

To
INVL Baltic Farmland, AB
Gynėjų str. 14, Vilnius

INVL BALTIC FARMLAND, AB AUDIT COMMITTEE ACTIVITY REPORT FOR THE
FINANCIAL YEAR 2016

28 February 2017, Vilnius

GENERAL PART

The Audit Committee (hereinafter – the Committee) of INVL Baltic Farmland, AB (hereinafter – INVL Baltic Farmland, AB or the Company) was formed by the decision of the General Meeting of Shareholders on 23 December 2014.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of INVL Baltic Farmland, AB also Regulations of the Formation and Activity of the Audit Committee of INVL Baltic Farmland, AB (hereinafter – the Regulations), approved by the decision of the General Meeting of Shareholders on 23 December 2014.

COMPOSITION OF THE AUDIT COMMITTEE

INVL Baltic Farmland, AB was registered in the Centre of Registers of the Republic of Lithuania on 29 April 2014. Company was established on 21 March 2014 by Invalda LT, AB (currently Invalda INVL, AB) according to separation conditions when a share of Invalda LT, AB assets, liabilities and equity was separated.

The members of the first Committee in Company's history – Tomas Bubinas (an independent member of the Committee) and Danutė Kadanaitė, were elected by the decision of the General Meeting of Shareholders held on 23 December 2014.

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;
- a 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 provided in the General Meeting of Shareholders held on 23 December 2014. During 2016 information and data have not changed.

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 a head of the Company and a related company (as they are defined in paragraph 14 of the Regulations) and has not been such during the last five years;
2. he is not an employee of the Company and/or a related company and has not been such during the last three years;
3. he is not receiving and has not been receiving significant additional remuneration from the Company and/or a related 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 and/or a related 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 its group);
6. he is not and has not been during the last three years a partner or employee of the current or former audit company of the Company and/or a related company;
7. he has not been in the position of a member of the Committee of the Company for over than 12 years;
8. he is not a close relative to the head of the 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 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 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 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 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* 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 ended 31 December 2016, hearing from chief accountant of the Company about the preparation process of the above mentioned statements and problems related with it, recommended to the Boards of the Company to submit audited set of annual financial statements for the year ended 31 December 2016 and consolidated financial statement to the General Meeting of Shareholders of INVL Baltic Management, AB, which will held on 22 March 2017.

Observation of the process of external audit.

Without prejudice to the responsibility and rights of the administration, the Board members also the external audit company, the Committee *inter alia* 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 year 2016 of the Company.

The main questions discussed with auditors of the audit for 2016: (I) changes of the accounting policy regarding investments into subsidiaries (fair value method was changed to equity method), (II) the fair value estimation of the Group's investment assets, (III) disclosures in the financial statements.

Independence and objectivity of external auditor and the audit company.

The Committee reviewed and observed 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 analysed received statements that the audit company PricewaterhouseCoopers, UAB complied with the principles of independence from INVL Baltic Farmland, AB during the process of external audit of financial statements of year 2016 of the Company. The members of the Committee confirm that:

a) 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 or its significant subsidiaries, manager, members of the Board, 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;
- he is not and never was an employee of the Company or its significant subsidiaries;
- he is not and never was 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, did not perform internal audit;
- he is not influenced by other material conditions that might affect his independence.

c) 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, 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 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, did not perform 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 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 2016. Evaluating the operations size and the complexity of the Company, the Committee does not recommend to establish internal audit function.

Members of the Committee:

Tomas Bubinas

Danutė Kadanaitė