

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 2016

20 March 2017, 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 10th of November 2016.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of SUTNTIB „INVL Baltic Real Estate” also Regulations of the Formation and Activity 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 10th of November 2016.

COMPOSITION OF THE AUDIT COMMITTEE

AB „INVL Baltic Real Estate” (previous name AB „Invalidos Nekilnojamojo Turto Fondas”, code 152105644) is a joint stock company registered in the Republic of Lithuania. It was established on the 28th of January 1997. On the 17th 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 10th of November 2016 the Company was registered in the Register of legal entities as SUTNTIB „INVL Baltic Real Estate”.

On the 10th of August 2015 general meeting of shareholders of AB „INVL Baltic Real Estate” took place and by its decision Company’s audit committee was formed, Tomas Bubinas (an independent member of the Committee) and Danutė Kadanaitė were appointed as the members of the Committee. On 10th of November 2016 Tomas Bubinas (an independent member of the Committee) and Danutė Kadanaitė were elected as the members of audit committee of SUTNTIB „INVL Baltic Real Estate” by the decision of general meeting of shareholders.

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;
- second member of the Committee has an university degree in law and more than three years work experience in the field of law.

Information and data which approve qualification and experience of the members of the Committee were submitted to the General Meeting of Shareholders on the 23th of December 2014 and on the 10th of November 2016.

An independent member 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 is not and has not been for the last five years a manager of the Company or the Subsidiary and any associated company (as they are defined in paragraph 14 of the Regulations);
2. he is not and has not been for the last five years an employee of the Company or the Subsidiary and/or any associated company;

3. he is not receiving and has not been receiving significant additional remuneration from the Company or the Subsidiary and/or associated company other than remuneration for the office in the Audit Committee;
4. he is not a controlling shareholder and is not a representative of such shareholder;
5. he does not have and did not have any material business relations with the Company or the Subsidiary and/or associated company within the past year directly or as a partner, shareholder, head or employee of the administration 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 payments from the Company or the Subsidiary or its group);
6. he is not and has not been for the last three years a partner or employee of the current or former audit company of the Company or the Subsidiary and/or associated company;
7. he has not been in the position of a member of the Committee of the Company or the Subsidiary for over than 12 years;
8. he is not a close relative to the manager of the Management Company or to any person specified in paragraphs 1 – 6 above (a spouse (partner), children and parents are considered to be close relatives).

FUNCTIONS AND PROCEDURE OF WORK OF THE AUDIT COMMITTEE

The main functions of the Committee:

1. provide recommendations to the Board of the Management Company with selection, appointment, reappointment and removal of an external audit company as well as the terms and conditions of the agreement with the audit company;
2. observe the process of external audit of the Company;
3. observe how the external auditor and audit company follow the principles of independence and objectivity;
4. observe the financial statements preparation process of the Company;
5. observe the efficiency of the internal control and risk management systems of the Company and the Subsidiary. Once a year review the need of the internal audit function;
6. observe if the members of the Board and/or the managers of the Management Company take into account recommendations and comments of the audit company properly.

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 preparation process of financial and audit (including intermediate financial statements) statements.

During the reporting period the Committee discussed all questions collegially.

The Board members of the Company or managers of the Management Company if Board members lose they powers, has 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 2016

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) observed the financial statements preparation process (including intermediate) of the Company.

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 2016, 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, recommended to the Company's Management Company to submit audited set of annual financial statements for the year 2016 and consolidated financial statement to the General Meeting of Shareholders of the Company, which will be held on the 11th of April 2017.

Observation of the process of external audit.

Without prejudice to the responsibility and rights of the administration, the Board members or the Management Company if Board members lose they powers, also the external audit company, the Committee *inter alia* (B) observed the process of external audit.

Management of the Company' 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 2016 of the Company.

The main questions discussed with auditors of the audit for 2016: (I) fair value estimation of the Group's investments properties (II) reversal of deferred tax liabilities (III) accounting of the Performance Fee.

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 1 December 2016 the Committee examined received statements of independence of the audit company – that UAB "Pricewaterhouse Coopers" is independent of SUTNTIB „INVL Baltic Real Estate“, when financial statements" audit is performed for year ended on the 31st of December 2016. The members of the Committee confirm that:

a) The manager of the audit group, auditor Rimvydas Jogėla, 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) Rimvydas Jogėla is considered to be independent from the Company since:

- he is not linked by family, close relations or related by marriage with the participants in the Company and/or

the Subsidiary or its significant subsidiaries, manager, members of the Board, chief accountant 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;

- he is not and has never been an employee of the Company or its significant subsidiaries;
- he is not and has never been a participant of the Company or its significant subsidiaries;
- he has not provided to the Company and its significant subsidiaries the services of asset and business valuation, book keeping and drawing up of financial statements, the services of valuation of reorganization conditions of public and private companies, and he has not performed an internal audit;
- he is not influenced by other material conditions that might affect his independence.

c) UAB „PricewaterhouseCoopers” 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, its manager, board members are not participants of the Company or its significant subsidiaries;
- participants of the audit company, its manager, board members are not related by family, close relations or related by marriage with the Company’s or its significant subsidiaries’ participants;
- it has not provided to the Company or its significant subsidiaries the services of asset and business valuation, book keeping and drawing up of financial statements, the services of valuation of reorganization conditions of public and private companies, and it has not performed an internal audit;
- the audit company does not get as much payment for the audit services from the Company or its significant subsidiaries that it could influence the independence of the audit company;
- it is not influenced by other material 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 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.

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

Without prejudice to the responsibility and rights of the administration, the Board members or management of the Management Company if Board members lose they powers, also the external audit company, the Committee observed the effectiveness of internal control and risk management systems and assessed the need of internal audit function in the Company.

There was no internal audit function in the Company in year 2016. According to scale of the Company’s activity and complexity, the Committee sees no need to establish this function in the nearest future.

Members of the Committee:

Tomas Bubinas

Danutė Kadanaitė