

The ultimate parent company is OJSC INTER RAO UES, company code 2320109650, address Krasnopresnenskaja Nab. 12, Moscow, 123610, Russian Federation.

As at 31 December 2011, 2010 and 2009 the Company's share capital was comprised of 1,000 ordinary shares with the par value of LTL 1,000 each and was fully paid as at 31 December 2011, 2010 and 2009. The Company did not hold its own shares in 2011, 2010 and 2009. As at 31 December 2011, 2010 and 2009, the subsidiaries and the joint venture did not hold the Company's shares.

The number of employees in the Group as at 31 December 2011, 2010 and 2009 was 24, 18 and 13, respectively.

The management of the Company approved these financial statements on 25 September 2012.

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As at 31 December 2011 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture (hereinafter the Group):

Company	Company code	Directly and indirectly held effective attributable interest	Equity as at 31 December 2011	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	109	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Expected trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	33	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
UAB Alproka – joint venture	125281684	49,99 %	5,262	Lvovo Str. 25, Vilnius, Lithuania	Operations with real estate
UAB IRL Wind - subsidiary	302615372	100 %	28,109	A.Tumėno Str. 4, Vilnius, Lithuania	Holding company
Vydmantai Wind Park, UAB (indirectly owned subsidiary - managed through UAB IRL Wind)	302666616	100 %	38,617	A.Tumėno Str. 4, Vilnius, Lithuania	Generation of electricity

Changes in the Group in 2011

Acquisition of investments

In April 2011 the Company established a 100 % owned entity UAB IRL Wind. In July 2011 UAB IRL Wind acquired a wind electricity generation business from UAB Vėjų Spektas (Note 5).

Vydmantai wind park, UAB was established in a process of reorganization to take over the electricity generation business acquired from UAB Vėjų spektas with all assets, rights and obligations. Vydmantai wind park, UAB represents an independent economic unit capable of carrying out the activities and performing functions on its own.

As at 31 December 2010 the Group consisted of the Company and the following directly and indirectly controlled subsidiaries and joint venture:

Company	Company code	Directly and indirectly held effective attributable interest	Equity as at 31 December 2010	Registration address	Activity
OU INTER RAO Eesti - subsidiary	11879805	100 %	109	Vaikare-Karja 3/Sauna 2, Tallinn, Estonia	Trade of electricity
SIA INTER RAO Latvia - subsidiary	40103268639	100 %	(107)	Elizabetes iela 15-1, Riga, Latvia	Trade of electricity
UAB Alproka – joint venture	125281684	49,99 %	10,689	Lvovo Str. 25, Vilnius, Lithuania	Operations with real estate

Changes in the Group in 2010

Acquisition of investments

In January 2010 the Company established a 100 % owned entity OU INTER RAO Eesti with LTL 110 thousand share capital.

In January 2010 the Company established a 100 % owned entity SIA INTER RAO Latvia with LTL 10 thousand share capital.

No changes in the Group occurred in 2009, the Group consisted of the Company and the joint venture mentioned above.

2. Accounting policies

2.1. Basis of preparation

As at 31 December 2011 and in earlier periods the Group prepared its financial statements in accordance with Lithuanian Business Accounting Standards (BAS). These financial statements are the Group's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (hereinafter – EU).

In accordance with IFRS 1, the Group has prepared these financial statements according to IFRS as adopted by the EU which are applicable to the periods starting from or after 1 January 2011: the accounting principles applied are presented below. These first IFRS financial statements also include an opening statement of financial position as at the transition date – 1 January 2009. The main adjustments made at 1 January 2009, 31 December 2009, 2010 and 2011 on transition from BAS to IFRS are disclosed in Note 3.

The Group's financial statements are prepared based on a historical cost basis except for those assets or liabilities measured at fair value.

Standards issued but not yet effective

The Group has not applied the following IFRS and IFRIC interpretations that have been issued but are not yet effective:

- **IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. This amendment has not yet been endorsed by the EU.

- **IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. This amendment has not yet been endorsed by the EU. The standard will not affect the Group's financial statements because the Group has no investment property accounted for at fair value.

- **IAS 19 Employee Benefits (Amended)**

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 27 Separate Financial Statements (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet

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been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 28 Investments in Associates and Joint Ventures (Revised)**

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of this amendment on the financial position or performance of the Group.

- **IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on the financial position or performance of the Group.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements**

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects.

- **IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities**

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on the financial position or performance of the Group.

- **IFRS 9 Financial Instruments - Classification and Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities at fair value through profit or loss. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Group and is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 10 Consolidated Financial Statements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are, controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

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- **IFRS 11 Joint Arrangements**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 12 Disclosures of Involvement with Other Entities**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRS 13 Fair Value Measurement**

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

- **IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine**

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). IFRIC 20 has not yet been endorsed by the EU. This IFRIC will not have an impact on the consolidated financial statements as the Group is not engaged in mining activities.

The Group will adopt these standards once they become effective and are endorsed by EU.

2.2. Measurement and presentation currency

The amounts shown in these financial statements are presented in the local currency of the Republic of Lithuania, Litas (LTL), rounded to LTL thousand, unless otherwise stated.

The functional currency of the Company and its subsidiaries operating in Lithuania is Litas. The functional currencies of foreign subsidiaries are the respective foreign currencies of the country of residence. Items included in the financial statements of these subsidiaries are measured using their functional currency.

Transactions in foreign currencies are initially recorded in the functional currency as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange as at the date of the statement of financial position.

The assets and liabilities of foreign subsidiaries are translated into Litas at the reporting date using the rate of exchange as at the date of the statement of financial position, and their statements of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on this translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Non-current receivables from or loans granted to foreign subsidiaries that are neither planned nor likely to be settled in the future are considered to be a part of the Company's net investment in the foreign operation. In the Group's consolidated financial statements the exchange differences recognized in the separate financial statements of the subsidiary in relation to these monetary items are reclassified to other comprehensive income. On disposal of a foreign subsidiary, the deferred cumulative amount recognised in other comprehensive income relating to that foreign operation is recognised in the income statement.

Starting from 2 February 2002, Lithuanian Litas is pegged to Euro at the rate of 3.4528 Litas for 1 Euro, and the exchange rates in relation to other currencies are set daily by the Bank of Lithuania.

2.3. Principles of consolidation

The consolidated financial statements of the Group include UAB INTER RAO Lietuva and its subsidiaries as well as associated companies. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies have been eliminated. The equity and net income attributable to non-controlling interests are shown separately in the statement of financial position and the statement of comprehensive income.

Total comprehensive income of a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

Acquisitions and disposals of non-controlling interest by the Group are accounted as equity transaction: the difference between the carrying value of the net assets acquired from/disposed to the non-controlling interests in the Group's financial statements and the acquisition price/proceeds from disposal is accounted directly in equity.

The Group has an interest in a joint venture, which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The agreement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint venture using the equity method.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2.4. Intangible assets other than goodwill

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of asset can be measured reliably.

The useful lives of intangible assets are assessed to be finite.

After initial recognition, intangible assets with finite lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their expected useful lives (years), except for the wind farm operating license which validity term is indefinite, but the associated favourable fixed feed-in tariff expires after the certain period.

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The amortisation period of the wind farm operating license - 9.5

The validity period of the contract of emission reduction units - 1.5

Intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The useful lives, residual values and amortisation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in intangible assets other than goodwill.

Due to the nature of the Group activity (production of electricity from renewable sources) the Group is entitled to receive certain quantity of emission reduction units, depending on the quantity of electricity produced, which is estimated and verified annually during the special technical audit, although its performance date does not always coincide with the date of the financial statements preparation. Verified emission reductions units are treated as asset received free of charge for which inventory accounting principles are applied and it is accounted for at nominal acquisition cost, which is equal to zero. Emission reduction units are sold and sales result is recognized directly in the statement of comprehensive income at the moment of transaction.

2.5. Property, plant and equipment and investment property

Property, plant and equipment and investment property are stated at cost less accumulated depreciation and impairment losses.

The initial cost of property, plant and equipment and investment property comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair and maintenance costs, are normally charged to the statement of comprehensive income in the period the costs are incurred.

