

INFORMATION ON THE ACTIVITIES OF THE AUDIT COMMITTEE

17 March 2015
Vilnius

AUDIT COMMITTEE

The Audit Committee of the Company AB Amber Grid was formed following rules of Law of the Republic of Lithuania on Audit, article No. 52, part 1.

Extraordinary General Meeting of the Shareholders of the Company AB Amber Grid that took place on 11 December 2013, decided to form the Audit Committee from two members, approved Regulations on the Audit Committee Formation and Activity, and elected as members of the Audit Committee Mrs. Vaida Kacergiene (an independent member) and Mr. Valdemaras Bagdonas (a member). Audit Committee shall coincide with the term of office of the Board of Directors of the Company. The current Audit Committee was elected for the first time and provides for the end of term – June, 2016.

The composition of the Audit Committee was not changed in 2014.

The Audit Committee in its activity follows the Law of the Republic of Lithuania on Audit, the Resolution of the Securities Commission of the Republic of Lithuania „On the requirements for the Audit Committees“, and the Regulations on the Audit Committee Formation and Activity, approved by the General Shareholders Meeting of the Company AB Amber Grid.

Main functions of the Audit Committee are the following:

- to monitor the financial reporting process;
- provide recommendations to the Board of Directors relating to the external auditor;
- to monitor the effectiveness of Company's internal control, risk management and internal audit systems;
- to monitor the external audit process;
- to monitor how the external auditors and audit firms follow the principles of independence and objectivity;
- carry out other functions under Lithuanian legislation;
- immediately inform the Company's Management about the information provided to the Audit Committee by the audit firm during the audit concerning problematic issues, especially when significant internal control weaknesses related to the preparation of financial statements are detected.

According to the Regulations on the Audit Committee Formation and Activity the Audit Committee shall have access to Company's information and documents, related with the fulfilment of the Audit Committee members functions, receive detailed information about specifics of the Company's accounting and finances.

In carrying out the functions provided, the Audit Committee in 2014:

- reviewed key decisions of Company's management bodies, adopted in 2014, internal regulation documents, reports of the internal auditor, interim financial information, annual financial reports, and other information necessary for fulfilment of the functions;
- organized meetings with the internal auditor for the execution of internal audit plans for 2014 and relevant issues;
- discussed the process of financial reporting for 2014;

- analysed audit firm's information for compliance of the independence requirements and non-audit service provided during the audited period;
- got acquainted with the prepared financial statements, annual report and independent auditor's report for 2014 year.

INTERNAL CONTROL

Internal control system shall be designed to ensure the Company's strategic objectives, operational efficiency, a suitable and sufficient risk management. During the first year of the Company's activity it was defined organizational structure, released internal documents designed to create and support internal control system.

Internal control system is the main tool for the Company's risk management.

In 2014 Company's Management prepared, reviewed and approved a number of internal documents related to internal control, including the following:

- Corporate Strategy Project for the period 2015-2020, which, among other important things, covers and obligations for the improvement of the internal control system (Company's Long-term Corporate Strategy for the period 2015–2020 was approved by the Company's Board of Directors at the beginning of 2015);
- approved a new version of the simplified rules for public procurement, effective from 1 January 2015;
- depreciation rates of fixed asset.

In 2014 it was carried out the survey of Company's internal situation (internal climate), the results of which showed that in general Company's internal situation seems to be better than the situation of average Lithuanian companies. Herewith Company acknowledges that it still has to review a number of internal processes and coherently deals with it.

RISK MANAGEMENT

The Company is Lithuanian natural gas transmission system operator, responsible for natural gas transmission, maintenance of the infrastructure, exploitation and development. Therefore, main risks are related to regulation, competition, and macroeconomic, technical and financial factors.

Evaluating risk management, among other information, the Audit Committee took note of the minutes of meetings held in management bodies in 2014, also plans of activities and budget for 2015, as far as it is related to the risk assessment and management.

In 2014 Company paid a great attention to risk management and performed significant risk management-related projects, including the following:

- approved the Emergency Management Plan and other related internal documents;
- accomplished the assessment of information systems security and formed the project for information security policy;
- having regard to the fact that one of the main objectives of the Company is to ensure safe, reliable and efficient operations of the Natural Gas Transmission System, performed the assessment of the current situation of technology asset management and prepared a basis for the development of a Technology Asset Management Information System.

INTERNAL AUDIT

The Company has set up an internal audit function to provide independent and objective testing and consulting services in order to add value and improve the Company's operations. The main objective of the internal audit is to assess and promote the improvement of risk management, internal control and the effectiveness of the Company's management processes.

In 2014 internal auditor, continuing works started before, focused on the methodology for inspection of individual areas, making standardized questionnaires and forms for the evaluation of financial risk and internal control system, performing operational audit, as well as standardized forms for management audit of individual processes.

