

To
Invalda INVL, AB
Gynėjų str. 14,
Vilnius

INVALDA INVL, AB AUDIT COMMITTEE ACTIVITY REPORT FOR THE FINANCIAL YEAR 2018

Vilnius, 30 of April 2019

GENERAL PART

The Audit Committee (hereinafter – the Committee) of Invalda INVL, AB (hereinafter – Invalda INVL, AB or the Company) was formed by the decision of the General Meeting of Shareholders on 28th of April, 2017.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of Invalda INVL, AB also Regulations of the Audit Committee of Invalda INVL, AB (hereinafter – the Regulations), approved by the decision of the General Meeting of Shareholders on 28th April 2017.

COMPOSITION OF THE AUDIT COMMITTEE

Invalda INVL, AB (previous company names - Akcinė bendrovė Invalda and Akcinė bendrovė Invalda LT) was registered in the Centre of Registers of the Republic of Lithuania on 23th of December, 1991.

On the 28th of April, 2017 the General Meeting of Shareholders of Invalda INVL, AB was held; the General meeting adopted the decision to appoint Danguolė Pranckėnienė and Tomas Bubinas as the independent members of the audit committee of Invalda INVL, AB for a 4 (four) years 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 a university degree in economics and more than three years work experience in the field of audit;
- an independent member of the Committee has a university degree in economics and more than three years work experience in the field of accounting.

Information and data which approve qualification and experience of the members of the Committee were submitted to the General Meeting of Shareholders on the 28th of April 2017 and have not changed during year 2018.

Independent members of the Committee comply with the main criteria set out in the Regulations which are used to determine whether a member of the Audit Committee may be considered as independent:

1. he/she is not and has not been for the last five years a manager of the Company and/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 on 24 January 2017 by Resolution No. 03-14);
2. he/she is not and has not been for the last three years an employee of the Company and/or the associated companies;
3. he/she is not receiving and has not been receiving significant, compared to the revenue received by the member of the Audit Committee, additional remuneration from the Company and/or the associated companies other than remuneration of a member of the Audit Committee and/or member of the supervisory body;
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 manager of the 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 Manager of the 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, 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 the financial and audit (including intermediate financial statements) statements preparation process.

During the reporting period the Committee discussed all questions collegially.

The Board members of the Company have worked closely with the members of the Committee, duly presented them 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 2018

Observation of the financial statements preparation process

Without prejudice to the responsibility and rights of the administration, the Board members also the external audit company, the Committee *inter alia* (A) has observed the financial statements preparation process (including intermediate) of the Company.

The members of the Committee were informed of any possible inconsistency with accounting policies or disclosure issues, a regular two-way dialogue was held between the members of the Committee and persons, responsible for the preparation of financial statements, and 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 Company's financial statements are prepared and published in accordance with the requirements of mandatory legal acts.

The members of the Committee, after familiarizing with the audited set of annual financial statements for the financial year 2018 and hearing from chief accountant of the Company about the preparation process of the above mentioned statements and related problems, as well as after discussing the audit process and the issues that arose during it with the Company's auditors, have recommended to the Board of the Company to submit audited set of annual financial statements of the financial year 2018 and consolidated financial statement to the General Meeting of Shareholders of Invalda INVL, AB, which will be held on 30 April 2018.

Observation of the efficiency of internal control and risk management systems and assessment of the need of internal audit function

Without prejudice to the rights and responsibility of the administration, Board members and external audit company, the Committee *inter alia* (B) has observed the effectiveness of internal control and risk management systems and has assessed the need of internal audit function in the Company.

There is no internal audit function in the Company. As the Company along with its subsidiaries operate in different business segments (property management, real estate, agriculture and building maintenance), the Committee recommends to the Company's administration and the Board to consider the possibility of establishing an internal audit function.

Observation of the process of external audit.

Without prejudice to the rights and responsibility of the administration, Board members and external audit company, the Committee *inter alia* (C) has observed the process of external audit.

Management of the Company as well as Audit Company provided the members of the Committee with information about the process of external audit of financial statements of the financial year 2018 of the Company.

The main questions of the audit for the year 2018 discussed with auditors : (i) the fair value estimation of entities owned by Invalda INVL, AB, and its disclosures in the financial statements according to IFRS 13 "Fair value measurement", (ii) disclosure and applying of principles of IFRS 15 *Revenue from Contracts with Customers* in the financial statements, (iii) disclosure and applying of principles of IFRS 9 *Financial instruments*, in the financial statements, (iv) disclosure of impact of IFRS 16 *Leases* on Group's and Company's financial position, performance and financial statements.

Independence and objectivity of external auditor and the audit company.

Without prejudice to the rights and responsibility of the administration and Board members, the Committee *inter alia* (D) reviews and observes an independence of external auditor and the audit company, primarily in respect of additional services provided to the audited subject.