The Group has leased plots of land on which it operates wind turbines. Those lease arrangements are classified as finance leases of the land. The initial cost of land leased is equal to the present value of future lease payments. For these purposes the applicable lease period was estimated at 21 years and the discount rate applied was 4.8%. Depreciation of land leased is calculated over the minimum lease period, because lease period represents useful life of land leased.

Depreciation is computed on a straight-line basis over the following estimated useful lives (years):

Land lease	21
Buildings and structures	8 – 20
Machinery and equipment (wind power plants)	20
Vehicles	5 – 10
Other fittings, fixtures, tools and equipment	3 – 6
Investment property (buildings and structures)	8

The useful lives, residual values and depreciation method are reviewed annually to ensure that they are consistent with the expected pattern of economic benefits from items in property, plant and equipment and investment property.

An item of property, plant and equipment and investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

2.6. Financial assets

The Group's financial assets are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets, as appropriate. All purchases and sales of financial assets are recognised on the trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets at fair value through profit or loss

The category of financial assets at fair value through profit or loss includes financial assets classified as held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in statement of comprehensive income.

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The Group does not have any financial instruments at fair value through profit or loss, except for electricity trading contracts in Estonian market. There are no material amounts outstanding at the date of the statement of financial position. Sales revenue from such trading contracts is separately disclosed in the notes to the financial statements (Note 21).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recorded at the fair value of the consideration given. Loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Allowance for doubtful receivables is evaluated when the indications leading to the impairment of accounts receivable are noticed and the carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised (written off) when they are assessed as uncollectible.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with unrealized gains or losses (except impairment and gain or losses from foreign currencies exchange) being recognised in other comprehensive income until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is included in the income statement.

2.7. Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

2.8. Inventories

Inventories are valued at the lower of cost or net realisable value, after impairment evaluation for obsolete and slow moving items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of inventory is determined by the first-in, first-out (FIFO) method. Unrealisable inventory is fully written-off.

2.9. Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

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For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and in current bank accounts as well as deposits in bank with original term equal to or less than 3 months.

2.10. Borrowings

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group capitalises borrowing costs for all qualifying assets where construction was commenced on or after 1 January 2009. However, there were no borrowing costs matching the capitalisation criteria in 2011, 2010 and 2009.

Borrowings are initially recognised at fair value of proceeds received, less the costs of transaction. They are subsequently carried at amortised cost, the difference between net proceeds and redemption value being recognised in the net profit or loss over the period of the borrowings using the effective interest method.

2.11. Financial and operating leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Financial lease

Finance leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease. The Group recognises financial leases as assets and liabilities in the statement of financial position at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, to the present value of the minimum lease payments. The rate of discount used when calculating the present value of minimum payments of financial lease is the interest rate implicit in the financial lease agreement, when it is possible to determine it, in other cases, Group's incremental interest rate on borrowings applies. Directly attributable initial costs are included into the asset value. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

The depreciation is accounted for financial lease assets. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned. The leased assets cannot be depreciated over a period longer than lease term, unless the Group, according to the lease contract, obtains ownership at the end of the lease term.

Operating lease

Leases where the lessor retains all significant risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

2.12. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group re-evaluates provisions at each date of the statement of financial position and adjusts them in order to present the most reasonable current estimate. If the effect of the time value of money is material, the amount of provision is equal to the present value of the expenses, which are expected to be incurred to settle the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

2.13. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania, the Republic of Latvia and the Republic of Estonia.

The standard income tax rate in Lithuania was 15 % in 2011 and 2010 and 20% in 2009. In the Republic of Latvia – 15 %. In the Republic of Estonia – 0 % (though dividends paid are taxable).

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the company

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changes its activities due to which these losses incurred except when the company does not continue its activities due to reasons which do not depend on company itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for 5 consecutive years and only be used to reduce the taxable income earned from the transactions of the same nature.

Deferred taxes are calculated using the liability method. Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on tax rates enacted or substantially enacted at the date of the statement of financial position.

Deferred tax assets have been recognised in the statement of financial position to the extent the management believes it will be realised in the foreseeable future, based on taxable profit forecasts. If it is believed that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

2.14. Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of VAT and discounts.

Sale of electricity is recognised at the time of delivery, based on the value of the volume supplied. Physical electricity sales and purchase contracts are accounted for on accrual basis as they are contracted with the Group's expected purchase, sale or usage requirements.

Physical electricity sales and purchases are done through the power exchange (Nord Pool Spot/Baltpool). The sales and purchases are netted on the Group level on an hourly basis and posted either as revenue or cost, according to whether the Group is a net seller or a net buyer during any particular hour.

Revenue from sales of produced electricity is recognised on accrual basis when transfer of risks and rewards has been completed.

Revenue from services is recognised when services are rendered.

Interest income or expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. It is included in finance income or expenses in the income statement.

2.15. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each date of the statement of financial position.

For financial assets carried at amortised cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognised in the statement of comprehensive income. The reversal of impairment losses previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after the write-down. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Other assets (excluding goodwill)

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

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2.16. Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to depreciation (Notes 2.5, 7 and 8), amortization (Notes 2.4 and 6) impairment evaluation of goodwill, including allocation of Group assets to cash generating units (Notes 2.3 and 6) and other assets (Notes 2.152.15, 7, 12 and 13). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.17. Contingencies

Contingent liabilities are not recognised in the financial statements, except for contingent liabilities associated with business acquisitions. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits are probable.

2.18. Subsequent events

Subsequent events that provide additional information about the Group's position at the date of statement of financial position (adjusting events) are reflected in the financial statements. Subsequent events that are not adjusting events are disclosed in the notes when material.

3. First time adoption of IFRS

As described in Note 2.1, the Group made a transition to IFRS in 2011, with 1 January 2009 as the transition date. The effect of transition from the previously applied Business Accounting Standards (BAS) to IFRS on the Group's opening statement of financial position as at 1 January 2009 and its statements of financial position as at 31 December 2010 and 2009 as well as on the statements of comprehensive income for the years 2010 and 2009 are described below. Transition to IFRS had no material effect on the statement of cash flows of the Group; therefore, detailed information of the effect thereof is not disclosed.

IFRS were adopted retrospectively and no exemptions foreseen in IFRS 1 First-Time adoption of International Financial Reporting Standards were applied.

Management assumptions and estimates reflected in the previous GAAP financial statements as at the transition to IFRS date and all the other reporting dates for which previous GAAP financial information was published were the same as reflected in the financial statements previously prepared according to local GAAP (BAS).

The main adjustments made at the transition from local GAAP (BAS) to IFRS were net presentation of revenue related to the sale and purchase of imported electricity from the power exchange, the application of equity method for the accounting of the interest in a joint venture and consolidation adjustments, because the Company did not prepare the consolidated financial statements until the financial year ended 31 December 2011.

The effect of transition to IFRS is presented in the tables below:

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	Local GAAP as at 1 January 2009	Equity method and related deferred tax liability	IFRS as at 1 January 2009
ASSETS			
Non-current assets			
Interest in a joint venture	2,572	3,990	6,562
Other captions of non-current assets	3,997	-	3,997
Total non-current assets	6,569	3,990	10,559
Total current assets	50,404	-	50,404
Total assets	56,973	3,990	60,963
EQUITY AND LIABILITIES			
Equity			
Retained earnings	49,935	2,678	52,613
Other captions of equity and liabilities	1,100	-	1,100
Equity attributable to equity holders of the parent	51,035	2,678	53,713
Total equity	51,035	2,678	53,713
Liabilities			
Deferred tax liability	-	1,312	1,312
Total non-current liabilities	-	1,312	1,312
Total current liabilities	5,938	-	5,938
Total equity and liabilities	56,973	3,990	60,963

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	Local GAAP as at 31 December 2009	Equity method and related deferred tax liability	IFRS as at 31 December 2009
ASSETS			
Non-current assets			
Investments into subsidiaries	-	-	-
Interest in a joint venture	2,572	4,671	7,243
Other captions of non-current assets	1,687	-	1,687
Total non-current assets	4,259	4,671	8,930
Total current assets	37,175	-	37,175
Total assets	41,434	4,671	46,105
EQUITY AND LIABILITIES			
Equity			
Retained earnings	28,982	3,584	32,566
Other captions of equity and liabilities	1,100	-	1,100
Equity attributable to equity holders of the parent	30,082	3,584	33,666
Total equity	30,082	3,584	33,666
Liabilities			
Total non-current liabilities	-	1,087	1,087
Deferred tax liability	-	1,087	1,087
Total current liabilities	11,352	-	11,352
Total equity and liabilities	41,434	4,671	46,105

