

**To Special closed-end type real estate investment company  
„INVL Baltic Real Estate”, Gynėjų g. 14, Vilnius**

**SPECIAL CLOSED-END TYPE REAL ESTATE INVESTMENT COMPANY „INVL BALTIC REAL  
ESTATE” AUDIT COMMITTEE ACTIVITY REPORT FOR THE FINANCIAL YEAR 2017**

26 March 2018, Vilnius

**GENERAL PART**

The Audit Committee (hereinafter – the Committee) of Special closed-end type real estate investment company „INVL Baltic Real Estate” (hereinafter – SUTNTIB „INVL Baltic Real Estate” or the Company) was formed by the decision of the General Meeting of Shareholders on the 11<sup>th</sup> of April 2017.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of SUTNTIB „INVL Baltic Real Estate” and Regulations of the Audit Committee of Special closed-end type real estate investment company „INVL Baltic Real Estate” (hereinafter – the Regulations), approved by the decision of the General Meeting of Shareholders on 11<sup>th</sup> of April 2017.

**COMPOSITION OF THE AUDIT COMMITTEE**

SUTNTIB „INVL Baltic Real Estate” (previous name AB „Invaldos Nekilnojamojo Turto Fondas”, code 152105644) is a joint stock company registered in the Republic of Lithuania. It was established on the 28<sup>th</sup> of January 1997. On the 17<sup>th</sup> of August 2015 the parent entity AB INVL Baltic Real Estate (code 30329973) was merged to the Company, which continued its operations under the name „INVL Baltic Real Estate”. On the 10<sup>th</sup> of November 2016 the Company was registered in the Register of legal entities as SUTNTIB „INVL Baltic Real Estate”.

On the 22<sup>nd</sup> of December, 2016 after the board of supervisory authority - Bank of Lithuania has issued the licence to the Company for a closed-end investment company, all rights and obligations of the management body of the Company are implemented by the management company UAB „INVL Asset Management“, company code 126263073 (hereinafter – the Management company).

On the 11<sup>th</sup> of April, 2017 General Meeting of Shareholders of SUTNTIB „INVL Baltic Real Estate” was held by which decision Tomas Bubinas and Danguolė Pranckėnienė were appointed as the independent members of the audit committee of SUTNTIB „INVL Baltic Real Estate” for a four-year term.

The members of the Committee correspond with the qualification and experience requirements set out in the Regulations:

- an independent member of the Committee has an university degree in economics and more than three years work experience in the field of accounting;
- an independent member of the Committee has an university degree in economics and more than three years work experience in the field of audit.

Information and data which approve qualification and experience of the members of the Committee were submitted to the General Meeting of Shareholders on the 11<sup>th</sup> of April 2017.

The independent members of the Committee complies with main criteria set out in the Regulations which are used for identifying whether a member of the Audit Committee can be considered as independent:

1. he/she is not and has not been for the last five years a manager of the Company or the associated companies (as they are defined in clause 24 of Description on requirements for audit committee (hereinafter – Description) approved by the board of Bank of Lithuania in 2017 January 24 Resolution No. 03-14);
2. he/she is not and has not been for the last five years an employee of the Company or the associated companies;
3. he/she is not receiving and has not been receiving significant additional remuneration from the Company or the associated companies other than remuneration for the office in the Audit Committee;

4. he/she is not a controlling shareholder and is not a representative of such shareholder;
5. he/she does not have and has not had any material business relations with the Company or associated company within the past year directly or as a partner, shareholder or a member, managing employee of the subject having such relationships (a subject is considered to have business relations when it is a major supplier or service provider (including financial, legal, advisory and consulting services), major client or organisation receiving significant part of the income from the Company or its group);
6. he/she is not and has not been for the last three years a partner or employee of the current or former external audit company of the Company or the associated companies;
7. he/she has not been in the position of a member of the Committee of the Company for over than 12 years;
8. he/she is not a close relative to the managers of the Management Company or to any person specified in paragraphs 1 – 7 above (a spouse (partner), children (adopted children), parents (adoptive parents), brothers (stepbrothers) and sisters (stepsisters) are considered to be close relatives).