The Committee once a year considers the independence of the auditor and the audit firm and carries out procedures to ensure their independence and objectivity, according to the requirements of professional ethics and legal acts.

On 9th of April 2019 the Committee received PricewaterhouseCoopers, UAB statements for provided non-audit services and confirmation that auditor and audit company comply with the principles and requirements of independence.

The members of the Committee confirm that:

- a) PricewaterhouseCoopers UAB provided non-audit services to the Company or its subsidiaries in year 2018, which were approved by the Audit Committee decisions;
- b) Rasa Radzevičienė and (or) 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.
- c) Rasa Radzevičienė is considered to be independent from the Company since:
 - she is not linked by family relations with the Company's and/or its significant subsidiaries' participants, managers, chief accountants (accountant) or with any other employees of the Company or its significant subsidiaries, that may have a direct and significant influence on the preparation of financial statements, executives of the Company or its significant subsidiaries;
 - she is not linked by close relations with the Company's and/or its significant subsidiaries' participants, in accordance with the criteria set out in the audit firm's quality control policies and procedures, having a material

impact on the Company or its significant subsidiaries, managers, chief accountants (accountant) or any other employee of the Company or its significant subsidiaries that may have a direct and significant influence on the preparation of financial statements, executives of the Company or its significant subsidiaries;

- she is not an employee of the Company or its significant subsidiaries and during the period covered by the audited financial statements has not been an employee of the Company or its significant subsidiaries that may have a direct and significant influence on the preparation of financial statements;
- she is not a participant of the Company or its significant subsidiaries and during the period covered by the audited financial statements has not 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.

d) PricewaterhouseCoopers, UAB is considered to be independent from 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 executives, with the exception of executives who do not provide services to the Company or its significant subsidiaries are not participants of the Company or its significant subsidiaries;
- participants of the audit company and executives, with the exception of executives who do not provide services to the Company or its significant subsidiaries, are not related by family relations with the Company's or its significant subsidiaries' participants or by close affiliation with the Company's or its significant subsidiaries' participants, in accordance with the criteria set out in the audit firm's quality control policies and procedures, having a material impact on the Company or its significant subsidiaries;
- 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

e) 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 any indefinite conditions 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.

Assessment of compliance with the provisions of Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (hereinafter – the Regulation (EU)).

Without prejudice to the rights and responsibility of the administration, the Board members and also the external audit company, the Committee *inter alia* (E) has monitored and assessed whether the additional services provided by the audit company UAB PricewaterhouseCoopers to the Company's subsidiaries contradict with the Regulation (EU).

Audit Committee, after assessing terms and conditions of the audit company UAB PricewaterhouseCoopers additionally provided non-audit services to the Company's subsidiary IPAS „INVL Asset Management“ (company code 40003605043) – consulting on accounting issue, decided that the provisions of these services is in compliance with Regulation (EU) No. 537/2014 on specific statutory audit requirements for public-interest entities, repealing Commission Decision 2005/909 / EC (Regulation).

Audit committee, after assessing terms and conditions of the audit company UAB PricewaterhouseCoopers additionally provided non-audit tax services to the Company's subsidiary MD PARTNERS UAB (company code 304842899), decided that the provisions of these 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).

Opinion of the Audit Committee on Company's transactions concluded with related persons

Without prejudice to the rights and responsibility of the administration and members of the Board, the Committee, *inter alia*, (F) has assessed the transactions with related persons concluded by the Company and / or its subsidiaries when the transactions were in compliance with the provisions of part 1 of Article 37² of the Law on Companies and matched the definition of transaction with significant influence stipulated in the Articles of Association.

Audit Committee, after familiarising with information, assumptions and arguments provided by the Company regarding INVL Asset Management UAB (legal entity code 126263073) intended transaction of convertible bonds with MD PARTNERS UAB (legal entity code 304842899), has provided the opinion that there is no basis to assume that intended agreement would be concluded on a non-market basis or would be unfair and unfounded in respect of the Company's shareholders, who are not party to the agreement.

Audit Committee, after receiving a request from the Company regarding the Company's intended investment in the newly created fund, in accordance with the requirements of Article 37² of the Law on Companies, and on the basis of the information provided by the Company, has submitted an opinion to the Company that on the date of decision of the Audit committee (01-020-2019) there is no basis to assume that decision, intended to adopt by the Board of the Company, regarding the 19.5 million Eur investment in the closed-end investment fund INVL Baltic Sea Growth Fund for professional investors of the INVL Asset Management UAB, which are controlled by the Company, would be unfair and unfounded in respect of the Company's shareholders, who are not party to the agreement

Members of the Committee:

Tomas Bubinas and Danguolė Pranckėnienė