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	Local GAAP as at 31 December 2009	Equity method and related deferred tax	IFRS as at 31 December 2009
Sales	104,539	-	104,539
Cost of sales	(78,877)	-	(78,877)
Gross profit	25,662	-	25,662
General and administrative expenses	(9,307)	-	(9,307)
Profit from operations	16,355	-	16,355
Finance income	450	-	450
Finance expenses	(6)	-	(6)
Share of profit of joint venture	-	680	680
Profit before tax	16,799	680	17,479
Income tax	(2,751)	225	(2,526)
Net profit	14,048	905	14,953
Other comprehensive income	-	-	-
Total comprehensive income for the year, net of tax	14,048	905	14,953

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	Local GAAP as at 31 December 2010	Equity method and related deferred tax liability	Consolidation adjustments	IFRS as at 31 December 2010
ASSETS				
Non-current assets				
Investments into subsidiaries	120	-	(120)	-
Interest in a joint venture	2,572	2,771	-	5,343
Other captions of non-current assets	1,375	-	-	1,375
Total non-current assets	4,067	2,771	(120)	6,718
Total current assets	150,715	-	-	150,715
Total assets	154,782	2,771	(120)	157,433
EQUITY AND LIABILITIES				
Equity				
Retained earnings	60,795	1,970	(120)	62,645
Other captions of equity and liabilities	1,100	-	-	1,100
Equity attributable to equity holders of the parent	61,895	1,970	(120)	63,745
Non-controlling interests	-	-	-	-
Total equity	61,895	1,970	(120)	63,745
Liabilities				
Deferred tax liability	-	801	-	801
Total non-current liabilities	-	801	-	801
Total current liabilities	92,887	-	-	92,887
Total equity and liabilities	154,782	2,771	(120)	157,433

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	Local GAAP for 2010	Net revenue presentation	Equity method and related deferred tax	Consolidation adjustments	IFRS for 2010
Sales	751,938	(1,549)	-	-	750,389
Cost of sales	(672,476)	1,549	-	-	(670,927)
Gross profit	79,462		-	-	79,462
General and administrative expenses	(10,812)	-	-	(120)	(10,932)
Other operating income	1	-	-	-	1
Other operating expenses	-	-	-	-	-
Profit from operations	68,651	-	-	(120)	68,531
Finance income	2,445	-	(2,000)	-	445
Finance expenses	(8)	-	-	-	(8)
Share of profit of joint venture	-	-	100	-	100
Profit before tax	71,088	-	(1,900)	(120)	69,068
Income tax	(10,293)	-	286	-	(10,007)
Net profit	60,795	-	(1,614)	(120)	59,061
		-	-	-	-
Other comprehensive income	-	-			
Total comprehensive income for the year, net of tax	60,795	-	(1,614)	(120)	59,061

4. Segment information

For management purposes, the Group is organized into business units based on type of activities and has the two following reportable segments:

- Purchase and sales of electricity;
- Production and sales of electricity.

The segment of purchase and sales of electricity includes operations of UAB INTER RAO Lietuva and SIA INTER RAO Latvija. Electricity is purchased from the main suppliers and sold in the Baltics. The Group has entered into contracts for the purpose of the receipt and delivery of electricity in accordance with the entity's expected purchase, sale or usage requirements. Furthermore, the Group also performs some trading sales of electricity on the electricity markets.

The segment of production and sales of electricity includes operations of Vydmantai wind park, UAB. This segment also includes assets and liabilities of UAB IRL Wind. Electricity is produced by wind turbines and sold to the Lithuanian electricity network operator – UAB LITGRID and AB Lietuvos energija.

No operating segments have been aggregated to form the above reportable operating segments.

Segment performance is evaluated based on operating profit or loss and is measured consistently with profit from operations in the consolidated financial statements.

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Finance income and expenses are allocated to individual segments as the underlying instruments are managed on for each separate segment separately.

Taxes and certain financial liabilities are not allocated to those segments as they are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are based on the prices set by the management, which management considers being similar to transactions with the third parties.

Operating Segments

Until 2011 there was a single operating segment - purchase and sales of electricity in the Group. Due to changes in the Group during 2011, additional operating segments were introduced. Therefore the following table presents information about the Group's reportable operating segments for the financial year ended 31 December 2011:

Year ended 31 December 2011	Electricity purchases and sales	Electricity production and sales	Total Segments	Adjustments and eliminations	Consolidated
Revenue					
External customers	908,117	10,963	919,080	-	919,080
Total revenue	908,117	10,963	919,080	-	919,080
Results					
Depreciation and amortisation	353	4,540	4,893	-	4,893
Interest income	432	46	478	-	478
Interest expenses	-	2,307	2,307	-	2,307
Share of profit of joint venture	-	-	-	286	286
Impairment loss	-	3,000	3,000	-	3,000
Segment operating profit	70,960	2,304	73,264	-	73,264
Segment assets	83,081	142,361	225,442	-	225,442
Segment liabilities	41,303	105,276	146,579	14,713	161,292

Segment assets and liabilities are presented after elimination of intercompany assets and liabilities within the segment, which are eliminated on consolidation.

Other disclosures

Interest in a joint venture	-	-	-	2,630	2,630
Capital expenditure	49	147,809	147,858	-	147,858

Capital expenditure consists of additions of property, plant and equipment, intangible assets and investment properties including assets from the acquisition of subsidiaries.

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	31 December 2011
Reconciliation of liabilities	
Segment operating liabilities	146,579
Deferred tax liabilities	8,040
Current tax payable	6,673
Group total liabilities	161,292

Geographical information

The following table presents Group's geographical information on revenue based on the location of the customers:

	2011	2010	2009
Lithuania	634,211	634,593	67,845
Latvia	255,420	115,628	2,735
Estonia	29,449	-	-
Russia	-	168	33,959
Total revenue per consolidated income statement	919,080	750,389	104,539

Revenue from each single customer exceeding 10% of the Group revenue in 2011 amounted to LTL 83 million and LTL 251 million (2010: LTL 116 million and LTL 76 million; 2009: LTL 68 million and LTL 34 million).

The major part of the Group's non-current assets is located in Lithuania. Non-current assets for this purpose consist of property, plant and equipment, investment property, intangible assets, non-current financial and other assets.

5. Business combination

Acquisition in 2011

As disclosed in Note 1, on 15 July 2011 the Group acquired 100 % UAB Vėjų spektras shares with the purpose to acquire wind energy generation business. UAB Vėjų spektras was later reorganized by spinning off and transferring separate wind energy generation business to a newly established Vydmantai wind park UAB.

The differences between the amounts paid and the fair value of the acquired assets and liabilities were accounted for as goodwill. The goodwill is related to a market entry, i.e. to a new strategy to enter into the renewable energy generation industry. None of the goodwill recognized is expected to be deductible for income tax purposes. The net assets recognized are based on the final assessment of fair values.

There is no contingent consideration in relation to this business acquisition.

All the costs related to the above acquisitions were included into general and administrative expenses caption in the total amount of LTL 479 thousand.

The fair values of the acquired assets, liabilities and contingent liabilities at the acquisition date were as follows:

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Date of acquisition	As at 15 July 2011
Intangible assets identified during acquisition	39,800
Land	2,735
Property, plant and equipment	87,349
Trade receivables	1,600
Other current assets	4,265
Cash and cash equivalents	5,844
Total assets	141,593
Non-current and current interest-bearing liabilities	62,471
Deferred tax liability	7,776
Other current liabilities	4,073
Total liabilities	74,320
Total identifiable net assets at the fair value	67,273
Goodwill arising on acquisition	9,926
Purchase consideration paid in cash	77,199
Cash acquired	(5,844)
The purchase price, excluding cash	71,355

The fair value of the trade receivables amounts to LTL 1,600 thousand and corresponds to the gross amount of trade receivables. None of the trade receivables were impaired and shortly after the acquisition the full contractual amounts were collected.

