

## **INFORMATION ON THE ACTIVITIES OF THE AUDIT COMMITTEE**

10 March 2014  
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).

The Audit Committee in its activity follows the Law of the Republic of Lithuania on Audit, the Resolution 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 following:

- to monitor the financial reporting process;
- provide recommendations to the Board 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.

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.

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

In carrying out the functions provided, the Audit Committee starting from the election date:

- reviewed the Company's establishment documents, organizational structure, internal regulation documents, reports of the internal auditor, interim financial information, annual financial reports, and other information necessary for fulfillment of the functions;
- got acquainted with internal audit activities;
- discussed the financial reporting process;
- received information from the audit firm for compliance of the independence requirements and non-audit service provided during the audited period;



- got acquainted with the prepare financial statements, annual report and independent auditor's report for 2013 year.

### **INTERNAL CONTROL**

2013 was the first year of the Company's independent activity. Before separation the activity of the Company was performed by AB Lietuvos dujos, and internal control was carried out jointly. From June 2013, after completion the reorganization and establishment of the Company AB Amber Grid, previous internal control processes shall be reviewed and adjusted to the independently acting company.

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

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

### **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, natural gas purchase / sales price variances, environment protection, technical and credit factors.

Evaluating risk management, among other information, the Audit Committee took note of the protocols of meetings held in management bodies in 2013, also plans of activities and budget for 2014, as much as it is related to the risk assessment and management.

### **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 controls and the effectiveness of the Company's management processes.

2013 was the first year for internal audit activity in the independent company, and the focus was on the analysis, goals setting, preparing on internal audit work plan.

Evaluating that the Company's activity has significant influence to the environment, in September 2013 it was prepared plan of internal audit of environmental management system and internal audit performed, where main task was to analyse the Company's present environmental system, evaluate it's compliance with the ISO 14001:2004 international standard requirements, internal and external legal documents. In December 2013 it was prepared final report, naming the recommendations and indicating detected non-compliance, which are necessary to be removed before external audit that the Company would be prepared for successful and smooth certification according to ISO 14001:2004 standard requirements. The non-compliances were removed, and external auditors UAB Bureau Veritas Lit by the certificate No. LT0733E of 12 February 2014 confirmed that the Company's environmental management system comply with the ISO 14001:2004 international standard requirements.

The Audit Committee reviewed work performed by internal auditor in 2013, also internal audit plan for 2014 - 2016, provided recommendations that were taken into account preparing final internal audit plan for approval. 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 and methods, rules for providing information, the preparation and reporting deadlines, responsible persons.

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 is an indication that the value of fixed assets may be impaired, assess the long-term tangible asset's recoverable amount.

The Company's external auditors, in the Independent Auditor's Report noted that the Company's management performed an impairment test and did not find a long-term tangible asset impairment, but the external auditors' opinion on this issue was divergent and, in their opinion, as of 31 December 2013 there were existing indicators of impairment and the impairment.

## 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 11 December 2013.

Following the requirements of the Law of the Republic of Lithuania on Audit the audit firm UAB Ernst & Young Baltic in 2013 presented to the Audit Committee a written confirmation of independence from the Company. Also the audit firm presented in writing to the Audit Committee information about non-audit services provided to the Company over 2013 and the remuneration paid for services rendered. 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.

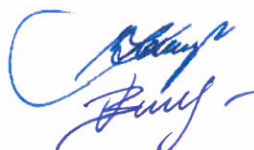
The Audit Committee reviewed the contract for the audit of the financial statements for 2013, provisions for the terms and conditions, no comments were given.

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.

The auditors issued a qualified opinion for the Company's financial reports for 2013 on the impairment test of long-term tangible assets performed by the Company's management (as it is disclosed in the part "Preparing of Financial Reports").

The Audit Committee Independent Member

The Audit Committee Member



Vaida Kacergiene

Valdemaras Bagdonas