AS Pro Kapital Grupp

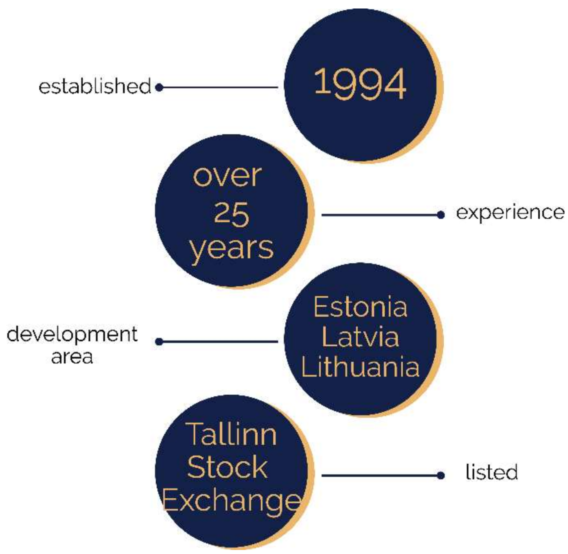
CONSOLIDATED ANNUAL REPORT 2020

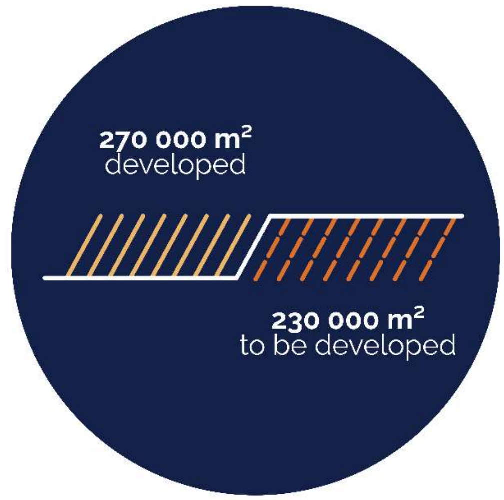
PROKAPITAL

Beginning of the financial year	1 January 2020
End of the financial year	31 December 2020
Company name	AS Pro Kapital Grupp
Registration number	10278802
Address	Sõjakooli 11 11316 Tallinn, Estonia
Phone	+372 614 4920
E-mail	prokapital@prokapital.ee
Web site	www.prokapital.com
Fields of business activity	Activities of holding companies Purchase and sales of real estate Rent and operation of real estate Management of real estate Hotel operations
Auditor	AS Deloitte Audit Eesti

Table of contents

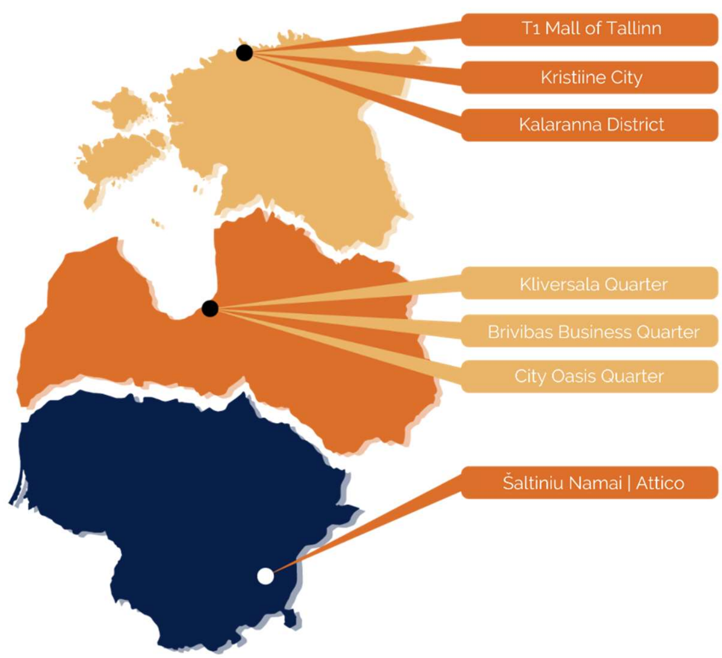
About the Company





AS Pro Kapital Grupp is one of the oldest and leading real estate development companies in the Baltic States. As we develop large residential and commercial districts, we have a significant impact on the formation of the image of a city, development and welfare of local communities and the surrounding environment. Strategically sustainable and forward-looking style of management puts quality and responsibility into the focus of our business activities. That is the reason why we are closely related to all the developments from start to finish – this is the only way how we can create extraordinary living environments where people feel good.

We are a real estate development company in the Baltic States which has simultaneously under management, development or projecting 6 long-term and large-scale projects in the best locations in Tallinn, Riga and Vilnius.



In Tallinn:

- Kristiine City residential area is being developed in stages and will considerably increase the value of the entire region.
- Development of Kalaranna residential and commercial premises, which is located at the border of the sea and the old town, will turn this district into a unique and exclusive environment by opening the seaside area both for the urban population as well as the visitors of the city.
- T1 Mall of Tallinn shopping and entertainment centre was opened at the end of 2018, it is located in the heart of a future transport centre.

In Riga:

- Kliversala Quarter in the heart of Riga is situated directly on the shores of the Daugava River, in the immediate vicinity of the Old Town. The first already completed luxury dwelling house in the River Breeze Residence has gained wide recognition both for its distinctive architecture as well as its first-class construction quality. Projecting works for the following phases have started.
- The new developments in the planning phase include the business district on Brivibas Street (Brivibas Business Quarter) and the residential area on Tallinas Street (City Oasis) will give a distinctive look and atmosphere to the historic districts by creating a totally new user culture and value for the surrounding areas.

In Vilnius, a unique and distinctive residential area development is bordering the historic Old Town. The historic area which has been known to people as a factory area has been turned into an exclusive residential area. First phase of Šaltinių Namai and the second phase Šaltinių Namai | Attico have been completed. The final stage is being planned. This is one of the most valued living environments in Vilnius.

In addition to the development activities in the Baltic States, we own and operate a hotel in a small German resort town Bad Kreuznach, close to Frankfurt.

On 23 November 2012 AS Pro Kapital Grupp shares started trading on the secondary list of Tallinn's stock exchange and on 13 March 2014 on the Frankfurt's stock exchange (*Frankfurter Wertpapierbörse*) trading platform Quotation Board. Since 19 November 2018 the shares of the Company are traded in the main list of Nasdaq Tallinn.

Our vision and mission

Vision

Pro Kapital develops timelessly distinctive buildings with an impeccable quality that anticipate people's needs and expectations.

