

To Invalda AB
Šeimyniškių st. 1 A,
Vilnius

INVALDA AB AUDIT COMMITTEE ACTIVITY REPORT FOR THE FINANCIAL YEAR 2011

20 April 2012

Vilnius

GENERAL PART

The Audit Committee (hereinafter – the Committee) of Invalda AB (hereinafter – Invalda AB or the Company) was formed by the decision of the General Meeting of Shareholders on 14 November 2008.

The Committee works in accordance with the laws of the Republic of Lithuania, the Articles of Association of Invalda AB and Vilniaus Baldai AB, also Regulations of the Formation and Activity of the Audit Committee of Invalda AB (hereinafter – the Regulations), approved by the resolution of the General Shareholders Meeting of the Company on 29 April 2011.

In accordance with Paragraph 6 Article 52 of the Law on the Audit of the Republic of Lithuania, the Company's subsidiary Vilniaus Baldai AB (hereinafter – the Subsidiary) does not form the audit committee.

COMPOSITION OF THE AUDIT COMMITTEE

The members of the Committee – Tomas Bubinas (an independent member of the Committee) and Danutė Kadanaitė, were elected by the decision of the General Meeting of Shareholders on 14 November 2008 (the Company's first audit committee was also formed by the same decision).

These members were re-elected for the cadence of four years by the decision of the General Meeting of Shareholders on 30 April 2010.

An independent member Tomas Bubinas resigned on 30 August 2010. Vaidas Savukynas was elected as an independent member of the Committee till the end of the Committee's cadence by the decision of the General Meeting of Shareholders on 29 April 2011.

On 30 December 2011, after the review of the members of the Committee compliance with the requirements was performed, it was found that the members of the Committee correspond with the qualification and experience requirements set out in the Regulation:

- 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 a 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 and which were submitted to the General Meeting of Shareholders on 29 April 2011 has not changed except workplace of Vaidas Savukynas – his new position is finance director of trade network “Narodnyi” (Kyrgyzstan) from 2011.

An independent member of the Committee complies with main criteria set out in the Regulation which are used for identifying whether a member of the Audit Committee can be considered to be independent:

1. he is not a head of the Company or the Subsidiary and any associated company (as they are defined in paragraph 14 of the Regulation) and has not been such during last five years;
2. he is not an employee of the Company or the Subsidiary and any associated company and has not been such during last three years;
3. he is not receiving and has been not receiving significant additional remuneration from the Company or the Subsidiary and 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 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 (inclusive of 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 during the last three years partner or employee of the current or former audit company of the Company or the Subsidiary and 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 head of the Company or the Subsidiary or to any person specified in above paragraphs 1 – 6 (the 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 and the Subsidiary with selection, appointment, reappointment and removal of an external audit company as well as the terms and conditions of agreement with the audit company;
2. observe the process of external audit of the Company and the Subsidiary;
3. observe how the external auditor and audit company follow the principles of independence and objectivity;
4. observe the process of preparation of financial statements of the Company and the Subsidiary;
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 and/or the Subsidiary take into account recommendations and comments of the audit company properly.

The work of the Committee is organized taking into account the specific of the activity of the Company and the Subsidiary, 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 adopted four decisions (28 November 2011, 30 December 2011, 4 April 2012 and 6 April 2012).

The Board members of the Company and the Subsidiary has worked closely with the members of the Committee, duly presented them with the activity of the Company and the Subsidiary, provided with detailed information regarding the specific peculiarities of accounting, finance and activity of the Company and the Subsidiary, 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 and the Subsidiary on time.

THE ACTIVITY OF THE AUDIT COMMITTEE IN FINANCIAL YEAR 2011

Observation of the process of preparation of financial statements.

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

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,²

responsible for preparing financial statements took place, information regarding work of independent audit was received.

