

## **RISK FACTORS, RELATED WITH THE SHARES OF THE PUBLIC JOINT-STOCK COMPANY**

### **INVL BALTIC REAL ESTATE**

*Translation note. This document is a translation from the original, which was prepared in Lithuanian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the accompanying documents takes precedence over the translation.*

This document provides information about the risk factors associated with activities and securities of the public joint-stock company INVL Baltic Real Estate, created in the split-off, separating the part, which is associated with investments into the real estate, of the public joint-stock company Invalda LT.

Information, provided in this document, should not be considered complete and covering all aspects of the risk factors associated with public company's INVL Baltic Real Estate activity and securities.

#### **Risk factors, associated with activities of the public joint-stock company INVL Baltic Real Estate**

##### *The total investment risk*

The value of the investment in real estate can vary in the short term, depending on the general economic conditions, rent and purchase prices of real estate, demand and supply fluctuations. Investment in real estate should be carried out in the medium and long term, so that investor can avoid the short-term price fluctuations. Investing in real estate is connected with the higher than medium risks. After failure of investments or under other ill-affected circumstances (having been unable to pay for the creditors) the bankruptcy proceedings may be initiated.

##### *Liquidity risk*

It is the risk of incurring losses due to low liquidity of the market, when it becomes difficult to sell the assets at the desired time and at the desired price. In order to manage this risk, public joint-stock company INVL Baltic Real Estate will keep monitoring the real estate market, will prepare in advance for property sales process, thereby reducing the liquidity risk.

##### *Real estate development risk*

Real estate development projects, undertaken by the public joint-stock company INVL Baltic Real Estate, may take longer than anticipated or be more costly than expected, which may reduce the return on investments of the public joint-stock company INVL Baltic Real Estate. In managing this risk, the company will allocate sufficient resources to the real estate development project budgets' and time control.

##### *Leverage usage risk*

Leverage usage risk is associated with potential real estate depreciation, which was acquired using borrowed money. The higher the leverage used, the greater the likelihood of this risk. The level of bank loans of the public joint-stock company's INVL Baltic Real Estate subsidiary – Invaldos Nekilnojamojo Turto Fondas, AB, is close to 50% of its real estate market value. Loan agreements are valid until 15 December 2015, principal loan amount is repaid at maturity.

##### *Investment diversification risk*

This is the risk that one failed investment will significantly influence results of the public joint-stock company INVL Baltic Real Estate. In order to reduce the risk, company will include a sufficient number of different real estate properties in its portfolio, thus maintaining an appropriate level of diversification.

#### *Tax increase risk*

Tax laws change may lead to a greater taxation of the public joint-stock company INV L Baltic Real Estate and its group companies, which in turn may reduce the profits and assets of the company.

#### *Inflation and deflation risk*

It is likely that during its operational period public joint-stock company INV L Baltic Real Estate will face both inflation and deflation risks as investments in real estate are long term. At high inflation, the value of lease agreements, which are not subject to inflation or at high deflation, the value of lease contracts, which are linked to inflation, will decrease.

#### *Credit risk*

Public joint-stock company INV L Baltic Real Estate will seek to lease real estate in the highest price possible. There is a risk that tenants will not fulfill their obligations - it would adversely affect the profit of INV L Baltic Real Estate. Large parts of liabilities not fulfilled in time may cause disturbances in activities of public joint-stock company INV L Baltic Real Estate, there might be a need to seek additional sources of financing, which may not always be available.

Public joint-stock company INV L Baltic Real Estate has granted loans to the other companies. There is a risk that if the financial state of these companies become worse, INV L Baltic Real Estate may not receive all the loans granted.

Public joint-stock company INV L Baltic Real Estate also bears the risk of holding funds in bank accounts or investing in short-term financial instruments.

#### *Currency risk*

Public joint-stock company INV L Baltic Real Estate forms transactions in Litas or Euros; therefore the currency risk is low. Lithuania plans to adopt the Euro since 2015. There is a risk that before the introduction Lithuanian Central Bank may change fixed LTL/EUR rate, which may reduce the investment value of the public joint-stock company INV L Baltic Real Estate.

Changes in the currency (Litas turning into Euros) affect the recalculation of the authorised capital as well as amount of shares in the company, therefore the part of the authorised capital owned by the shareholders after the recalculation may change slightly due to the rounding.

#### *Interest rate risk*

Interest rate risk mainly includes loans with a variable interest rate. Rising interest rates will increase the public joint-stock company's INV L Baltic Real Estate debt service costs, which will reduce the return on investment. If considered necessary, the public joint-stock company INV L Baltic Real Estate will get insured from interest rate risk engaging in the relevant transactions.

#### *Reliance on the company's assets administrator*

Invaldos Nekilnojamojo Turto Fondas, AB has entered into an agreement at a market price with Inreal Valdymas, UAB for the company's asset management and administration services. Under this agreement, Inreal Valdymas, UAB, as an administrator of the property, is committed to increase companies' value and maintain high quality of service for buildings' tenants and employees. In case of change in administrative prices in the market, new contracts under less favorable conditions can be created with administrator, which may directly influence company's costs' increase.