Mission

We believe the real value of real estate lies in the experiences and well-being it brings to people.
We build better living environments where people feel good.

Our values

QUALITY

Savvy customers expect the highest quality from developments in the best locations and that is exactly what we aim to offer. Every aspect of our developments is well thought through down to the smallest detail.

CUSTOMER RELATIONSHIP

Quality of the product and service is of the utmost importance to us when building a relationship with our customers. We do our very best so that the customers could be certain of what they are investing into.

CHOICE

We develop for the people. People have needs, expectations, hopes and dreams. The environment where people live and spend their time should be filled with joy, excitement and satisfaction. We aspire to make people feel good and do our best so that they can live their lives to the fullest.

COHERENCE

With growing urbanisation, people expect coherence and comfort. People's time, needs and expectations are at the very centre of our developments. That is why we consider it important to create opportunities for interpersonal communication, well-being and connections to services that look further well-functioning infrastructure.

Results for 2020

Key financials

Consolidated Statement of Income

in thousands of euros	2020	2019 (Restated)	2019	*Change (Restated)*
Revenue	19 234	55 276	55 276	*-65%*
Gross profit	6 775	15 809	15 809	*-57%*
EBITDA	-42 692	-17 023	-14 779	*-151%*
Operating result	-43 108	-17 439	-15 178	*-147%*
EBT	-59 102	-31 454	-29 193	*-88%*
Net result	-59 456	-31 433	-29 172	*-89%*
Net result for shareholders	-55 678	-29 078	-26 981	*-91%*
Gross profit margin	35.2%	28.6%	28.6%	
EBITDA margin	-222.0%	-30.8%	-26.7%	
Operating margin	-224.1%	-31.5%	-27.5%	
EBT margin	-307.3%	-56.9%	-52.8%	
Net margin	-309.1%	-56.9%	-52.8%	
Net margin to shareholders	-289.5%	-52.6%	-48.8%	
Earnings per share (EPS)	-0.98	-0.51	-0.48	
Share closing price (Nasdaq Tallinn)	0.70	1.39	1.39	
P/E ratio	-0.71	-2.71	-2.92	

The total revenue of the Company for 2020 was 19.2 million euros, which is a decrease by 36.0 million euros (65%) in 2020 comparing to previous period (2019: 55.3 million euros). The real estate sales revenues are recorded at the moment of handing over the premises to the buyer. Therefore, the revenues from sales of real estate depend on the completion of the residential developments. The real estate sales revenue was higher in 2019 due to completion of apartment buildings in Kristina Houses and Šaltinių Namai projects. In 2020, the Company concentrated on sales of completed developments - River Breeze Residence in Riga and Šaltinių Namai | Attico development in Vilnius. Gross profit margin of the Company increased by 6.6% (variance of 23.2%) due to higher profit margin in the real estate segment – completed projects have different profitability, which is related to the product type. However, Gross profit of 6.8 million euros decreased by 57% in 2020. The main reason is decrease in sale of residential real estate and rental income from T1 Mall of Tallinn.

Although the main operations of the company have generated profit, the operating result is negative as it includes loss from revaluation of investment properties. The total impact from revaluation is 43.1 million euros (2019: 24.2 and in the restated amount 26.5 million euros), most of it related to devaluation of T1 property due to lower results comparing to initial expectations. If revaluation effect is excluded, the operating result has decreased by 99.8% resulting in 0 million euros profit comparing to 9.1 million euros profit in 2019. Total operating expenses (excluding revaluation effect) were 6.7 million euros in 2020 (2019: 6.8 million euros). Marketing expenses decreased by 15% and administration expenses decreased by 0.5% comparing to 2019.

Consolidated Statement of Financial Position

in thousands of euros	31.12.2020	31.12.2019 (Restated)	31.12.2019
Total Assets	179 048	208 560	210 821
Current Assets	69 542	53 122	53 122
Non-Current Assets	109 506	155 438	157 699
Total Liabilities	169 477	139 255	139 255
Current Liabilities	138 575	125 896	125 896
Non-Current Liabilities	30 902	13 359	13 359
Equity	9 571	69 305	71 566

Current assets have increased due to the ongoing construction works of Kristiine City and Kalaranna District in Tallinn, non-current assets are mostly affected by the devaluation of T1 Mall of Tallinn shopping centre in Estonia. Total liabilities have increased due to changes in customer advances and current payables as many real estate developments will be completed in 2021, also due to financing of development activities.

Consolidated Statement of cash flows

in thousands of euros	2020	2019
Cash flows from operating activities	-7 656	20 413
Cash flows from investing activities	-980	-4 145
Cash flows from financing activities	7 413	-12 692
Net change in cash and cash equivalents	**-1 223**	**3 576**

In 2020, the Company's net cash outflow was 1.2 million euros (2019: generated 3.6 million euros). Cash used in operating activities was 7.7 million euros (2019: generated by operations 20.4 million euros). Cash used in investing activities was 1.0 million euros (2019: used in 4.1 million euros). Financing activities generated cash in the amount of 7.4 million euros (2019: used 12.7 million euros). The Company paid for non-convertible bonds in amount of 28.0 million euros (27.9 million euros for secured bonds and 0.1 euors for unsecured bonds) and raised 28.5 million euros by issuing new secured non-convertible bonds. Loans were raised in amount of 14.4 million euros, repaid in amount of 1.4 million euros and 6.0 million euros interest payments were made during the period.

Financial Ratios

	31.12.2020	31.12.2019 (Restated)	31.12.2019
Equity ratio	5.3%	33.2%	33.9%
Debt to equity ratio	1 415.5%	175.5%	170.0%
Net debt to capital	92.9%	61.6%	60.8%
Debt to EBITDA ratio	-3.2	-7.1	-8.2
Current Ratio	0.5	0.4	0.4
Return to assets	-30.7%	-13.9%	-12.8%
Return to equity	-141.2%	-34.2%	-31.3%

Formulas used for calculating financial ratios

Gross profit margin, %	Gross profit/revenue*100
EBITDA, %	EBITDA/revenue*100
Operating margin, %	Operating result/revenue*100
EBT, %	EBT/revenue*100
Net margin, %	Net result/revenue*100
Net margin to shareholders, %	Net result for shareholders/revenue *100
Earnings per share (EPS)	Net result/average number of shares
P/E ratio	Share closing price/EPS
Equity ratio, %	Equity/total assets*100
Debt to equity ratio, %	Interest bearing liabilities/equity *100
Net debt to capital, %	(Interest bearing liabilities - cash and cash equivalents)/ (interest bearing liabilities - cash and cash equivalents + equity) *100
Debt to EBITDA ratio	Interest bearing liabilities/EBITDA
Current ratio	Current assets/current liabilities
Return on assets, %	Net result /average total assets*100
Return on equity, %	Net result for shareholders/average equity*100

Main events in 2020

We started new projects in early 2020, first of which is a truly unique sea-side residential quarter right at the heart of Tallinn – Kalaranna District. This area will be completed in 2 construction phases with 12 houses, a city square, Kalaranna park, underground parking and renewed beach area. We started the construction of the first phase comprising of 8 buildings in January 2020 and plan to complete it in spring 2022. However, in summer 2021 Kalaranna District will welcome people with park area and renewed beach area. To date 85% of the apartments of the first construction phase have been sold or presold and nearly 50% of the second phase with 4 buildings is prebooked.