The accounting policies of the Company and the Subsidiary remained unchanged in 2011. In the opinion of the members of the Committee it allows comprehensively, transparently and properly reflects financial activity results of the Company and the Subsidiary also consolidated financial activity results.

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

The members of the Committee, after they familiarized with the audited set of annual financial statements, heard from chief accountants of the Company and the Subsidiary about the preparation process of the above mentioned statements and problems related with it, recommended to the Boards of the Company and the Subsidiary to submit audited set of annual financial statements of year 2011 and consolidated financial statement respectively to the General Meeting of Shareholders of Invalda AB and Vilniaus Baldai AB (respectively 6 April 2012 and 4 April 2012 decisions).

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* (B) observed the process of external audit.

Management of the Company and the Subsidiary provided the members of the Committee with information about the process of external audit of financial statements of year 2011 of the Company and the Subsidiary.

The Committee analyzed the Company's management actions which were taken to implement recommendation of the audit company set out in the Letter to management. Recommendations regarded the process of preparation of financial statements, disclosure requirements of IFRS 7 "Financial Instruments: Disclosures" and IAS 17 „Lease“. The Committee recommended for the management to take additional actions in order to implement recommendations of independent audit regarding process of preparing financial statements.

Independence and objectivity of external auditor and the audit company.

Without prejudice to the responsibility and rights of the administration, the Board members also the external audit company, the Committee *inter alia* (C) reviews and observes an independence of external auditor and the audit company firms of all in the point of view of provision of additional services to the audited subject.

Once a year the Committee considers an independence of the auditor performing the audit and the audit company and carries out the procedures which enable to ensure their independence and objectivity according to requirements of professional ethics and laws.

While considering issues related to independence and objectivity of auditor performing the audit and the audit company, the members of the Committee examine circumstances indicated below:

1. if the auditor (audit company) has any direct or/and indirect financial interests, related to the Company or the Subsidiary;
2. the auditor's and his family members, close relatives and partners business relationships with the Company or the Subsidiary;
3. nature of relationships between the auditor and managers of the Company or the Subsidiary (including the Board members and chief accountant);
4. the auditor's and audit company's possible dependence from the Company or the Subsidiary;
5. scale and nature of services provided by the auditor and audit company.

On 28 November 2011 the Committee analyzed confirmations provided of the audit company that PricewaterhouseCoopers UAB is independent from Invalda AB and Vilniaus Baldai AB while auditing financial statements of 31 December 2011. The members of the Committee confirm that:

a) The manager of the audit group, auditor Rasa Radzevičienė, and (or) the audit company – PricewaterhouseCoopers UAB are not directly or indirectly related to the Company and/or the Subsidiary 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 from the Company and the Subsidiary since:

- she 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 accountants or with any other employees of the Company and/or the Subsidiary or its significant subsidiaries, who may have a direct and material influence on the drawing up of financial statements;
- she is not and never was an employee of the Company and/or the Subsidiary or its significant subsidiaries;
- she is not and never was a participant of the Company and/or the Subsidiary or its significant subsidiaries;
- she has not provided to the Company and/or the Subsidiary 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;
- she is not influenced by other material conditions that might effect her independence.

c) PricewaterhouseCoopers UAB is considered to be independent from the Company and/or the Subsidiary and its significant subsidiary companies since:

- neither the Company, nor the Subsidiary, 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 and/or the Subsidiary 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 and/or the Subsidiary or its significant subsidiaries participants;
- it has not provided to the Company and/or the Subsidiary 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 and/or the Subsidiary or its significant subsidiaries that it could influence the independence of the audit company;
- it is not influenced by other material conditions that might effect 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 *inter alia* (D) observed the effectiveness of internal control and risk management systems and assessed the need of internal audit function in the Company and the Subsidiary.

There is no internal audit function, but having in mind the scale of the Company's and the Subsidiary's activity, variety and complexity, the Committee recommends to introduce such function whenever possible.

Members of the Committee:

Vaidas Savukynas

Danutė Kadanaitė