Internal audit activities in 2014 were conducted in accordance with a plan for 2014 – 2016, approved by the General Manager, also a lot of attention was paid to monitoring of progress, consultations in significant projects carried out by Company, professional development, self-education.

The Audit Committee reviewed work performed by internal auditor in 2014, also internal audit plan for 2014 - 2016, provided recommendations that were taken into account. The internal audit activity plan is intended to focus on internal audit methodology development and improvement, professional development, consultation, consisting of the internal audit plan for individual activities, taking into account the significance of the areas and priorities.

PREPARING OF FINANCIAL REPORTS

In order to ensure adequate and timely financial reporting process, as well as the accuracy of the financial statements, the Company on 31 December 2013 approved the Accounting Policies and Procedures Manual, which regulates accounting, reporting and presentation principles, methods and rules. There were no major changes in 2014. Also Company made plan for preparation of financial reporting for 2014 providing information preparation and reporting deadlines, responsible persons.

Company carefully considered the change of national currency from 2015, thus in the middle of 2014 approved the working party and the plan of the actions for the preparation for transition to the euro, which was successfully implemented at the beginning of 2015.

By monitoring the financial reporting process, the Audit Committee in turn reviewed the information provided by the Company's responsible persons related to the accounting organization, handling, reporting, the preparation of data for certain time limits, the appointment of persons responsible for separate areas.

The Company's accounting and financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Since the Company was founded, separating the natural gas transmission activities from AB Lietuvos Dujos, respectively, the Company has assigned the relating to activities assets, rights and obligations by recognizing all the assets and liabilities transferred at their carrying amounts, like it was accounted in AB Lietuvos Dujos at the time of the activity transfer, while keeping the continuity.

Attention should be drawn to the tangible fixed asset accounting policy, which provides that the Company, every time when there are indications that the value of fixed assets may be impaired, assess the long-term tangible asset's recoverable amount. In 2013 opinions of Company's Management and external auditors on the issue diverged – in external auditors opinion, as of 31 December 2013 there were existing indicators of impairment and the impairment. The same question remained relevant and preparing financial reports for 2014. Company's management took into account the recommendations made by the external auditors and, respectively, it evaluated and revealed in financial statements for 2014.

EXTERNAL AUDIT

The audit firm for audit of the financial statements of the Company AB Amber Grid was approved by the extraordinary General Shareholders Meeting on 30 April 2014.

Following the requirements of the Law of the Republic of Lithuania on Audit the audit firm UAB Ernst & Young Baltic in 2014 presented to the Audit Committee a written confirmation of independence from the Company, presented in writing to the Audit Committee information about non-audit services provided to the Company over 2014 and the remuneration paid for services rendered. The Audit Committee additionally analyzed information received, cross-checked them with the Company's internal documents, and, whereas non-audit services rendered by audit firm UAB Ernst & Young Baltic in 2014 were significant, the Audit Committee received additional detailed explanations from the audit firm about the assessment of possible threats and applied protective measures helping to prevent possible violations of the independence. The explanations received were sufficient and the Audit Committee did not identify the cases of provision of services, contrary to the Law of the Republic of Lithuania on Audit, which might have an impact on the audit firm's independence.

The Audit Committee reviewed the contract for the audit of the financial statements for 2014, provisions for the terms and conditions, no comments were given.

In order to make sure that the agreed terms of the audit will be met, the Audit Committee reviewed the Company's internally agreed financial reports and other preparation terms of related information, no significant comments were given.

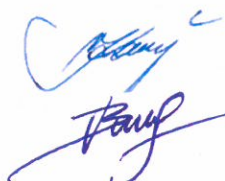
In addition, in order to discuss the process of the audit, meetings with representatives of the audit firm were held, during which audit firm provided essential information relevant to financial reporting and the independent auditor's report, discussed with the Audit Committee about the relevant issues.

The auditors issued a qualified opinion for the Company's financial reports for 2014 on the evaluating of impairment of long-term tangible assets, carried out by the Company's management, in financial reports, as in previous periods such assessment were not carried out and the auditors were unable to estimate what share of impairment had to be accounted in the previous period, respectively – the potential impact on the activity results of 2014, change in equity for the year and comparability of the amounts of comparative information of current year and the year 2013 (as it is disclosed in the part "Preparing of Financial Reports").

In addition to these findings, the audit firm Ernst & Young Baltic submitted to the Audit Committee information about the unaccounted audit adjustments and their impact on the financial statements and the independent auditor's report, as well as business continuity reflections and recommendations for the Company's management.

The Audit Committee Independent Member

The Audit Committee Member



Vaida Kacergiene

Valdemaras Bagdonas