In early 2020, we started the construction of Ratsuri Houses development project - one-of-a-kind combination of historical character and modern architecture. During the construction, the stable building from the beginning of 20th century, which is under heritage protection was reconstructed and a new New-Dutch style building was built to accompany it. Ratsuri Houses has a total of 39 diverse homes – 17 in the former stable building and 22 in the new building. The stable house welcomes with its thick stone walls, historical limestone and red brick. Ratsuri Houses is a unique project in the Company’s history as it was sold out before the end of construction. Ratsuri Houses was completed in March 2021.

Next development Project in Kristiine City is called Kindrali Houses, for which a building permit was issued in September 2020. Three apartment buildings will be completed in two phases with the first two houses expected to be handed over in summer 2022.

We are also developing a residential quarter with a historical and unique location in Riga – Kliversala Quarter. The first building, River Breeze Residence is known for its unique appearance and impeccable quality and has received numerous architecture and construction awards. The sales of River Breeze Residence are ongoing. In 2020, we received a building permit with the technical requirements for the next phase of Kliversala Quarter, which will be an integral area that binds together the feeling of a metropolitan, modern architecture and well considered living environment.

In Vilnius, five residential buildings of Šaltinių Namai | Attico development project were completed with ca 100 new apartments in 2019. 2020 proved to be highly successful in the sales of the apartments, becoming one of the two most valued premium real estate projects in Vilnius. We are currently preparing for the following construction phase with city villas and commercial building.

T1 Mall of Tallinn, a shopping and entertainment centre started operations in November 2018. T1’s concept is offering a more dynamic way of spending time with a number of top-class leisure opportunities. However, the first full year of operations fell short of initial expectations. Due to the challenges of a changing retail market, the start of the operations in full capacity was slower than anticipated. In spring 2020 the operator of the T1 Mall of Tallinn filed for the reorganisation. Proceedings were ended in April 2021 and bankruptcy was declared on 2 June 2021 (Note 31).

Chairman's summary

2020 was a challenging year having a significant impact on behaviour and change of habits of people. While this year turned out to be extremely difficult in many areas, including hotel operations and rental activities, an impact on real estate development so far has been completely different. People have become more conscious about their home environment. Remote or hybrid working and studying have raised new expectations, which among other factors have led to increased demand for residential real-estate.

The highlights of 2020 were:

- refinancing of secured bonds by issuing new bonds with the total value of 28.5 million euros in February and listing of the bonds in July on Nasdaq Stockholm;
- refinancing of majority of PKG1-PKG7 convertible bonds in exchange for new non-convertible unsecured bonds with the total value of 8.7 million euros;
- construction of Kalaranna District and Ratsuri Houses in Tallinn.

Real estate development

We have been actively developing Ratsuri Houses and Kalaranna projects and preparing project documentation for the following development phases in Tallinn. We did not complete any new projects during the year and were selling only remaining inventories. However, we have seen a remarkable interest for our projects and presales have exceeded our expectations. For example, in Ratsuri Houses we had booked or presold all 39 apartments prior to the completion. In the new project, which we started this year, Kindrali Houses, we had booked and presold more than half of the apartments before signing the construction agreement. This spring we completed Ratsuri Houses and in the beginning of summer start handing over apartments in Kalaranna project, where completion of eight buildings with the total of 240 apartments will be achieved in four stages. Today we have reservations or presales concluded for 85% of apartments. This year we have started with construction of Kindrali Houses project, where two building complexes with 129 apartments will be raised by next summer. Today 90% of the apartments have been booked or presold.

In Riga we are selling our luxury product River Breeze Residence and prepare for the further development of Kliversala Residential Quarter. We have received a building permit for City Oasis residential quarter with 326 apartments – a tranquil and green living environment in the city centre. We will be ready to proceed with construction activities as soon as the market situation becomes more favourable. Unfortunately, the Latvian real-estate market has not been as active as its neighbouring countries Estonia and Lithuania. That situation has remained relatively similar within recent years and is heavily influenced by inflexible conditions of the banks towards their customers.

In 2019 we completed five buildings in Šaltiniu Namai | Attico project in Vilnius with 115 apartments. Real estate sales of the Company in 2020 have been mostly driven by Lithuanian market. Today we have only 5 apartments unsold. We are preparing for the start of the following phase with city villas and commercial building.

Our revenues from the sales of the real estate depend on the completion of the residential developments as the revenues are recorded at the moment notary deeds of sale are concluded. We did not complete any buildings last year and were selling only remaining inventory, therefor we did not generate significant revenues in 2020.

T1 Mall of Tallinn

On 3 April 2020 Harju County Court initiated reorganization proceedings of its subsidiary AS Tallinna Moekombinaat (TMK). The purpose of reorganisation proceedings was to ensure continuation of normal daily business by safeguarding the rights and interests of investors, employees, creditors and all cooperation partners. With its 14 August 2020 ruling the County Court terminated reorganization proceedings because it had established that TMK is allegedly permanently insolvent. TMK contested the ruling and three creditors of the subsidiary also filed an appeal to the District Court. After the reporting period, on 29 January 2021 Tallinn District Court decided not to satisfy the appeals and TMK filed an appeal to the Supreme Court of Estonia on 15 February 2021. On 26 April 2021 the Supreme Court decided not to take TMK's appeal into proceedings and Harju County Court ruling terminating reorganisation proceedings came into force. Without reorganisation proceedings TMK is not capable of fulfilling its obligations and has become permanently insolvent. Bankruptcy of TMK was declared and bankruptcy trustees were appointed on 2 June 2021. TMK is consolidated into the Group until 2 June 2021. AS Pro Kapital Eesti has written off an investment into subsidiary in amount of 13.4 million euros and also receivables in the total amount of 26 million euros as at 31 December 2020. Discontinuing consolidation will have a positive effect to the Group. Reorganisation and bankruptcy proceedings have involved and involve only TMK and do not influence directly any other group company of AS Pro Kapital Grupp. No group company has secured nor guaranteed liabilities of TMK. Bankruptcy of TMK does not affect liquidity of the Group nor short-term cash flows. Long-term cash flows are influenced by uncollectable receivables to the Group. For detailed information see Note 31.