From the date of acquisition, wind energy generation business unit has contributed LTL 10,963 thousand of revenue and LTL 5,173 to the net profit of the Group. If the combination had taken place at the beginning of the year, revenue would have been higher by LTL 10,126 thousand and the net profit before tax would have been higher by approximately LTL 2,823 thousand.

Goodwill allocation

The goodwill as at 31 December 2011 was allocated to the wind energy generation business unit – namely a subsidiary Vydmantai wind park, UAB.

6. Intangible assets

	Operating license	Contract of emission reduction units	Goodwill	Total
Cost				
Balance as at 1 January 2009	-	-	-	-
Balance as at 31 December 2009	-	-	-	-
Balance as at 31 December 2010	-	-	-	-
Increase in assets as a result of business combination in 2011	39,350	450	9,926	49,726
Balance as at 31 December 2011	39,350	450	9,926	49,726

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Accumulated amortization and impairment

Balance as at 1 January 2009	-	-	-	-
Balance as at 31 December 2009	-	-	-	-
Balance as at 31 December 2010	-	-	-	-
Amortization for the period	1,741	132	-	1,873
Impairment loss	-	-	3,000	3,000
Balance as at 31 December 2011	1,741	132	3,000	4,873
Net book value as at 1 January 2009	-	-	-	-
Net book value as at 31 December 2009	-	-	-	-
Net book value as at 31 December 2010	-	-	-	-
Net book value as at 31 December 2011	37,609	318	6,926	44,853

The above intangible assets were identified during the purchase price allocation as a result of the business combination described in Note 5. Operating license is a license to produce wind generated electricity with an embedded favourable fixed feed-in tariff applied until 2020 (the license itself has no validity term although benefit associated is temporal). The contract of emission reduction units (ERU) represents the right to be granted ERUs for free till the year end 2012 (Note 2.4) and further dispose of ERUs in the market. On 22 June 2012 the Group obtained the final independent verification report stating that for the year 2011, 43,954 units of ERUs should be granted, as at the date of the release of these financial statements none of the ERUs have been sold. The Group has no outstanding ERUs from prior periods.

Amortization expenses of intangible assets are included into the general and administrative expenses caption in the income statement.

Goodwill impairment

For the purpose of the impairment test, the goodwill as at 31 December 2011 was allocated to the following cash generating unit (CGU) – wind energy generation business unit – Vydmantai wind park, UAB.

The recoverable amount of the cash generating unit as at 31 December 2011 was determined based on the value in use calculation using cash flow projections based on the twenty-years financial forecasts prepared by the management. The pre-tax discount rate of ~ 10 % was applied. Twenty years forecast was used in order to avoid artificial inflation of the revenue stream due to the fixed feed-in tariff applied to Vydmantai wind park UAB until 2020, starting with 2021 market prices will be applicable and, therefore, additional periods have been added to the forecast in order to present a trend of future market prices. Significant assumptions used for the assessment of the value in use in 2011 are described further:

- 1) the availability of wind turbines - will not fluctuate significantly over the first half of the forecasted period and in the remaining period will decrease due to a normal wear and tear of the equipment, regular maintenance of which is performed;
- 2) the efficiency of wind turbines (depending on the wind speed) – efficiency level in a long run is forecasted at the slightly lower than historical level due to a rather high level of unpredictability;
- 3) the electricity purchase price - revenues are expected to remain rather stable until 2020 due to a feed-in tariff applied, which ensures the purchases of electricity at a stable price, in the following years, electricity will be sold at market price, which is expected to be initially lower and to increase over the period. Such forecasts are based on the Group's management estimate, since there is no reliable long-term prognosis; in addition, the Group is one of the most experienced players in this market.

As a result of the analysis above, the management recognised an impairment charge of LTL 3,000 thousand in 2011 against goodwill previously carried at LTL 9,926 thousand (since purchase price was agreed using slightly different assumptions), which is recorded within general and administrative expenses in the income statement and may not be reversed in the future under any circumstances.

In the opinion of the Group's management, the most important assumptions are the efficiency level (see above) and the discount rate. The discount rate is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital - WACC (8,5% as at 31 December 2011). In

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respect of the efficiency level the management strongly believes that in the long run it can only increase (based on historical trends), which has a positive impact on CGU results. In the unlikely event of increase in the discount rate by 0,5%, an additional goodwill impairment would amount to LTL 3,5 million in case all the rest of the assumptions remain constant. At the moment of preparing these financial statements the management of the Group did not expect any significant changes in the assumptions used, although as at the date of issue of these financial statements, due to some changes in global market interest rates influencing WACC have decreased.

7. Property, plant and equipment

Movement of property, plant and equipment in 2011, 2010 and 2009 is presented below:

	Land	Buildings and structures	Machinery and equipment	Other property plant and equipment	Total
Cost					
Balance as at 1 January 2009	-	-	-	1,187	1,187
Additions	-	-	-	14	14
Balance as at 31 December 2009	-	-	-	1,201	1,201
Additions	-	-	-	67	67
Write-offs and disposals	-	-	-	(290)	(290)
Balance as at 31 December 2010	-	-	-	978	978
Additions	-	-	-	49	49
Increase in assets as a result of business combination in 2011	2,735	13,295	74,020	33	90,083
Write-offs and disposals	-	-	-	(104)	(104)
Balance as at 31 December 2011	2,735	13,295	74,020	956	91,006
Accumulated depreciation					
Balance as at 1 January 2009	-	-	-	435	435
Depreciation for the period	-	-	-	227	227
Balance as at 31 December 2009	-	-	-	662	662
Depreciation for the period	-	-	-	216	216
Write-offs and disposals	-	-	-	(290)	(290)
Balance as at 31 December 2010	-	-	-	588	588
Depreciation for the period	78	402	2,183	184	2,847
Write-offs and disposals	-	-	-	(104)	(104)
Balance as at 31 December 2011	78	402	2,183	668	3,331

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Net book value as at 1 January 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>752</u>	<u>752</u>
Net book value as at 31 December 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>539</u>	<u>539</u>
Net book value as at 31 December 2010	<u>-</u>	<u>-</u>	<u>-</u>	<u>390</u>	<u>390</u>
Net book value as at 31 December 2011	<u>2,657</u>	<u>12,893</u>	<u>71,837</u>	<u>288</u>	<u>87,675</u>

The depreciation expenses of the Group's property, plant and equipment for 2011, 2010 and 2009 amount to LTL 2,847, LTL 216 and LTL 227 respectively. These amounts are included into the general and administrative expenses in the statement of comprehensive income except for the amount of LTL 2,663 which is included in the cost of sales in the statement of comprehensive income for the year ended 31 December 2011.

Land, buildings and structures, machinery and equipment are leased under finance lease agreements.

There were no material fully depreciated property, plant and equipment in the Group as at 31 December 2011, 2010 and 2009.

8. Investment property

	<u>Buildings</u>
Cost	
Balance as at 1 January 2009	<u>1,243</u>
Balance as at 31 December 2009	<u>1,243</u>
Additions	<u>84</u>
Balance as at 31 December 2010	<u>1,327</u>
Balance as at 31 December 2011	<u>1,327</u>
Accumulated depreciation	
Balance as at 1 January 2009	<u>181</u>
Depreciation for the period	<u>156</u>
Balance as at 31 December 2009	<u>337</u>
Depreciation for the period	<u>155</u>
Balance as at 31 December 2010	<u>492</u>
Depreciation for the period	<u>173</u>
Balance as at 31 December 2011	<u>665</u>

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Net book value as at 1 January 2009	1,062
Net book value as at 31 December 2009	906
Net book value as at 31 December 2010	835
Net book value as at 31 December 2011	662

As at 31 December 2011, 2010, 2009 and 1 January 2009, the Group's investment property was comprised of flats located in Palanga.

The expenses related to investment property comprising depreciation charge are included under the operating expenses caption in the statement of comprehensive income.

The management estimated the fair value of investment property using comparative information provided by the joint venture UAB Alproka on the market price per square meter of similar premises sold by this company to third parties in similar locations. The fair values estimated as at 31 December 2011 are LTL 1,200 thousand and as at 31 December 2010, 2009 and 1 January 2009 are LTL 1,100 thousand respectively.