## **FUNCTIONS AND PROCEDURE OF WORK OF THE AUDIT COMMITTEE**

The main functions of the Committee:

1. to inform the Management Company about the results of the audit of financial statements and explain how this audit has contributed to the credibility of financial statements and what role has been performed therein by the Audit committee ;
2. to monitor the financial reporting process and submit recommendations regarding ensuring of the credibility thereof;
3. to monitor the effectiveness of the Company's internal quality control and risk management systems affecting the financial statements of the Company and internal audit, without prejudice to the independence of the internal audit;
4. to monitor the audit of annual financial statements and consolidated financial statements with a particular focus on its performance, having regard to the deficiencies of the audit of financial statements identified during the inspection of the Company and to the drawn conclusions;
5. to review and monitor the independence of auditors and audit companies seeking to avoid conflict of interests;
6. to bear responsibility for the carrying out of the procedure of selection of the auditor or the audit company and the submission of a recommendation for the appointment of the auditor or the audit company;
7. to submit recommendations to the General Meeting of Shareholders of the Company related to selection, appointment, repeated appointment and revocation of external audit company and terms of agreement with external audit company;
8. to monitor and evaluate whether process of the financial statements audit is effective.

The work of the Committee is organized taking into account the specifics of the activity of the Company, external factors and changes in legal environment.

The right of initiative of convoking the meetings of the Committee is held by both members of the Committee.

Usually the time of the meetings is combined with discussion of preparation process of financial and audit (including intermediate financial statements) statements.

During the reporting period the Committee discussed all questions collegially.

Managers of the Management Company have cooperated with the members of the Committee, introduced with the activity of the Company, provided with detailed information regarding the specific peculiarities of accounting, finance and activity of the Company, informed about methods of settlement for important and unusual transactions when the settlement may be included in accounting in several different ways, provided with other information which is necessary to carry out the functions of the Committee properly.

The Committee has received information regarding all questions of the external audit from the management of the Company on time.

## **THE ACTIVITY OF THE AUDIT COMMITTEE IN FINANCIAL YEAR 2017**

### **Monitoring of the financial statements preparation process**

Without prejudice to the responsibility and rights of the administration, management of the Management Company also the external audit company, the Committee *inter alia*, observed the Company's financial statement (including intermediate) preparation process.

The members of the Committee were informed about any possible non-compliance with the accounting policies or problems of disclosure, a regular two-way dialogue between the members of the Committee and persons, responsible for preparing financial statements took place, information regarding work of independent audit was received.

The Company pays enough attention and resources to ensure timely implementation of all legislative changes governing the preparation of financial statements.

The members of the Committee, after familiarizing with the audited set of annual financial statements for the year 2017 and report for Audit committee, hearing from person authorized under the agreement to manage accounting of the Company about the preparation process of the above mentioned statements and problems related with it and discussed with Company's auditors the process of audit and issues arose within, recommended to the Company's Management Company to submit audited set of annual financial statements for the year 2017 and consolidated financial statement to the General Meeting of Shareholders of the Company, which will be held on the 26<sup>th</sup> of March 2018.

### **Monitoring of the efficiency of internal control and risk management systems**

Without prejudice to the rights and responsibility of the administration, management of the Management Company and the external audit company, the Committee monitored the effectiveness of internal control and risk management systems having impact on the financial statements of the Company and assessed the need of internal audit function in the Company.

The Management Company had been implementing risk management and internal control instruments as part of the Company's management functions in the year 2017. The Company's main risk indicators were approved and monitored. In 2017, the Management Company also carried out an audit of the Company's investment and valuation processes through independent external experts. The Committee has got acquainted with this audit report and does not have any remarks on it; the Committee assumes that the risk management system having impact on the Company's financial statements is functioning properly.

### **Monitoring the process of external audit**

Without prejudice to the rights and responsibility of the administration, management of the Management Company and the external audit company, the Committee *inter alia* (B) monitored the process of external audit.

Management of the Company's Management Company as well as Audit Company provided the members of the Committee with information about the process of external audit of financial statements of year 2017 of the Company.

The main questions of the audit for year 2017 discussed with auditors: (i) estimating the fair value of the investment properties of the Group and the Company (ii) estimating the fair value of the Company's investments into subsidiaries, (iii) determining the provision for the success fee, (iv) disclosure of IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments*, IFRS 16 *Leases* impact on Group's and Company's financial position, performance and financial statements.