Hotel operations segment

Last year had a significant impact on PK Parkhotel Kurhaus in Bad Kreuznach, Germany. Due to the COVID-19 restrictions, the hotel was closed from March until the end of June 2020 and due to new restrictions hotel is not operating since last November and is expected to reopen from 11 June 2021. The impact of COVID-19 has been 2.2 million euros in less hotel revenues and ca 0.6 million lower net result in 2020 comparing to last year. PK Parkhotel Kurhaus operating company received a long-term government support loan in amount of 500 000 euros on favourable terms and non-refundable grants in total amount of 134 thousand euros. The funds received have helped to support the period of uncertainty. Hotel has not laid off any employees, hotel receives state support also for salary payments. We are adjusting plans according to the changes in the situation and restrictions imposed by the German Government.

2020 has presented unexpected challenges for everyone and will most likely continue to do so. We make our long-term decisions consciously and conservatively. Certainly, every negative thing is accompanied by new prospects and expectations. Consumption and behavioural habits are changing and this as rather an opportunity to adapt and offer something new and valuable. Our primary focus is currently set on ongoing and upcoming projects, sales of available inventory and contributing to re-establishing and maintaining normal activities in hotel operations. In spite of losing control in T1 Mall of Tallinn, we believe 2021 to be an extraordinary year, where we complete Ratsuri Houses and the major part of Kalaranna District. Our expected results should be seen in the financials of the second half of the year. We continue development of Kindrali Houses and plan to start new projects also in Riga and Vilnius.

Paolo Michelozzi
CEO
AS Pro Kapital Grupp
11 June 2021

Management and sustainability report for 2020

Management

AS Pro Kapital Grupp is one of the leading real estate development companies in the Baltic States, being the only one of its kind – a development company with over 25 years of experience in the Baltic States. Our shares are listed in the main list of the Nasdaq Tallinn Stock Exchange and we are the only Estonian company that offers an opportunity to trade with our shares on the Frankfurt Stock Exchange. Our operations are characterised by a long-term view and therefore we want to ensure that we have an impeccable reputation as a responsibly managed company. As a large developer, we feel our responsibility to various stakeholders, thus we want to ensure the credibility of both the Company as well as the entire sector, regardless of any changes in the economic environment. We manage our sizeable developments portfolio in a strategically sustainable and forward-looking manner which helped us to successfully overcome the global economic crisis more than 10 years ago and enables us to overcome any turbulence also the future.

Our management principles are based on three pillars:

- We bear long-term responsibility to both our customers as well as to entire communities, therefore we do more than is required and expected of us by ensuring quality and timelessly unique design over the years.
- As a publicly traded company, we strive to ensure relevant and timely sharing of information to all our stakeholders in an honest and transparent manner.
- We are a real estate company that is simultaneously running six major projects. Therefor we understand that by developing entire residential areas we shape the future-oriented environment, behavioural patterns and we have a direct impact on the well-being of the people.

We believe that credibility is achieved in particular by means of our transparent manner of management which in turn is based on long-term values and our ability to understand and manage, in a structured way, the impact of our activities in the various aspects thereof. Honest, ethical and transparent management also means that we follow all the laws and regulations in force on all our domestic markets, and as a publicly traded company even the requirements of Nasdaq Tallinn Stock Exchange and the Corporate Governance Recommendations (CGR). We do not tolerate corrupt behaviour, bribes or unfair competition. We take possible unethical situations very seriously.

In 2020, the Group was not levied any fines or non-pecuniary punishments for essential violations of laws or regulations.

Our principle is to disclose in the reporting any pending litigations which may have a significant economic impact on the Company and its share price. According to this principle, all litigations which economic impact (either one-off or during the period of one financial year) is at least 100 000 euros are disclosed in the reporting.

As at 31 December 2020, AS Pro Kapital Eesti had two interlinked administrative court cases in progress. In the first court case, the company is requesting nullification of a decision of the Land Board whereby a cadastral unit located at Kalasadama 3, Tallinn, with 100% purpose of land under water bodies was not registered. On 24 March 2021, the Supreme Court issued its judgment, upholding Land Board's view and denying AS Pro Kapital Eesti's claim. The Supreme Court concluded that AS Pro Kapital Eesti has never been the owner of the water cadastral unit. This case is now terminated and AS Pro Kapital Eesti can only pursue compensation from the state for illegal allocation of water land that should never have been owned by the company.

The second court case is a claim of compensation against the state in relation to the same cadastral unit – court proceedings were halted until 23 March 2021 when a final court decision took effect in the first court case. Since the Supreme Court in the preceding case has decided in favour of the Land Board, then AS Pro Kapital Eesti has unjustly paid a portion of the purchase price and land tax from this cadastral unit. The company is claiming from the state compensation of 192 338 euros of land tax paid in excess, as well as that the state compensate 681 816 euros of the purchase price overpaid by the company, the claim for compensation amounting to 874 152 euros in total in the principal sum plus 1 176 261.55 euros of interest in arrears. The court has ordered Land Board to reply to the company's revised complaint by 3 June 2021. On 3 June 2021 the Land Board has replied to the company's revised complaint, denying any liability in the company's compensation claim. Now the court will have to decide whether the compensation claim has been brought in a timely manner or whether there are reasons to reinstate the claim submission deadline.

For more detailed information about the lawsuits, please see Note 33.

Our management and operations are independent. The companies and the key personnel of the Group did not support activities of any political organizations in 2020.