#### *Dependence on tenants*

If subsidiaries of public joint-stock company INV L Baltic Real Estate fail to achieve expected revenue from the rental of buildings or maintain high employment rate, they may be faced with permanent non-reimbursable cost problem of tenants. This risk may appear due to dramatic increase in rented accommodation supply and a drop in

demand, the fall in rents. Failing to lease space under expected price/volume or after current tenants terminate their leases, could cause corporate earnings to be reduced without a change in fixed costs. Accordingly, their profits will also fall.

#### *Sub-lease agreement risk*

In 2007, Invaldos Nekilnojamojo Turto Fondas, AB has sold 5 real estate properties and entered into the lease agreement with the buyer, under which they agreed to sub-lease the property until 2017 October. Currently, the company is incurring about LTL 100 000 loss per month due to sublease. This amount varies depending on the income from the sub-lease, property maintenance costs incurred and the rent paid.

#### *Large shareholders risk*

Three public joint-stock company's INVL Baltic Real Estate shareholders together with related parties at the start of the company's activity will hold more than 60% of shares and their voting will influence the election of the Members of the Board of company, essential decisions regarding the management, operations and financial position of the public joint-stock company INVL Baltic Real Estate. There is no guarantee that the major shareholders' decisions will always coincide with the opinion and interest of the minority shareholders. Large shareholders have the right to block the proposed solutions of other shareholders.

#### *The Split-Off from the public joint-stock company Invalda LT risk*

The public joint-stock company INVL Baltic Real Estate established in the process of Split-Off of the public joint-stock company Invalda LT and took over 30.9 percent of assets, equity and liabilities of the public joint-stock company Invalda LT. If certain public joint-stock company's Invalda LT obligations will not be distributed to all companies operating after the separation, then all post-split-off-based companies will be jointly liable for it. Each of the companies' responsibility will be limited by the size of equity, attributable under the Split-Off conditions.

When any obligation of the public joint-stock company Invalda LT under the terms of the split-off will be assigned to one of the companies', established after the split-off, that company will be liable to answer the obligation. If this company does not meet the whole or part of the obligation, and there is no additional guarantee provided to creditors under the Company Law, all post-split-off companies will be jointly liable for that obligation (or part of it). Each of the companies' responsibility will be limited by the size of equity, attributable under the Split-Off conditions.

### **Market-related risks**

#### *Market risk*

Shareholders of public joint-stock company INVL Baltic Real Estate bear the risk of incurring losses due to adverse changes in the market price of the shares. The stock price drop may be caused by negative changes in company's assets value and profitability, general stock market trends in the region and the world. Trading in shares of the public joint-stock company INVL Baltic Real Estate may depend on the broker and analyst comments and published independent analyses of the company and its activities. The unfavorable analysts' outlook of the shares of public joint-stock company INVL Baltic Real Estate may adversely affect the market price of the shares. Non-professional investors assessing the shares are advised to seek the assistance of intermediaries of public trading or other experts in this field.

#### *Liquidity risk*

If demand for shares decreases or they are unlisted from the stock exchange, investors will face the problem of realization of shares. If financial situation of public joint-stock company INVL Baltic Real Estate deteriorates, the demand for company's shares may drop, which will lead to fall in share price.

*Dividend payment risk*

Dividend payment to shareholders of public joint-stock company INV L Baltic Real Estate is not guaranteed and will depend on the company's profitability, investment plans and the overall financial situation.

*Tax and legal risk*

Changes in the equity-related legislation or state tax policy can change attractiveness of shares of the public joint-stock company INV L Baltic Real Estate. This may reduce the liquidity of the shares of the company and/or price.

*Inflation risk*

When inflation increases, the risk, that the stock price change may not offset the current rate of inflation, appears. In this case, the real returns from capital gain on market shares for traders may be less than expected.

*The initial stock price risk*

Shares of joint-stock company INV L Baltic Real Estate, prior to inclusion in the stock market, have not been publicly traded. As a result, their stock price, having added them to the trading list, will be determined on the basis of the purchase and sale orders, which may depend on subjective factors, such as the market and the economic situation, performance evaluation of the public joint-stock company INV L Baltic Real Estate, the interest of investors. As a result, the initial share price may not reflect accurately the true value and have high fluctuations.

*The legal status change risk*

Public joint-stock company INV L Baltic Real Estate intends to have closed-end investment company license, issued by the Bank of Lithuania. This will lead to changes in the protection of the company's shareholders' and certain operating restrictions. Closed-end investment company shareholders are under no obligation to publish an official tender offer and the mandatory repurchase of shares; the company has a limited duration and is a subject to certain diversification requirements. Becoming a closed-end investment company will influence only certain restrictions on the activities and supervision, which may increase the company's operating costs.

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