

7 March 2014

Information on the Activities of the Audit Committee

Activities of the Audit Committee

The Audit Committee carries out its activities in compliance with the Law on Audit, Resolution No.1K-18 "On Requirements for Audit Committees" as of 21 August 2008 of the Securities Commission as well as in compliance with the Regulations on the Composition and Activity of the Audit Committee as approved by the General Meeting of Shareholders of AB Lietuvos Dujos.

The functions of the Audit Committee: to observe the process of the preparation of financial statements of the Company, to provide the Board of Directors with recommendations regarding the election of the external audit company, to observe the efficiency of the Company's internal control, risk management and internal audit systems, to observe the process of carrying out an external audit, to observe how the external auditor and the audit company follow the principles of independence and objectivity as well as to fulfill other functions specified in the legal acts of the Republic of Lithuania.

The term of office of the Audit Committee coincides with the term of office of the Board of Directors of the Company (3 years). In the General Meeting of Shareholders held on 25 April 2013 the members of the Audit Committee have been reelected for one more term of office.

Audit Committee has a possibility to get acquainted with the detailed information and documents of the Company which are necessary for effective work of committee.

Internal Control System

The Company has a functioning internal control system aimed at ensuring efficient economic activities, at achieving the Company's goals and managing risks related to the achievement of the goals.

Strategic Goals. The Board of Directors forms the strategy of the activities which is implemented by setting strategic goals for the Company and respectively to the structural divisions and employees of the Company and by carrying continuous control of the achievement of the goals.

The Audit Committee has reviewed the Company's goals set for the year 2013. Furthermore, the Audit Committee got acquainted with the information of the meeting of top executives of the Company at which the Company's goals for the year 2014 were set and the achievement of the goals that had been set for the previous year was analyzed.

Risk Management System. To ensure the achievement of the goals, the Company pays a lot of attention to risk management. In order to control risk processes, the Company has established risk management system and approved a respective methodology. Members of the Risk Work Group initiate overview and evaluation of risks, summarize results of the risk assessment, prepare reports and present them to the management. The Audit Committee got acquainted with minutes of the Risk Management Work Group and risk management reports.

Moreover, the Audit Committee got acquainted with the information of the Company's top executive's meeting at which the assessment of the most significant risks and the risk control measures and the risk management plans for 2014 were discussed and approved. The main risks impacting the Company's activities are mostly related with external factors, for which application of control measures is limited. Especially relevant risk for the Company is competition-related.

Control Measures. The Company's business processes are regulated and strictly controlled by both external and internal legal acts into which the most important external legal act provisions are transposed. In order to ensure the legitimacy of activity, the Company constantly observes the amendments of legislation and keeps its employees informed. In 2013 documents related to the unbundling of transmission activity were prepared, internal documents intended for regulation of continued activity were renewed, also the preparation for the future unbundling of distribution activity was started.

An important element of internal control is the Company's information systems which are constantly updated and improved in line with the developments in the Company's requirements and business processes. Much attention is paid to data security. In 2013 the main focus was on the installation of IT systems for the new company based on the unbundled transmission activity and securing their functionality. Moreover, household and non-household natural gas accounting systems were supplemented with functionality, as well as other projects were implemented.

Internal Audit. As previously, in 2013, the Audit Committee communicated with the Internal audit division, was constantly informed about working plans and processes.

Company's management was constantly informed regarding the process of the implementation of measures for the elimination of revealed shortcomings. The vast majority of such measures are implemented in a timely manner.

Preparation of Financial Statements

The Audit Committee has been monitoring the process of the preparation of the interim and the annual financial statements.

The Company performs book keeping and prepares financial statements in accordance with the International Financial Reporting Standards (IFRS) that were adopted for use in the European Union, the provisions of the legal acts of the Republic of Lithuania, including provisions of the Law on Natural Gas requiring unbundling of accounts of activities. According to the adopted and coordinated with the National Control Commission for Prices and Energy description of procedures for activity accounting, the Company has separate accounting for gas transmission (until 31 July 2013), distribution, supply and non-core activities, thus ensuring prevention of cross-subsidiation of these activities. For each activity, separate statements of financial position and profit (loss) statements are drawn up. Based on them, information for the management and pricing purposes is provided.