The governance of the Group is based on trust and reliability in all its operations. We encourage, support and trust our employees to act independently and be guided in their decisions by the values of the Group. Most of key personnel of the Group has worked for the Company over 10 years and we highly appreciate their contribution. Our team is small therefore our operations are highly visible, both internally and externally. That is why we also emphasize the responsibility involved in the governance and we do not tolerate any abuse thereof. We work with several developments at a time in all the capital cities of the Baltic States and a number of people from different departments are involved in each project. The choice of constructors, suppliers and subcontractors is made in cooperation within the team and taking into account the best long-term practices, long-term experience, whereas the ability of any third parties to ensure a quality service, the reputation and practices thereof shall be given equal attention. In our opinion, such organisation of work excludes any conflicts of interest in practice. The Management Board is the connecting link between the offices in different states, various entities and the Supervisory Board. Any financial, strategic and other substantial issues are discussed with the Management Board and the Executive Manager, the most important decisions in the Supervisory Board. We are also working more and more in the direction which allows us to ensure comprehensive internal communications across the entire Group.

In 2020, we continued developing the management principles of the Group. In addition to the communication with the investor community, we are consciously and systematically implementing Group communication and marketing which would ensure visibility and involvement of different stakeholders, channels and topics. Our goal is to improve the visibility of the Company and be transparent and open in our operations in a manner which would support both our own reliability as well as that of the entire sector. The most important for us is the two-way communication with both the employees as well as any external stakeholders, be it our customers, subcontractors or partners. We believe that a continuous dialogue allows us to do our work in the best way and shape the living environments which would exceed the people's expectations as to their quality, timeless design and well-considered solutions.

One of the most important aims of open and transparent management and active communication is to increase the investors' interest. This in turn will support our long-term development and growth.

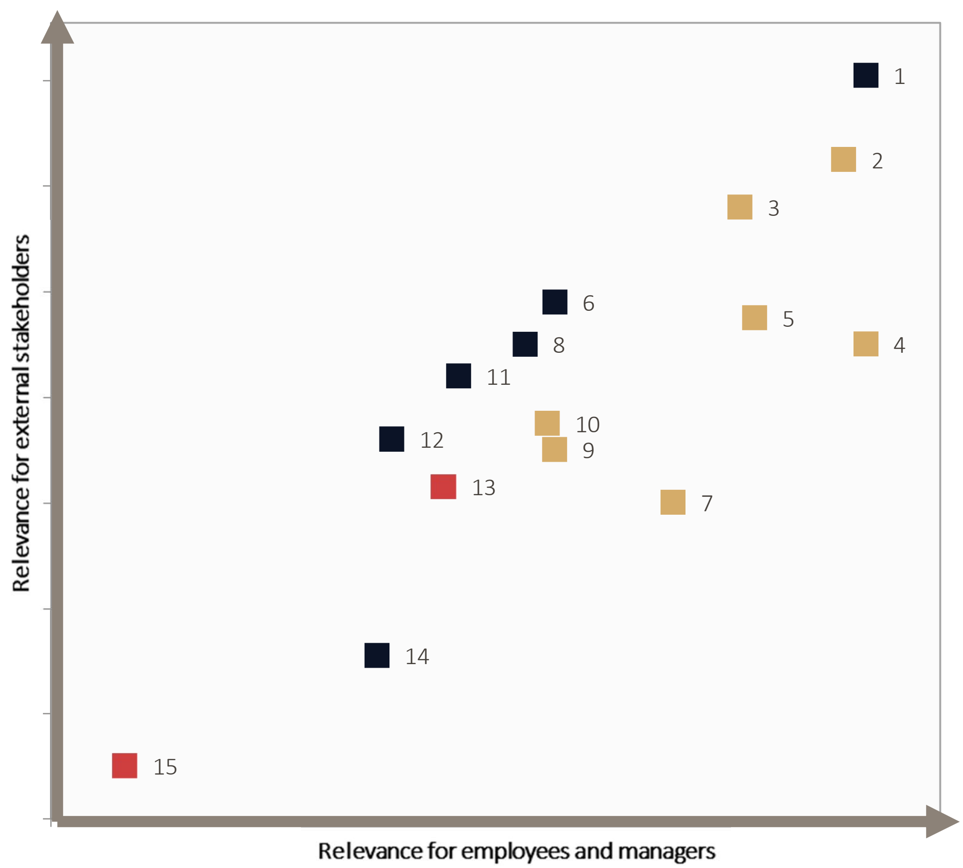
Our impact and responsibility in society

Our business is not just about the development – we create new living environments and thereby have a significant impact on the life quality of people, the social development and the economic environment. This impact is not only versatile but also long-term, therefore we recognise this responsibility and are extremely serious about it. Therefore, we take different aspects of the impact into consideration in our operations and we do more than is expected of us or required by regulations. We have to ensure high quality and safety in our operations but at the same time we have to take into consideration the impact of the development activities on the environment and find reasonable and sustainable solutions.

Our most important impact and liability arise from our business strategy aimed at developing large integrated districts. We design unique quarters and living environments together with infrastructure and public spaces in the areas which were historically industrial areas or which were unused. The environments created in premium locations in all the three capital cities of the Baltic States are attractive both for our customers as well as the surrounding areas as we increase the value of the entire area with our development activities. This allows us to stay ahead of the market trends and shape them in a positive manner.

At the end of 2018 we analysed the expectations and vision of our stakeholders and experts as regards our broader role and responsibilities in the society. We interviewed our customers, subcontractors, partners, representatives of local communities and local governments, financiers, regulators, construction and sustainability experts and discussed these issues with them. We got the confirmation that we are expected to provide responsible real estate development and customer communication, be honest and open in our daily work and ensure a pleasant working environment. Substantial and diverse feedback is a very important input to construe and constructively analyse our role in the society in order to plan and focus our operations in more conscious manner. We spotlighted these topics for us inside the Group. We would like to be more specific in the management of our social responsibility – to continue to develop important aspects, set specific targets and performance indicators which would demonstrate and confirm development besides describing the principles.

The following matrix visualizes the mapping of the focus areas of interest groups and our own employees.



1. Quality, safe and healthy buildings
2. Fair and ethical management
3. Fair marketing and communication
4. Healthy, safe and proper workplace
5. Customer relationship and experience
6. Resource efficiency and environmentally friendly choices
7. Motivating, developing, diverse and attractive workplace
8. Easy and environmentally friendly access to buildings
9. Open and engaging relations with stakeholders
10. Sustainable supply chain
11. Waste management
12. External impact of construction and operations
13. Contribution to the development of real estate sector
14. Environmental certificates
15. Sponsorship and volunteering

We bear significant responsibility for implementation of major projects both in construction operation as well as the ideology from which we proceed. An integral part of this responsibility involves courage to make forward-looking decisions based on global trends, ability to find a balance between the high expectations and the opportunities, and ability to be involved in the development in each aspect thereof, thereby ensuring first-class quality. We are aware of the impact of our operation on these areas that we develop. We take the local customs, architecture and aesthetics into consideration in each project. Designing of integral infrastructure is equally important, taking into account the natural environment and even the trend towards ever greener and healthier lifestyle.