9. Interest in a joint venture

As at 31 December 2011, 2010, 2009 and 1 January 2009 the Company had a 49,99% interest in UAB Alproka, a jointly controlled entity, which is engaged in the development of real estate projects. In 2009, this entity actively participated in the development of the construction of holiday apartment buildings Vanagupės Namai in Palanga.

UAB Alproka is a private entity that is not listed on any public exchange. The following table illustrates summarized financial information of the Group's investment into UAB Alproka, which is accounted for using equity method:

Share of the joint venture's statement of financial position	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Current assets	2,847	5,669	7,739	11,201
Non-current assets	37	49	114	41
Current liabilities	(254)	(375)	(610)	(4,680)
Non-current liabilities	-	-	-	-
Equity	2,630	5,343	7,243	6,562
Share of the joint venture's revenue and profit:				
Revenue	2,021	3,894	3,609	20,876
Profit	286	100	680	5,808
Carrying amount of the investment	2,630	5,343	7,243	6,562

10. Non-current financial assets

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Non-current deposit	3,453	-	-	-
Non-current receivables	15	20	24	2,060
Available-for-sale investments	105	130	218	123
	3,573	150	242	2,183

Other non-current assets of the Group comprise a 4 % annual interest deposit in Swedbank AB till 2016, which is mandatory guarantee under the lease agreement, which is disclosed under Note 17.

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As at 1 January 2009 non-current receivables consisted of LTL 2,000 thousand from the related party UAB Scaent Baltic for the premises sold and loans granted to the management, which were repaid later.

Available-for-sale investments comprise shares of AB Lietuvos Energija and AB Rytu Skirstomieji Tinklai. These investments are carried at fair value (determined based on the quoted stock exchange prices) in the consolidated financial statements of the Group. Acquisition cost of these investments is LTL 161 thousand.

11. Prepayments

The Group's prepayments consist of prepayments to the suppliers for electricity according to the existing electricity purchase agreements.

12. Trade receivables

As at 31 December 2011, 2010, 2009 and 1 January 2009 the Group's trade receivables consisted of receivables for supplied electricity.

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Trade receivables, gross	45,086	45,672	8,731	7,341
Less: allowance for doubtful trade receivables	-	-	-	-
	<u>45,086</u>	<u>45,672</u>	<u>8,731</u>	<u>7,341</u>

Increase starting from the year 2010 is due to the significant increase in sales, which was caused by the change in the electricity production structure in Lithuania as well as by electricity market liberalization and related means.

The management considers that the Group did not have doubtful receivables as at 31 December 2011, 2010, 2009 and 1 January 2009.

There were no past due trade receivables as at 31 December 2011, 2010, 2009 and 1 January 2009.

Trade receivables are non-interest bearing and are generally collectible on 2-30 days terms.

13. Other receivables

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Current loans a)	5	14,054	976	1,133
Discounting of loans	-	-	-	(136)
Current portion on non-current receivables (Note 10)	-	-	2,000	2,000
VAT receivable	29	-	18	5,733
Other receivable b)	-	-	-	2,116
	<u>34</u>	<u>14,054</u>	<u>2,994</u>	<u>10,846</u>

a) As at 31 December 2010, 2009 and 1 January 2009 the current loans mainly consisted of the loans (up to one year) and accrued interest receivable according to the terms of the agreement with the Company's shareholder and the management.

b) As at 1 January 2009 the major part of other receivables (LTL 1,999) was dividends receivable from the joint venture UAB Alproka. Dividends were fully paid during 2009.

There were no past due other receivables as at 31 December 2011, 2010, 2009. Dividends receivable (LTL 1,999) from the joint venture UAB Alproka were past due as at 31 January 2009. Dividends were fully repaid during 2010.

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14. Cash and cash equivalents

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Cash at bank	33,885	81,932	5,975	1,177
Cash on hand	-	-	-	2
Cash equivalents - deposits with term up to 1 month (average interest rates as of 31 December 2009 and 1 January 2009 were 0.72% and 4.6 % respectively)	-	-	13,811	30,216
	<u>33,885</u>	<u>81,932</u>	<u>19,786</u>	<u>31,395</u>

15. Legal reserve

A legal reserve is a compulsory reserve under the Lithuanian legislation. Annual transfers of not less than 5 % of net profit based on BAS are compulsory until the reserve reaches 10 % of the share capital.

As at 31 December 2011, 2010, 2009 and 1 January 2009 the Company's legal reserve was fully formed.

16. Borrowings

As at 31 December 2011 the Group's financial debts to credit institutions consisted of (as at 31 December 2010 the Group had no debts to credit institutions):

Amounts in full or in part falling due			
	Within one financial year	After one year, but no later than within five years	After five years
Financial debts from credit institutions	82	43,121	-
	<u>82</u>	<u>43,121</u>	<u>-</u>

The Group company UAB IRL Wind entered into credit agreement with Swedbank AB with the interest rate of 6 months EURIBOR + 2.95 %, according to which 100% of all cash inflows into UAB IRL Wind bank accounts, 100% of UAB IRL Wind shares and 100 % of Vydmantai wind park UAB shares are pledged. The loan is denominated in EUR and the final repayment date is 13 July 2013; however, the agreement contains a binding requirement to merge UAB IRL Wind and Vydmantai wind park UAB until the same date, and upon the merger, the amended repayment date is 31 December 2020 (the same maturity amendment is applicable to the finance lease obligations described below). Interest rate applicable as at 31 December 2011 is 4.77%.

17. Financial lease

The assets leased by the Group under financial lease contracts consist of wind power plants, transformation equipment and other assets and equipment with the net book value of LTL 84,730 thousand as at 31 December 2011. The term of financial lease is 5 years. All amounts of finance lease payables as at the year-end amounted to LTL 58,442 thousand. As at 31 December 2011 the interest rate on the finance lease obligations is fixed and equals 4.8 %.

Repayment of lease obligations is subject to further restructuring and repayment date extension as described above.

Furthermore, the Group leases land under financial lease contracts with the net book value of LTL 2,657 thousand as at 31 December 2011. The contractual lease terms are diverse, but for the financial reporting purpose the judgmental period of 21 years from the inception date (representing usage of wind farm) was used by the management. The interest rate applied is 4.8%.

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Future minimal lease payments under the above mentioned financial lease contracts as at 31 December 2011 are as follows:

Within one year	11,280
From one to five years	57,836
After five years	2,651
Total financial lease obligations	71,767

Interest	(10,668)
Present value of financial lease obligations	61,099

Financial lease obligations are accounted for as:

- current	8,600
- non-current	52,499

Financial lease obligations are denominated in the following currencies:

- LTL	2,657
- EUR	58,442

18. Operating lease

On 3 January 2008, the Group entered into a lease agreement on non-residential premises with UAB Scaent Baltic. Under the terms of this agreement, the Group has to make a monthly payment of LTL 12,019 plus VAT. The agreement is valid for 5 years and the lease payment is reviewed in June every year. In 2012 the Group acquired its own office premises and the above mentioned agreement was terminated.

Since June 2010, the Group is leasing 5 vehicles under operating lease agreements with UAB Swedbank Lizingas. The lease agreements are valid till 30 June 2013 and the monthly payment is LTL 21,022.

19. Trade payables

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Payables to electricity suppliers	31,225	70,275	10,845	5,136
Payables to other suppliers	572	228	282	385
	<u>31,797</u>	<u>70,503</u>	<u>11,127</u>	<u>5,521</u>

Trade payables are non-interest bearing and are normally settled on 20-day terms.

20. Other current liabilities

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
VAT payable	10,061	16,602	-	-
Employment related liabilities	287	405	161	314
Other current liabilities	132	68	64	103
	<u>10,480</u>	<u>17,075</u>	<u>225</u>	<u>417</u>

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21. Sales

	2011	2010	2009
Revenue from sales of electricity	878,668	750,389	104,539
Revenue from trading contracts	29,449	-	-
Revenue from produced electricity sales	10,963	-	-
	<u>919,080</u>	<u>750,389</u>	<u>104,539</u>

In 2011, the Group's revenue increased due to the increased volumes of electricity sales in Lithuania and Latvia compared to 2010. On 31 December 2009 Ignalina Nuclear Power Plant completely stopped the production of electricity and a national electricity market BaltPool was established and started operations from 1 January 2010.

