

6 March 2012

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 2011 the members of the Audit Committee have not changed.

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 2011. Furthermore, the Audit Committee participated in the meeting of top executives of the Company at which the Company's goals for the year 2012 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 has participated in the meetings of the risk Management Work Group and got acquainted with risk management reports.

Moreover, at the Company's top executive's meeting the Audit Committee observed the review of the relevant risks and the discussion on the risk control measures and the risk management plans for 2012. 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 2011 amendments of legislation regulating implementation of provisions of the Third-Energy Package of EU in Lithuania were adopted which will have material impact on the Company's activities.

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 2011 measures for ensuring more reliable and continuous performance of the information systems have been implemented.

Internal Audit. As previously, in 2011, the Audit Committee communicated with the Internal audit division, was constantly informed about working plans, process and presented with the reports of internal audit. In 2011 regulations of Internal audit division and its employees were updated and coordinated with the Audit Committee.

In 2011, the internal audit mostly concentrated on the audit of environmental protection management (in February of 2012 the Company received ISO: 14001:2004 certificate) and assessment of Company's customers' service system which was implemented in 2010. In the internal audit reports, no significant incompliance with legal acts or requirements of internal procedures have been identified, recommendations for the improvement of the Company's activities were presented.

Reports on post-audit activities - the implementation of measures for the elimination of revealed shortcomings are presented to management. 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 agreed with the National Control Commission for Prices and Energy description of procedures for activity accounting, the Company has separate accounting for gas transmission, 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.

In order to regulate and formalize the accounting principles, the Company has adopted the Guidelines for Accounting Policies and Procedures. In 2011 out of the new or changed IFRSs the most significant impact to the consolidated and Company's financial statements was the 24 IAS "Related Party Disclosures". Other changes were not significant and did not have impact on Company's financial position and results.

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 2011 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 new legislation as well as recent developments in the business 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 2011, the Company's financial results as well as accounting estimates used in the financial statements were discussed with the external auditors, which, in the opinion of the auditors, were appropriate and they had been applied consistently and reasonably. The audit company did not notice material weaknesses of internal control system.

The auditors' opinion on the consolidated and Company's financial statements is unconditional.

Selection of an Audit Company.

In 2011 according to the results of public procurement, a contract with UAB Ernst & Young Baltic was signed for the performance of audit of AB Lietuvos Dujos financial statements as of 31 December 2011 and the statements related thereto. The contract provided for the possibility to extend the contract under the same terms twice – to perform an audit of financial statements of 2012 and 2013 and the statements related thereto. 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 extend the contract with UAB Ernst & Young Baltic and elect it as an audit company for the performance of audit of AB Lietuvos Dujos financial statements as of 31 December 2012 and the statements related thereto.

Independent member of the Audit Committee



Juozas Kabašinskas

Member of the Audit Committee



Agnė Žičiūtė