We meet several of the above requirements already today but we see an opportunity to achieve much more in environmental aspects, for example. Today we implement environmentally friendly and resource-efficient solutions in a reasonable manner and in fair proportions to the expectations and needs of the market. Undoubtedly, changes in the consumer behaviour, the increasing energy efficiency expectations and the rapidly changing environment create preconditions for arranging our future activities somewhat differently than today.

We have not included our German hotel into the analysis described above, as hotel operations is not our core business. In spite of that, the principles of social corporate responsibility are implemented also in Germany.

Responsible real estate development

We develop integral living environments in areas with significant relevance to the urban city development and on people's quality of life. That is why the sense of responsibility is deeply rooted in our mindset and we take pride in forward-looking way of thinking. Through years, we've proven to remain ahead of the market trends and focus on long-term value we create for wider communities. Responsible real estate development means that our work has an impact on people's expectations of the environment in which they live, work and spend their time. Our intention is that positive effect is provided and stays long-lasting.

Simultaneous development of several major projects is also unique at this market. We believe that our work creates long-time value and also demonstrates our strong position in the Baltic States. We develop large integrated residential quarters, thereby increasing the value of entire areas through well throughout infrastructure and landscape supporting the sense of community of people and their expectations to the quality of life.

We consider the development of integral districts as our responsibility and opportunity to contribute to the values of wider surroundings and even to the improvement of the quality of life of people.

Kristiine City is much more than a collection of apartment buildings, it is somewhat expanding the concept of downtown. Kristiine City is a distinctive and integrated living environment – "a city in a city", while being an organic part of urban space.

We believe that real property is much more than just a physical space. Being residential or commercial real property, it should create emotions. Home is probably one of the most important investments in one's life. Home is the environment which creates a sense of warmth and security. Shopping centres are not just for purchasing everyday goods, their role is to bring also the sense of joy and satisfaction.

River Breeze Residence, located right at the heart of Riga, is the first residential building of Kliversala Quarter. River Breeze Residence is well-known and recognized for its outstanding quality and unique architecture. In 2018, the building won "The most sustainable development project of 2018" award. In 2019, this exclusive apartment building placed 3rd as "The Best New residential building", 2nd in the nomination for the "Best Newly Constructed Residential Building in Latvia" and won the most prestigious award at the end of 2019 – "Riga Architectural Award 2019". Recently it was nominated for the 2022 EU Prize for Contemporary Architecture - Mies van der Rohe Award, which is a significant recognition for the contribution of quality architecture to sustainable development and citizens' well-being.

We are aware of the impact of our operations on the areas that we develop. We take the local customs, architecture and aesthetics into consideration in each project.

It is clear that the construction activities have an impact on the daily lives of neighbourhood residents. If possible, we plan the sequence of the development phases of residential real estate in such a way that the construction activities would not disturb the residents of existing buildings. We also expect our partners and subcontractors to comply with all the property maintenance rules and practices in order to minimize the disturbing of the neighbours. We did not receive any substantiated complaints about any disturbing factors from the neighbourhood residents in 2020 in connection with the constructions works or operation of the buildings.

Kalaranna District is located right of the seaside of Tallinn central city. Thus, we will do our best to ensure the safety of the area during the construction. Currently, the access to the sea is closed and surrounded with fences. The renewed beach and harbour area will be opened in summer 2021 along with the park area and first completed buildings of the first construction phase.

All commercial and residential real estate buildings completed in recent years or managed by us have convenient access by public transport (at a distance of 500 m) and there are parking spaces for bicycles near each building. All of the completed apartment buildings can be accessed by people with disabilities.

Quality

Our vision is to develop timelessly unique buildings of impeccable construction quality which antedate the expectations, needs and desires of people. This vision reflects our long-term experience and proactive business strategy. We believe that quality is the core of creating long-term values throughout our business. In particular quality is our responsibility to the clients for whom a real estate investment is an important step and decision influencing them for years. We want to be known and appreciated namely for the quality even in ten and twenty years. This includes more than just the building materials and trendy design. Quality begins with understanding the market needs and the ability to move ahead of the trends and anticipate these needs. The quality is reflected in the details starting from the fact that we know our customers and their actual user experience both in the living quarters as well as in the neighbourhood. This means well-weighed space planning and services, intelligently solved communication and ventilation systems, smart and practical landscape architecture and infrastructure which in turn fits into the timeless and high-quality design and interior decoration.

Our developments are born in collaboration with architects of repute in order to associate unique exterior and interior of the buildings with practicality through their experience and vision. We also appreciate the ability of experienced and reputable architectural firms to manage the design work until the issue of the building permit within a reasonable time period. We actively cooperate with architects during the design work stage and analyse in detail the best alternative uses of each square metre.

We are very demanding in our selection of the builder in order to ensure high construction quality. Also, in case of specific works, we cooperate with the best specialists in the field. We only invite reliable and ethical companies to participate in tender and besides the price, the final choice will be based on the prior experience and ability to flawlessly carry out technically complex projects. The task of main contractors is to involve a suitable network of subcontractors.

In addition to strong partners, we also ensure our high construction quality by use of carefully selected building and interior decoration materials. The materials have to be durable, timeless and aesthetic, both inside and outside the buildings.

We analyse and wisely prepare the plans for electricity, lighting, heating and ventilation solutions and other automated technological systems which comply with actual utilisation needs and ensure efficiency. By proper maintenance, we ensure a longer service life of the buildings, which we manage ourselves.

Quality means to sense the needs of the market, intelligent design work, knowledgeable construction work in compliance with requirements and even management of the buildings in a manner which allows to offer comprehensive and positive customer experience. A well-considered, wisely planned and carefully conducted development process ensures durability of our buildings over time and reduces the need for repairs and necessity to spend additional resources. Thus, the long-term service life and timeless appearance of the buildings is our biggest contribution to environmental protection.

Preservation of environment

People are more and more aware of preservation of environment and their expectations on sustainable solutions increase together with this. Both, private and business customers tend to appreciate natural materials and energy efficiency more and more. People want their living and operating environment to be green, intelligently planned allowing movement and active lifestyle.

Our operations upon meeting the environmental requirements comply with the regulations but environmentally friendly solutions are not yet at the core of the activities. There is a number of reasons for that and the most important one is there is a price and quality ratio of home or commercial spaces to be met. Our operations are focused on customers and their needs and expectations therefore we actively try to find the best and environmentally friendly solutions in a balanced way. However, it is very important for us to know the expectations with regard to environmentally conscious choices as the capability to appropriately address the environmental issues may significantly contribute to our competitiveness in the near future.