22. Cost of sales

	2011	2010	2009
Cost of purchase of electricity	809,075	659,065	78,802
Transmission network service cost	14,526	11,862	75
Depreciation on wind farm	2,663	-	-
Other expenses	851	-	-
	<u>827,115</u>	<u>670,927</u>	<u>78,877</u>

23. General and administrative expenses

	2011	2010	2009
Wages, salaries and social security	4,345	3,008	2,410
Support (charity)	4,066	3,908	3,631
Goodwill impairment loss (Note 6)	3,000	-	-
Depreciation and amortisation	2,230	371	383
Consulting services expenses a)	1,169	115	600
Electricity selling expenses	770	460	148
Transport expenses	679	650	578
Professional services expenses b)	537	394	315
Business trips	518	159	125
Representation expenses	260	107	307
Rent	243	193	190
Bank services c)	191	444	39
Tax expenses	174	109	151
Life insurance expenses	-	301	-
Repair and maintenance	148	137	138
Trainings and seminars	84	131	51
Other general and administrative expenses	296	445	241
	<u>18,710</u>	<u>10,932</u>	<u>9,307</u>

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- a) Expenses of consulting services include expenses of consultations on matters of public relations, market search and investments in companies.
- b) Expenses of professional services comprise expenses of legal, accounting and audit services.
- c) Bank services expenses include costs of currency exchange. The Company's sales transactions with foreign countries are denominated in EUR and with Lithuania – in LTL.

24. Finance income and (expenses), net

	2011	2010	2009
Income from financing activities:			
Bank interest	325	174	238
Interest for granted loans	153	249	76
Discounting of loans	-	-	136
Other income	4	22	
	<u>482</u>	<u>445</u>	<u>450</u>
Expenses of financing activities:			
Interest expenses	(2,307)	-	-
Other expenses	(125)	(8)	(6)
	<u>(2,432)</u>	<u>(8)</u>	<u>(6)</u>
Financial activity, net	<u>(1,950)</u>	<u>437</u>	<u>444</u>

25. Income tax

	2011	2010	2009
Components of income tax expenses			
Current year income tax expenses	10,937	10,293	2,751
Deferred income tax expenses	(537)	(286)	(225)
Income tax expenses charged to income statement	<u>10,400</u>	<u>10,007</u>	<u>2,526</u>

As at 31 December 2011, 2010 and 2009 the deferred income tax liability was accounted for at 15 %, as at 1 January 2009 – at 20% and consisted of:

	As at 31 December 2011	As at 31 December 2010	As at 31 December 2009	As at 1 January 2009
Deferred income tax liability				
Equity method	(395)	(801)	(1,087)	(1,312)
Intangible assets a)	(5,689)	-	-	-
Depreciation differences	(1,956)	-	-	-
Deferred income tax, net	<u>(8,040)</u>	<u>(801)</u>	<u>(1,087)</u>	<u>(1,312)</u>

- a) Due to intangible assets (related to Vydmantai wind park UAB) identified during the acquisition, a deferred income tax liability amounting to LTL 5,970 thousand was recognized. The decrease in deferred income tax liability amounting to LTL 281 thousand represents the depreciation of the related intangible assets during 2011.

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The changes of temporary differences before and after tax effect in the Group were as follows:

	Balance as at 31 December 2010	Increase in assets as a result of acquired companies in 2011	Recognised in statement of comprehensive income	Balance as at 31 December 2011
Equity method	(5,343)	-	2,713	(2,630)
Intangible assets	-	(39,800)	1,873	(37,927)
Depreciation differences	-	(12,043)	(1,004)	(13,047)
Total temporary differences	(5,343)	(51,843)	3,582	(53,604)
Deferred income tax liability	(801)	(7,776)	537	(8,040)

	Balance as at 1 January 2009	Recognised in statement of comprehensive income	Change in tax rate	Balance as of 31 December 2009	Recognised in statement of comprehensive income	Balance as at 31 December 2010
Equity method	(6,562)	(680)	327	(7,242)	1,899	(5,343)
Total temporary differences	(6,562)	(680)	327	(7,242)	1,899	(5,343)
Deferred income tax liability	(1,312)	(102)	327	(1,087)	286	(801)

The reported amount of income tax expenses attributable to the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pre-tax income as follows:

	2011	2010	2009
Profit before tax	71,600	69,068	17,479
Income tax expenses computed at 15 % in 2011 and 2010 and at 20 % in 2009	10,740	10,360	3,496
Permanent differences	(340)	(353)	(970)
Income tax expenses charged to income statement	10,400	10,007	2,526

26. Basic and diluted earnings per share (LTL)

Basic earnings per share are calculated by dividing the net profit attributable to the shareholders by the weighted average number of ordinary shares issued and paid during the year. The Company has no diluting instruments, therefore, basic and diluted earnings per share are equal. Calculation of basic and diluted earnings per share is presented below:

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	2011	2010	2009
Net profit attributable to the shareholders	61,200	59,061	14,953
Number of shares (thousand), opening balance	1	1	1
Number of shares (thousand), closing balance	1	1	1
Weighted average number of shares (thousand)	1	1	1
Basic and diluted earnings per share (LTL)	61,200	59,061	14,953

27. Dividends per share

	2011	2010	2009
Approved dividends*	60,795	28,982	35,000
Number of shares (in thousands)**	1	1	1
Approved dividends per share (LTL)	60,795	28,982	35,000

* The year when the dividends are approved.

** At the date when dividends are approved.

28. Financial assets and liabilities and risk management

Credit risk

The Group has a fairly significant concentration of trading counterparties. Trade receivables from the main three customers of the Group amounted from 82% to 100% of the total Group's trade receivables as at 31 December 2011, 2010 and 2009. The Group's procedures are in force to ensure on a permanent basis that sales are made to customers with an appropriate credit history, which mainly are the state owned entities, and the majority of transactions is carried out through the market intermediary - electricity exchange Baltpool.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset. Therefore, the Group's management considers that its maximum exposure is reflected by the amount of trade receivables less allowance for doubtful accounts, recognised at the date of the statement of financial position, if any.

Interest rate risk

The Group had no borrowings as at 31 December 2010, 2009 and 1 January 2009. As at 31 December 2011 the Group had borrowings which were subject to variable rates, related to EURIBOR and created interest rate risk. As at 31 December 2011 the Group did not have any financial instruments used for the management of interest rate risk.

The following table demonstrates the sensitivity of the Group's profit before tax (through the impact on floating rate borrowings) to a reasonably possible change in interest rates, with all other variables held constant. There is no impact on the Group's equity, other than that on current year profit.

2011	Increase/decrease in basis points	Effect on the profit before the income tax
EUR	+50	(216)
EUR	-50	216

As at 31 December 2011 the Group had material financial lease obligations with fixed interest rates; therefore, they did not create interest rate risk.

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Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its commitments at a given date in accordance with its strategic plans.

The Group's liquidity (current assets / current liabilities) and quick ((current assets – inventory) / current liabilities) ratios as at 31 December 2011, 2010, 2009 and 1 January 2009 were 1.49, 1.62, 3.27 and 8.49 respectively.

The tables below summarise the maturity profile of the Group's financial liabilities as at 31 December 2011, 2010, 2009 and 1 January 2009 based on contractual undiscounted payments:

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Non-current interest bearing borrowings	-	596	1,543	44,320	-	46,459
Financial lease obligations	-	2,703	8,577	57,836	2,651	71,767
Trade payables	-	31,797	-	-	-	31,797
Other current liabilities	-	132	-	-	-	132
Balance as at 31 December 2011	-	35,228	10,120	102,156	2,651	150,155

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Trade payables	-	70,503	-	-	-	70,503
Other current liabilities	-	68	-	-	-	68
Balance as at 31 December 2010	-	70,571	-	-	-	70,571

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Trade payables	-	11,127	-	-	-	11,127
Other current liabilities	-	64	-	-	-	64
Balance as at 31 December 2009	-	11,191	-	-	-	11,191

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Trade payables	-	5,521	-	-	-	5,521
Other current liabilities	-	103	-	-	-	103
Balance as at 1 January 2009	-	5,624	-	-	-	5,624

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Foreign exchange risk

Import and export activities expose the Group to foreign exchange risk. The Group's policy is aimed at matching cash flows from highly probable future sales with purchases in each foreign currency. The Group is not using financial instruments intended to control the risk of foreign exchange except for focusing on trade in the euro to which the litas is pegged; therefore, the Group is not exposed to significant foreign exchange risk.

