

17 September 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). 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.

After acquisition of controlling package of the Company by Lietuvos energija, UAB, at the moment the management of the Company is being reorganized according to the guidelines of corporate governance, applicable across the state-owned energy companies' group.

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.

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.

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 2014 the Company has been preparing for future unbundling of distribution activity.

Internal Audit. The Audit Committee communicated with the Internal audit division, was constantly informed about working plans and processes.

Preparation of Financial Statements

The Audit Committee has been monitoring the process of the preparation of the interim condensed financial statements for the six months period ended 30 June 2014.

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 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.

After the Company has entered into an agreement with the supplier of natural gas OAO Gazprom regarding a significant reduction in the price of natural gas, the formula of imported gas price for the Company was adjusted retrospectively for the period from 1 January 2013 till 31 March 2014. Due to the reduction of imported natural gas price the Company accounted for the prepayment for natural gas suppliers, which is netted with the current natural gas supply payables. The major part of decrease of imported gas price for the period ended 30 June 2014 was accounted for in the income statement by decreasing the Company's natural gas purchase expenses, the remaining part was recognized as income and the inventory balance of natural gas was adjusted. Since the Company and NCCPE agreed, that the natural gas tariffs for household consumers for the period from 2014 II half till the end of 2016 will be decreased to reflect the decrease of imported gas prices, the Company in 30 June 2014 accounted the provision for the onerous contracts relating to the loss making part of existing supply agreements subject to price reduction for the year 2015. In July 2014 the Company according to the decision of the Company's Board of Directors, accounted for provision to cover potential additional expenses caused by the future natural gas price reduction to the non-household customers.

The Company assessed the recoverable value of both distribution and supply activities, as separate cash generating units, resulting in the impairment of assets of distribution activity as of 30 June 2014.

In order to regulate and formalize the accounting principles, the Company has adopted the Guidelines for Accounting Policies and Procedures which is regularly updated. In 2014 there were no new standards, changes or interpretations, effective from 1 January 2014, which would have significant influence on the Company's interim condensed financial statements for the period, ended 30 June 2014.

External Audit

Selection of an Audit Company. The Company, requested by the main shareholder Lietuvos energija, UAB, had to ensure that the Company's interim condensed financial statements for the six months periods ended 30 June 2014 were audited, and the Company's statement of financial position as of 30 June 2014 and statement of comprehensive income for the period from 1 March 2014 till 30 June 2014 were reviewed. Considering short terms and the scope of work, the Company in compliance with the Law on Public Procurement and the Regulations on Simplified Procurement Procedures of AB Lietuvos Dujos, acquired the necessary services of audit and review by the method of simplified negotiations without publication of a notice.

Seeking to avoid inconsistency carrying out the audit of interim and annual financial statements and evaluating long-term auditing experience, the audit and review contract was signed with UAB Ernst&Young Baltic.

Ensuring the Independence of the current Audit Company. The Audit Committee has 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, accounting estimates applied in financial statements, 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 Company in 30 June 2014 assessed the recoverable value of both distribution and supply activities, identified and accounted for the impairment of non-current assets of distribution activity. The Company did not perform impairment test for the non-current assets according to the separate activities in prior periods; therefore the Audit Company was unable to assess what part of this impairment should be accounted for in the prior periods.

For this reason, the opinion of the auditors regarding Company's interim condensed financial statements is qualified.

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

Independent member of the Audit Committee



Juozas Kabašinskas

Member of the Audit Committee



Agnė Žičiūtė