On 31 July 2013 according to the requirements of legislation, the transmission activity carried out by the Company was unbundled from AB Lietuvos dujos, which continues activity and on the basis of the assets, rights and obligations attributed to the natural gas transmission activity, the new company AB Amber Grid was established. In financial statements of 2013 the transmission activity carried out by the Company was classified as discontinued operations.

From 01 January 2013 until 31 July 2013 the Company following the legislation collected and administered funds of liquefied natural gas terminal (LNGT). As the Company operated only as an intermediary, these funds in financial statements were accounted not as revenues/expenses, but as receivables/payables.

In order to regulate and formalize the accounting principles, the Company has adopted the Guidelines for Accounting Policies and Procedures. In 2013 the Company's accounting policy hasn't changed and changes of IFRSs or IFRIC interpretations were not significant and did not have impact on Company's financial position and results.

In 2013 the subsidiary of the Company UAB Palangos perlas was liquidated, and due to insignificance of its operating results for 2013 separate Group financial statements were not prepared, they coincide with Company's financial statements.

External Audit

Ensuring the Independence of the current Audit Company. Pursuant to the Law on Audit, UAB Ernst & Young Baltic, which is currently performing the audit of the Company, in 2013 submitted to the Audit Committee a written confirmation of their independence from the Company, provided major measures for ensuring independence of the audit company.

The Audit Committee has also reviewed the information on the non-audit services provided by the audit company to the Company as well as on the compensation for each individual service provided to the Company and has not identified any instances of provision of services that would be inconsistent with the independence of the audit company.

Meeting with the Audit Company Representatives. The members of the Audit Committee attended the meetings of representatives of the Company and the external audit company at which the Company's interim financial results, changes in the Company activities, requirements of

legislation as well as recent developments in the business and regulatory environment and their possible impacts to financial statements were discussed. The terms and the scopes of the annual audit were also discussed.

After the end of 2013, the Company's financial results as well as accounting estimates used in the financial statements were discussed with the external auditors. The Company estimates the recoverable value of non-current assets calculating discounted cash flows of the integrated company. Due to unbundling of the transmission activity in 2013 and planned unbundling of the distribution activity in 2014, in the opinion of auditors, cash flows should be calculated for separate cash generating units. Due to large uncertainties the Company did not prepare cash flow at individual cash generating unit level neither in 2012, nor in 2013, therefore, the audit company could not reliably assess the value of non-current tangible assets of transmission and distribution activities and possible impact of impairment to Company's financial results.

Furthermore, according to IFRS, the Company had to cease the calculation of depreciation and amortization of the assets attributable to discontinued operations (transmission activity) starting from the moment the transmission activity satisfied the definition of discontinued operations, i.e. from 1 July 2013 and not from 31 July 2013 – the moment of transfer of discontinued operations. The Company did not cease the calculation of depreciation and amortization due to the reasons disclosed in the financial statements of 2013

For these reasons, the opinion of the auditors regarding Company's and consolidated financial statements is qualified.

The audit company did not notice material weaknesses of internal control system.

Selection of an Audit Company.

As the contract with UAB Ernst & Young Baltic expires, the Company, in accordance with the Law on Public Procurement and the Regulations on Simplified Procurement Procedures of AB Lietuvos Dujos, arranged simplified negotiations with publication of a notice for the procurement of auditing services of AB Lietuvos Dujos and its daughter company for the financial statements of 2014 and the statements related thereto. The members of Audit Committee supervised how the procedure of arranging the procurement was carried out, participated in the meetings of Commission of Public Procurement and got acquainted with the tenders presented by audit companies.

The Audit Committee, acting pursuant to the Law on Audit, presented a recommendation to the Board of Directors of the Company to submit to the General Meeting of Shareholders' to elect UAB Ernst & Young Baltic as an audit company for the performance of audit of AB Lietuvos Dujos financial statements as of 31 December 2014 and the statements related thereto.

Independent member of the Audit Committee

Juozas Kabašinskas

Member of the Audit Committee

Agnė Žičiūtė