Fair value of financial instruments

The Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

Fair value is defined as the amount at which the instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction, other than in forced or liquidation sale. The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- (a) The carrying amount of current trade and other accounts receivable, current accounts payable and current borrowings approximates fair value;
- (b) The fair value of non-current borrowings is based on the quoted market price for the same or similar issues or on the current rates available for borrowings with the same maturity profile. The fair value of non-current borrowings with variable and fixed interest rates approximates their carrying amounts.

The fair values of the Group's financial assets and financial liabilities approximate their carrying values.

29. Capital management

Capital includes share capital, reserves and equity attributable to the equity holders of the parent.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains healthy capital ratios.

The Group manages capital structure and makes adjustments to it in the light of changes in economic conditions and risk characteristics of the activities. To maintain or adjust the capital structure, the Group may issue new shares, adjust the dividend payment to shareholders and/or return capital to shareholders. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2011, 2010 and 2009.

The Group companies registered in Lithuania are obliged to upkeep its equity at not less than 50 % of its share capital (comprised of share capital and share surplus), as imposed by the Law on Companies of the Republic of Lithuania. In addition, in accordance to the wind farm financial lease agreement the subsidiary Vydmantai wind park UAB should maintain certain level of asset to capital ratio (not less than 0.15). The Group companies were in compliance with the respective requirements. There were no other externally imposed capital requirements on the Group.

30. Related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Company during 2011, 2010 and 2009 were as follows:

OJSC INTER RAO UES (ultimate parent);

RAO Nordic Oy (one of the shareholders);

UAB Scaent Baltic (one of the shareholders);

UAB Alproka (joint venture);

Other related parties include:

UAB Scaent Baltic Group companies (the same shareholder).

Management

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2011		Purchases	Sales	Paid (received) dividends	Prepayments	Payables
OJSC INTER RAO UES	a)	769,650	-	-	6,485	25,439
Oy RAO Nordic		-	153	31,005	-	-
UAB Scaent Baltic	c)	353	-	29,790	-	43
UAB Alproka		-	-	(2,999)	-	-
Other related parties	d)	77	-	-	-	17
		770,080	153	57,796	6,485	25,499

2010		Purchases	Sales	Paid (received) dividends	Loans granted and prepayments	Payables
OJSC INTER RAO UES	a)	615,221	170	-	7,844	67,977
Oy RAO Nordic	b)	-	249	14,781	14,049	-
UAB Scaent Baltic	c)	356	-	14,201	-	41
UAB Alproka		-	-	(2,000)	-	-
Other related parties	d)	345	-	-	-	72
		615,922	419	26,982	21,893	68,090

2009		Purchases	Sales	Paid dividends	Receivables, including loans granted	Payables
OJSC INTER RAO UES	a)	43,784	33,959	-	3,658	2,598
RAO Nordic Oy		-	76	17,850	-	-
UAB Scaent Baltic	c)	364	-	17,150	2,001	126
Other related parties	d)	503	-	-	-	33
		44,651	34,035	35,000	5,659	2,757

- a) The Group performs electricity trading transactions with OJSC INTER RAO UES.
- b) RAO Nordic Oy liability to the Group is comprised of the loan granted and accrued interest receivable accounted for in other receivables caption, the maturity date of which is 22 June 2011. The loan currency – EUR, interest rate - 12 month EURIBOR + 2 %.
- c) The Group purchased rent of premises and accounting services from UAB Scaent Baltic.
- d) In 2011 the Group purchased advertising and in 2010 and 2009 advertising and vehicles rental services from other related parties.

Receivables and payables payment terms between the related parties are up to 15 days, except for the dividends and loans, which are repaid in accordance to the legal or contractual requirements, respectively.

Outstanding balances at the year-end are unsecured and settlement occurs in cash, unless agreed otherwise. There have been no guarantees provided or received for any related party receivable or payable and no allowance has been made for the receivables from related parties by the Group.

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Management remuneration and other benefits

The Group's management includes each of the companies managing director, deputy director and board members. Amounts of salaries and bonuses calculated during years 2011, 2010 and 2009 for the management of the Group were as follows: LTL 1,848 thousand, LTL 1,216 thousand and LTL 1,324 thousand, respectively.

On 1 December 2005, under a credit agreement a loan of EUR 29 thousand was granted to one of the members of the Group's management. As at 31 December 2011, the balance of the loan amounted to EUR 4 thousand. The maturity date is 5 December 2015. The interest rate of the loan is 6 month EURIBOR + 0.1%. As at 31 December 2009 the Group accounted for LTL 975,719 loan granted to a member of the Group's management under the other receivables caption. This loan was repaid in 2010. There are no collaterals attached to the related party loans.

No other guarantees were issued to the Group's management and no other amounts were paid or calculated and no assets were disposed of.

31. Non-monetary transactions

In April 2011 the general shareholders meeting decided to pay LTL 60,795 thousand dividends to the shareholders. LTL 14,202 thousand dividends payable was set-off against Oy RAO Nordic loans and accrued interest.

During 2009 LTL 17,340 thousand of dividends payable to Oy RAO Nordic were set-off against the loan granted to this company.

During 2011, 2010 and 2009 the following amounts of income tax were set-off against other taxes: LTL 8,026 thousand, LTL 2,694 thousand and LTL 5,014 thousand respectively.

32. Subsequent events

In 2012 the annual shareholders meeting approved dividends of LTL 64,023 thousand. The related amount per share is LTL 64,023.

On 5 July 2012 the Group company Vydmantai wind park UAB signed an annex to the finance lease agreement and agreed to return an additional portion of finance lease liabilities in the amount of 579,240 EUR (equivalent LTL 2,000,000) not later than on 30 July 2012 (the amount was repaid as agreed). The remaining lease liabilities schedule was adjusted subsequently.

On 29 June 2012 the Group company UAB IRL Wind signed an interest rate swap agreement for the loan taken from a financial institution, the effective date of which is 17 July 2012, and the termination date is 17 October 2020. Interest rate is fixed at 1.65%.

On 13 July 2012 the Board of UAB INTER RAO Lietuva approved a decision to establish 100% owned subsidiary in Poland, which was officially registered on 17 September 2012.

On 19 July 2012 the Board (on 20 July 2012 the shareholders) of UAB INTER RAO Lietuva approved reorganisation of the company from a private limited liability company to a public limited liability company and to increase share capital up to LTL 20,000 thousand.

No other material subsequent events occurred in the Group after the balance sheet date.

DEFINED TERMS

“Admission”	Admission of Shares to trading on the WSE
“Allotment Date”	The date on which the final number of the Offer Shares and the allotment between the Retail Investors and the Institutional Investors is announced
“Annual General Meeting”	Annual General Meeting of the Issuer
“Articles of Association”	The articles of association of the Issuer
“Audit Committee”	The audit committee of the Issuer (if established)
“Authority”	The Estonian Competition Authority
“Baltic States”	Lithuania, Latvia and Estonia
“BRELL”	Synchronous electricity system between Belarus, Russia, Estonia, Latvia and Lithuania
“CBRL”	The Bank of Lithuania which is the Central Bank of the Republic of Lithuania, the capital market regulatory authority of the Republic of Lithuania
“CIS”	Commonwealth of Independent States
“CIT”	Polish Corporate Income Tax
“CEO”	The head of the Issuer
“Commission”	The National Control Commission for Prices and Energy of Lithuania
“Consolidated Financial Statements”	The audited consolidated financial statements of the Issuer as at and for each of the past three years ended 31 December 2011, 2010 and 2009
“CSDL”	The Lithuanian Central Securities Depository (in Lithuanian: <i>Lietuvos Centrinis Vertybinių Popierių Depozitoriumas</i>), the clearing and settlement institution in Lithuania
“DAF”	‘Delivered At Frontier’ under Incoterms 2000
“EEA”	European Economic Area
“ESPI”	<i>Elektroniczny System Przekazywania Informacji</i> , electronic system for transmission of information operated by the PFSA
“EU”	The European Union
“EUR”, “€”, “Euro”	The lawful currency of the European Economic and Monetary Union
“Feed-in tariff”	Support mechanism guaranteeing the respective price for a certain volume of electricity generated by a renewable energy source in Lithuania
“Financial Statements”	The Consolidated Financial Statements, together with the Interim Condensed Financial Statements
“FSMA”	The United Kingdom Financial Services and Markets Act 2000, as amended