### **Independence and objectivity of external auditor and the audit company**

The Committee reviews and observes an independence of external auditor and the audit company first of all in the point of view of provision of additional services to the audited subject.

On 21 December 2017 the Committee examined received statements of independence of the audit company – that UAB “Pricewaterhouse Coopers” remains independent of SUTNTIB „INVL Baltic Real Estate“ during performance of financial statements' audit for year 2017. The members of the Committee confirm that:

a) Rasa Radzevičienė and (or) the audit company – PricewaterhouseCoopers, UAB are not directly or indirectly related to the Company and there are no grounds which could harm the independence of the auditor and (or) the audit company.

b) Rasa Radzevičienė is considered to be independent of the Company since:

- she is not linked by family, close relations or related by marriage with the participants of the Company and/or the subsidiary or its significant subsidiaries, managers, chief accountants or with any other employees of the Company or its significant subsidiaries, who may have a direct and material influence on the drawing up of financial statements, and managing persons of the Company or its significant subsidiaries;
- she is not and has never been an employee of the Company or its significant subsidiaries;
- she is not and has never been a participant of the Company or its significant subsidiaries;
- she or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of the Company, except for interests indirectly held under diversified collective investment schemes;
- she or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of any entity associated with the Company, which ownership may cause a conflict of interests or is usually expected to cause it, except for interests indirectly held under diversified collective investment schemes;
- other than grounds specified above does not have and does not receive material and direct benefit of any financial instruments issued, guaranteed or otherwise supported by the Company, except for interests indirectly held under diversified collective investment schemes, including managed funds, and does not participate in any transaction on any financial instrument;
- during the period of carrying out the audit of financial statements of the Company and during the periods covered by the audited financial statements, has not had work, business or other relations which may cause a conflict of interests, as described in the Code of Ethics of Professional Accountants, or is usually expected to cause it;
- she is not influenced by other significant conditions that might affect her independence.

c) UAB „PricewaterhouseCoopers” is considered to be independent of the Company and its significant subsidiary companies since:

- neither the Company nor its significant subsidiaries are participants of the audit company;
- the audit company, participants of the audit company and managing persons are not participants of the Company or its significant subsidiaries;
- participants of the audit company and managing persons are not related by family, close relations or related by marriage with the Company's or its significant subsidiaries' participants;
- it or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of the Company, except for interests indirectly held under diversified collective investment schemes;
- it or persons who may have a direct or indirect impact on the results of financial statements do not have financial instruments of any entity associated with the Company, which ownership may cause a conflict of interests or is usually expected to cause it, except for interests indirectly held under diversified collective investment schemes;
- other than grounds specified above does not have and does not receive material and direct benefit of any financial instruments issued, guaranteed or otherwise supported by the Company, except for interests indirectly held under diversified collective investment schemes, including managed funds, and does not participate in any transaction on any financial instrument;
- during the period of carrying out the audit of financial statements of the Company and during the periods covered by the audited financial statements, has not had work, business or other relations which may cause a conflict of interests, as described in the Code of Ethics of Professional Accountants, or is usually expected to cause it;
- it is not influenced by other significant conditions that might affect its independence.

d) The payment for the performance of the audit, indicated in the agreement with the audit company, in the opinion of the Committee ensures that the audit will be performed according to the principles of professional ethics and requirements of international standards of audit. There are no indefinite conditions set in the agreement concluded with the audit company, which could influence the amount of payment for the audit services. The payment for other services, rendered by the same audit company, does not influence the payment for the audit services.

Committee as well examined received terms of the draft agreement between UAB „PricewaterhouseCoopers“ and SUTNTIB „INVL Baltic Real Estate“ regarding additionally provided assurance services – prospectus review and forecast audit. The members of the Committee confirm that conclusion of aforementioned agreement and provision of additional services does not contradict with Regulation (EU) No. 537/2014 on specific statutory audit requirements for public-interest entities, repealing Commission Decision 2005/909 / EC (Regulation).

Members of the Committee:

Tomas Bubinas

Danguolė  
Pranckėnienė