The principle on which our work is based is to avoid damage to the nature or excessive burdening thereof. We comply with all statutory environmental requirements both during the design and construction work as well as during subsequent operations. We refrain from damaging the soil, wildlife and biodiversity and we avoid excessive air pollution. We avoid any unjustified use of hazardous materials and we do not use any prohibited materials. We always try to find reasonable opportunities for efficient use of energy, water and other resources during the construction works and when operating completed buildings. This also means that we consider and test renewable energy solutions. An important part of our activities also includes waste treatment for which we always create proper facilities. We ensure that completed buildings comply with the environmental standards and do not endanger the surrounding environment.

In 2020, no environmental pollution or damage to protected nature occurred in connection with the buildings constructed or commercial real estate operated by us. All apartment houses completed in 2019 – four in Tallinn and five in Vilnius - have better than usual energy performance certificates.
Šaltinių Namai | Attico is one of the first developments in Lithuanian market, certified with A++ energy class. Sustainable, long-term mindset in development is very much appreciated by the market. We didn't complete any residential developments in 2020.

Safety and health

The charm of the property does not lie only in the property itself but on what is created for people. Thus, the core value of our operations is well-being of people. Just as we want people to feel good in their homes and commercial premises or the shopping centres built by us, we also want that both, our customers as well as our employees, would get home healthy every night and that our developments would be safe for them. For this purpose, we comply with the statutory requirements and we believe that this is sufficient to ensure safety in our buildings. We do not compromise over the construction quality, thus the durability and fire safety of the structures is elementary for us. Similar to the previous years, there were no accidents in 2020 (due to our fault), as far as we know, in the apartment buildings operated or completed by us.

Proper action plans have been agreed upon for any emergencies in the shopping and entertainment centre. To ensure informed and timely operation of the employees of the centre in case of any crisis, we regularly organise trainings and give comprehensive instructions to them. Both residential as well as commercial buildings are properly equipped for emergencies. We ensure timely maintenance of the technical systems in the buildings managed by us, repair of alarm systems, and we do our utmost to hedge any other elementary risks (such as slipperiness, darkness, icicles).

During the period of construction works, construction companies ensure safety at the site. We cooperate with respectable main contractors and the general order at construction sites is good. It is important for us that people visiting the site during the period of the construction works are aware of the safety requirements and comply with these requirements. No accidents have taken place at our construction sites in 2020.

In addition to safety, a healthy environment is also very important. The factors which have an impact on how people feel themselves in our buildings include the suitable temperature and ventilated air, spaciousness, balanced lighting in combination of daylight and artificial light, avoidance of hazardous materials and noise level in public areas. In apartment houses green living environment, which gives an opportunity for movement and sports activities close to home, is important for us.

There is a sports club and tennis centre right in the centre of the Kristiine City residential area. A swimming pool and one of the biggest sports centres in the city with multiple sporting possibilities and an equestrian centre are at the distance of a few minutes' walk. There are two different health tracks for skiing, walking or cycling within the radius of a few kilometres. Although, a number of sporting activities were closed due to restrictions in 2020, the Kristiine City area offers a variety of ways to remain active in the nature. The period of restrictions certainly had an impact on people's expectations of the future living environment, and Kristiine City's diverse opportunities for outdoor activities have become even greater value than ever before.

Team

AS Pro Kapital Grupp is a company with more than 25 years of experience, thus we are one of the oldest professional real estate development companies in the Baltic States. A big part of our team has been with the Company for almost half of its lifetime or even more. We believe that this demonstrates our ability to keep our team by offering them an environment which is in constant development, encouraging and supportive. We believe that every company has the face of its people and people shape it, therefore we highly appreciate our people.

At the end of 2020, the entire Group had 84 employees comparing to 89 at the end of 2019, among them 38 employees were involved in hotel and maintenance business (40 in 2019). 48 employees worked in the Baltic States (31 in Estonia, 9 in Latvia and 8 in Lithuania). 1/4 of people engaged in the principal activity of the Group, i.e. the real estate development, in the offices of the Baltic States are male and 3/4 are female; 4 of the managers of the Group and the Baltic companies are male and 4 are female. In Baltics our employee turnover was 12%, and in 2020 we recruited 3 new employees.

Nine keywords characterize us as an employer:

Trust and independence. We believe that it is important that our employees have freedom to decide. We have regulated our daily activities as little as possible and we do not over-emphasize excessive hierarchy in management. We appreciate and value initiative, ability and willingness to work without orders, commands and excessive bureaucracy.

Humane management. Everyone counts and his or her well-being is important to the Company. Rested people who are enthusiastic and who have much more in their lives than just their work and whose lives are balanced are the people who work well. Therefore, we try to be flexible and fair in our work and we do not discriminate people. We allow our employees flexible working hours and working places provided the organization of work or specific tasks do no set limits on it.

Development opportunities. Our team is small but as our business is in constant change and development, it allows us to offer our employees interesting learning and development opportunities. We highly appreciate people who have worked for a long time in our team. We listen to them and we fully support them. We always try to find people from inside our Company to fill any vacancies. We always discuss training wishes and participation in seminars separately with each employee and we support them based on the need and wishes.

Creative work. Our job is exciting and evolving. We work with projects which are all very special. A number of them are unique in the whole Baltic region, thereby we are providing development and self-fulfilment opportunities which is almost impossible to find in other companies of this market. This brings challenges, change, excitement and ambition into our work.

Devotion to goal. We have a common goal, common interests towards which we are moving and working while supporting each other. Real results are created jointly and our people highly appreciate the opportunity to contribute to the creation of the value through the development and design of new environments.

Friendly colleagues. The team and especially people in it are important for us – we celebrate important anniversaries together and we organize joint events, both in summer and at Christmas time. In search of a new employee, we look more for a person who fits into the team, not just a professionally competent specialist.

We value good health. We strictly follow any safety requirements and we believe it is very important to preserve health of our people taking into consideration the specifics of office work. In Estonia, when people fall ill, they can stay at home for up one week to get well without losing their pay for this time. In Latvia, we have enabled voluntary health insurance for all our employees. We consistently assess occupational safety risks and our employees undergo regular health checks.