“General Meeting”	The general meeting of shareholders of the Issuer
“General Meeting Inspector”	A person elected by the General Meeting to perform functions of the inspector of the General Meeting.
“Group Companies”	The Issuer and direct and indirect subsidiaries of the Issuer, being part of the Group
“Group”	The Issuer together with: Vydmantai Wind Park, IRL Wind, IRL Polska sp. z o.o., SIA INTER RAO Latvia, INTER RAO Eesti OU, UAB Alproka
“HPP”	Hydro power plant
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards, as adopted by the European Union
“Input fee”	ITC/Perimeter fee, levied to the import of electricity to the EU Member State from third countries (<i>i.e.</i> , non-EU members), and on the export of electricity from the EU Member State to third countries (<i>i.e.</i> , non-EU members) established in the ITC Clearing and Settlement Agreement, entered by the ENTSO-E member transmission system operators
“Institutional Investors”	Investors that receive an invitation from the Offering Agent to participate in the book-building process and subscribe for the Offer Shares, <i>i.e.</i> (i) legal persons and organisational units without legal personality that are Polish residents within the meaning of the Foreign Currency Act, (ii) entities managing securities portfolios on a discretionary basis, acting on behalf of persons whose accounts they manage and for whom they intend to acquire the Offer Shares, (iii) legal persons and organisational units without legal personality with a registered office or establishment in the Republic of Lithuania, (iv) legal persons and organisational units without legal personality with a registered office outside the Republic of Poland and the Republic of Lithuania (except in the United States of America) who are non-U.S. persons within the meaning of Regulation S
“INTER RAO UES”	OJSC INTER RAO UES, an open joint stock company with its statutory seat in Moscow, Russian Federation, and its registered office at 12 Krasnopresnenskaya Nab., Moscow, corporate code 2320109650
“Interim Condensed Financial Statements”	The reviewed not audited condensed consolidated financial statements of the Issuer as at and for the six-month period ended 30 June 2012, with comparable figures for the six-month period ended 30 June 2011
“Investors”	Institutional Investors and Retail Investors
“IRL Wind”	UAB IRL Wind, a private limited liability company with its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, Vilnius, registered with the Register of Legal Entities of the Republic of Lithuania under number 302615372
“Issuer”	AB INTER RAO Lietuva, a public limited liability company with its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, Vilnius, registered with the Register of Legal Entities of the Republic of Lithuania under number 126119913
“Issuer’s Custody Manager”	The Offering Agent keeping register of the Issuer’s shares for the purpose of dematerialization
“Listing Date”	First day of unconditional trading in Shares on the WSE
“Lithuanian Law on Securities”	Law on Securities of the Republic of Lithuania, dated 18 January 2007, as amended

“LTL”, “Lithuanian litas”	The lawful currency of Lithuania
“Majority Shareholder”	RAO Nordic OY, a company organised and existing under the laws of the Republic of Finland, registration number 1784937-7, with its registered office at 1 Tammasaarenkatu, FIN-00180, Helsinki, the Republic of Finland
“Management”	The Management Board and Senior Management
“Management Board”	The management board of the Issuer
“Maximum Price”	The maximum price at which the Offer Shares may be offered to Retail Investors
“Member State”	A member state of the European Economic Area
“MiFID”	Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council, and repealing Council Directive 93/22/EEC
“NDS”	The National Depository for Securities (<i>Krajowy Depozyt Papierów Wartościowych S.A.</i>), the clearing and settlement institution in Poland
“NPP”	Nuclear power plant
“Offer Price”	The offer price per Offer Share determined after book building
“Offer Shares”	Up to 4,000,000 ordinary shares in the issued and outstanding part of authorised share capital of the Issuer that are held by the Selling Shareholder and offered for sale in the Offering
“Offering”	The offering of the Offer Shares based on the Prospectus
“Offering Agent”	UAB FMI Orion Securities, a limited liability company having its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, Vilnius
“PFSA”	The Polish Financial Supervision Authority (<i>Komisja Nadzoru Finansowego</i>), the capital market regulatory authority of the Republic of Poland
“PIT”	Polish Personal Income Tax
“Placement Agreement”	Agreement between, <i>inter alia</i> , the Issuer, the Selling Shareholder and the Offering Agent to be entered prior to the Allotment Date
“PLN”, “Polish zloty”	The lawful currency of the Republic of Poland
“Polish Foreign Exchange Law”	The Polish Act of July 27, 2002, on the Foreign Exchange Law
“Polish Public Offering Act”	The Polish Act of July 29, 2005, on Public Offering and Conditions governing the Admission of Financial Instruments to Trading on Organized Markets, and on Listed Companies
“Polish Trading in Financial Instruments Act”	The Polish Act of July 29, 2005, on Trading in Financial Instruments
“PP”	Power plant
“Principal Shareholders”	The Majority Shareholder and Selling Shareholder

“Prospectus Directive”	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, on the prospectus to be published when securities are offered to the public or admitted to trading, and amending Directive 2001/34/EC and any relevant implementing measures, as amended
“Prospectus”	This prospectus constituting a prospectus in the meaning of the Prospectus Directive prepared, for the purpose of the Offering and the Admission
“PSPP”	Pumped-storage power plant
“PUC”	The Public Utility Commission of Latvia
“Real Estate Register”	The Real Estate Register of the Republic of Lithuania
“Regulation 809/2004”, “Prospectus Regulation”	Commission Regulation (EC) no 809/2004 of 29 April 2004, implementing Directive 2003/71/EC of the European Parliament, and of the Council as regards information contained in prospectuses, as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended
“Regulation S”	Regulation S under the U.S. Securities Act
“Retail Investors”	(i) natural persons, (ii) legal persons and organisational units without legal personality; both residents and non-residents within the meaning of the Foreign Currency Act, except U.S. persons within the meaning of Regulation S, holding, at the time of subscription for the Offer Shares, an investment account or being a beneficiary of an omnibus account with an investment firm licensed to provide such services within the territory of the Republic of Poland or the Republic of Lithuania
“Selling Shareholder”	UAB Scaent Baltic, private limited liability company having its statutory seat in Vilnius, Lithuania, and its registered office at A. Tumėno 4, LT-01109, Vilnius, registered with the Register of Legal Entities of the Republic of Lithuania under number 300661378, that is offering the Offer Shares for sale in the Offering
“Senior Management”	In the opinion of the Issuer, apart from the Management Board and Supervisory Board members, the most important persons for the Group
“Settlement Date”	The date of the settlement of the Offering, being the date of delivery of the Shares to the securities accounts of investors
“Shareholders' Agreement”	The agreement executed between the Principal Shareholders dated 19 July 2012
“Shares”	The ordinary registered shares in the share capital of the Issuer with a nominal value of LTL 1 each
“Supervisory Board”	The supervisory board of the Issuer
“Takeover Directive”	Directive 2004/25/EC of the European Parliament and of the Council of April 21, 2004, on takeover bids
“TCLT”	Polish Tax on Civil Law Transactions
“US Securities Act”	The United States Securities Act of 1933, as amended
“Vydmantai Wind Park”	Vydmantai wind park, UAB, private limited liability company, with its statutory seat in Vilnius, Lithuania, and its registered office at 4 A. Tumėno Street, Vilnius registered with the Register of Legal Entities of the Republic of Lithuania under number 302666616, operating a wind park in Vydmantai

“WSE”

The Warsaw Stock Exchange (in Polish: *Giełda Papierów Wartościowych w Warszawie S.A.*), a regulated market in Poland

“WSE Corporate Governance Code”

Polish Principles of Corporate Governance contained in the "Code of Best Practice for WSE Listed Companies" approved by the WSE

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