

INFORMATION ON THE ACTIVITIES OF THE AUDIT COMMITTEE

23 March 2016
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 – April, 2016.

The composition of the Audit Committee was not changed in 2015.

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 2015:

- reviewed key decisions of Company's management bodies, adopted in 2015, internal regulation documents, reports of the internal auditor, interim financial information, annual financial reports, and other information necessary for fulfilment of the functions;
- discussed with the internal auditor on the execution of internal audit plans for 2015 and relevant issues;
- discussed the process of financial reporting for 2015;

- 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 2015 year.

INTERNAL CONTROL

Internal control system shall be designed to ensure the Company's strategic objectives, operational efficiency, a suitable and sufficient risk management.

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

In 2015 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 2016-2021, 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 2016–2021 was approved by the Company's Board of Directors at the beginning of 2016);
- Internal Communication Guidelines;
- Procurement Policy;
- Anti-Corruption Policy;
- Information Security Policy.

In 2015 the Technology and Innovation Committee was formed in the Company, whose one of the main tasks is to form technology and innovation policy of the Company.

RISK MANAGEMENT

The Company is Lithuanian natural gas transmission system operator (to which on 10 April 2015 an open-ended gas transmission system operator's licence was issued), 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 2015, also plans of activities and budget for 2016, as far as it is related to the risk assessment and management.

In 2015 Company paid a great attention to risk management and prepared, reviewed and approved a number of internal documents related to risk management, including the following:

- approved the Financial Risk Management Policy;
- approved Risk Management Methodology (risk management measures for 2016 are set);
- implemented Information Security Management System;
- updated the Emergency Management Plan and other related internal documents;

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.

The internal auditor in internal reports makes recommendations how to improve procedures of internal control and reduce the impact of risk factors. When testing and evaluating the effectiveness of internal control system, internal auditor carries out comprehensive audits, including operational, management, risk management, financial accounting, information systems, human resources audits, carries out corruption risk assessment, their combinations, analytical and control tests.

Internal audit activities in 2015 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 the Company, professional development, self-education. In 2015 the internal audit methodology was adopted which aims to set principles for organization and carrying out of internal audit and integrates the requirements of quality standards of the Institute of Internal Auditors, performance standards, standards of International Organization of Supreme Audit Institutions (INTOSAI) and standard LST EN ISO 19011:2012 "Guidelines of auditing management systems".

In internal audit reports of 2015 there were submitted the conclusions and recommendations related to the following Company's strategic objectives: asset management and cost optimization, information technology systems modernization.

The Audit Committee reviewed work performed by internal auditor in 2015, review the revised internal audit plan for 2016, provided recommendations on the internal audit methodology, that were taken into account. The internal audit plan for 2016 is prepared taking into account the significance of individual activities and priorities as well as the results of the accomplished work of internal audit in 2015.

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 significant changes in 2015. The same accounting principles used in the preparation of financial statements for 2015 as it were used and in the preparation of financial statements for 2014. Also Company made plan for preparation of financial reporting for 2015 providing information preparation and reporting deadlines, responsible persons.

From 1 January 2015 – the day of the introduction of the euro in the Republic of Lithuania – the Company's functional currency was converted respectively. The exchange rate that was applied when converting litas to the euro was equal to LTL 3.4528 for EUR 1, which had been irrevocably set by the EU Council. The conversion of accounting data as of 31 December 2014 (denominated in litas) into euros result is recorded in the Financing and Investing Activities item of the income (loss) statement as of the current period.

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 – according to the impairment test performed by Company's Management the impairment of long-term tangible assets was not set while in external auditor's 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. However, as Company's Management did not set the impairment of long-term tangible assets as of 31 December 2013, external auditors were unable to determine in what periods of time impairment costs had to be accounted for and presented in the comparative periods of Company's financial statements. When preparing the 2015 year financial statements, there wasn't determined evidence of impairment of assets and impairment remained the same as was disclosed in 31 December 2014 financial statements.

EXTERNAL AUDIT

The audit firm for audit of the financial statements as of 31 December 2015 of the Company AB Amber Grid was approved by the ordinary General Shareholders Meeting on 23 April 2015.

Following the requirements of the Law of the Republic of Lithuania on Audit the audit firm UAB PricewaterhouseCoopers in 2015 presented to the Audit Committee a written confirmation of independence from the Company. The Audit Committee additionally analysed related Company's internal information and, whereas non-audit services rendered by audit firm UAB PricewaterhouseCoopers in 2015 were significant, the Audit Committee has received from the audit firm additional explanations on the assessment of non-audit services provided in the audited period, the potential impact on 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 2015, 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 presented audit methodology, 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 2015 on the comparative data after the evaluating of impairment of long-term tangible assets, carried out by the Company's Management, in financial reports, as Company's Management evaluated and accounted impairment of long-term tangible assets in the financial statements as of 31 December 2014, however did not set the impairment of long-term tangible assets in the financial statements as of 31 December 2013, and the auditors were unable to determine in what periods of time cost of impairment of long-term tangible assets had to be accounted for and presented in the comparative periods of Company's financial statements (as it is disclosed in the part "Preparing of Financial Reports").

The Audit Committee Independent Member

Vaida Kacergiene

The Audit Committee Member

Valdemaras Bagdonas