Modern working environment. We spend a major amount of our time at work, so we must feel good in our work environment. Our modern and comfortable premises in Tallinn and Vilnius are located close to our development projects. Thus, we are almost in the midst of things and this allows us to constantly keep an eye on the activities and communicate with our customers. In Riga, we moved in 2018 to a newly renovated office in the centre of Riga.

Stable employer. We are an international publicly listed company which operates in several markets – a capable, stable and open real estate developer with transparent management that even survived the economic crisis more than ten years ago. 83% of our managers (the Management Board of the parent company, our Chief Financial Officer and the Executive Managers in Latvia and Lithuania) have been members of the Pro Kapital team for over 15 years, and half of them for over 20 years.

In 2020:

- *We had no work accidents with our employees (the same in 2019);*
- *Our employees were absent from work due to medical reasons only 1.3% of the days with an average of less than two days per year (0.7% in 2019);*
- *Over 54% (52% in 2019) of our employees participated in professional training courses or seminars with an average of 8 hours per employee (10 hours per employee in 2019);*
- *We did not receive any complaints about discrimination or unfair treatment (the same in 2019).*

Our team is relatively small and most of the employees have been in our team for a long time. Therefore, human resources management forms an organic part of corporate governance. We believe it is important to preserve our humane and direct organizational culture and avoid unnecessary bureaucracy and formalism. However, we perceive that we are growing and changing, therefore we see the need to introduce a common approach to certain issues at the Group level. For instance, we should conduct employee satisfaction surveys to obtain regular feedback and assess specific trends and needs, and keeping our future in mind, pay more attention already today to the development of the employer’s brand and improvement of the image of the Company at the Group level throughout our operational area.

Customer experience

Our customers include buyers of apartments and lessees of commercial premises. In this report, we only describe the issues related to residential real estate.
The residential real estate customer profile is broad. Buyers of apartments include both students who are supported by their parents, young couples, families with small children, families looking for new homes when their families grow bigger, middle-aged people who need a more suitable home as their children have left home, elderly people who move closer to their children. Depending on the development projects, our customers include besides local residents also foreign people (for example Finnish customers in the case of Kalaranna development) and besides private individuals also companies that invest in rental property.

Buying a home is usually one of the most important and largest transactions for people. Therefore, we bear even higher responsibility to all our customers. We are closely connected to all our developments from beginning to end because this is the only way we can ensure the quality. This gives us an opportunity to be in a constant dialogue with our customers, understand their needs and expectations. High quality development activities are reflected not only in the materials and interior decorations but in every detail, well-considered space planning, landscape architecture and infrastructure. This does not mean only compliance with the requirements but also long-lasting construction quality, timeless aesthetic and practical use of materials, design and environment where it is good to live. We have proven ourselves as a reliable long-term partner to our buyers. We do find that our customers must be confident what they invest in.

Undoubtedly, buying a home is an emotional deed and the way how quality is brought to people plays a major role here. Transparency and clarity must go hand in hand with a convincing and aesthetically appealing visual language – people must be able to understand what they invest in. Therefore, marketing communication has big and effective role to play in our work, every detail and the overall picture of the product specifications and visual elements must address a specific target group. Our promises correspond to reality, our plans and views are true and we are open in our communication which allows people to get acquainted both with the interior decoration materials as well as with the plans.

We believe that the quality label of our development activities is formed during the first contact with the customer. Like any other relationship, it grows and develops over time and that is why we do not use an aggressive style of selling or pressurize people to decide. We value each individual and we comply with the privacy requirements by means of collecting and retaining contact details in a proper manner. When we cooperate with real estate agents, we require that they also adhere to the same principles. In 2020, we did not violate any requirements or principles relating to marketing ethics, consumer protection, customer privacy or data leakage.

A strong customer relationship is an integral part of our business. Each customer contact, regardless of the project, shapes our reputation and credibility and will also accompany us in the future. Customer experience and assessments of the quality of our work and service turn them into our main and maybe even the most important marketers. Pro Kapital has grown into a strong and valued brand, which is confirmed by the fact that in general we sell a significant number of apartments in a variety of projects already before the beginning of the construction works or even before the beginning of the marketing activities. A number of people who have earlier bought their homes from us purchase apartments even in our subsequent development projects.

River Breeze Residence in Riga has been the market leader in the exclusive segment from 2018 to date. Our customers truly value the combination of its quality, elegance and overall value of Kliversala Quarter. Our developments are highly valued also in Tallinn – many of the customers of our previous projects return to buy apartments in new development projects. In Ratsuri Houses project, completed in 2021, we sold all apartments before the end of construction works, in Kindrali Houses we presold or had reservations for more than 50% before start of construction, which is a trust we greatly value.

A binding principle for us is to be there for our customers even after the sales transaction. Our goal is to be in a constant dialogue with our customers which on one hand helps us to shape the living environment where people feel good, but to also solve any potential problems quickly and constructively. Therefore, we manage most of our apartment houses ourselves after they are completed. When finding maintenance partners for a house, we defend the interests of owners and help the apartment associations to make the choice. We believe that this way we help them to settle down in a smoother and more pleasant manner. Being close to users, we can identify any issues which need adjustments or changing in our future projects. Thereby we constantly improve our development sites and we ourselves grow together with them. Our uniqueness also includes the real estate agents involved in our team. We believe that this allows us to offer better quality customer service as namely the administrative departments are the connection link in the customer relations between the builder and our development team, both upon transfer of the apartments as well as during the warranty period.

We deem it very important to be a reliable partner for our customers. We believe that this way we have a coherent community and our satisfied customers remain loyal to our developments even in the future and give recommendations in their social environment. This is well illustrated by the fact that the same customers buy apartments in different stages of several development projects, or a great number of new customer relationships are created on the basis of their recommendations.

We believe that people do not buy just an apartment but make an investment in the living environment. That is why we are committed to our work as if we did it for ourselves and for our families. We analyse and consider carefully even the smallest details, we take into consideration different needs, habits and expectations in a manner which allows us to create a smart, well-considered, homely and considerate living environment. It is really important for us that people are happy in their new homes. This distinguishes us clearly and supports our growth and movement as a creator of trends towards high-quality and responsible real estate development.

We find that every relationship, including the relationship with customers are in constant evolution in time. An integral part thereof is the fact that we are open to feedback. Cooperation with commercial real estate customers has been at the background compared to our residential real estate customers, that is why we see space for development here today. Our commercial real estate customers have expressed their expectation that we would pay more attention to improving customer experience. We want customer communication to sustain our values, that is why we direct more conscious attention than hitherto to the development of our customer communication, measurement of customer satisfaction, and more systematic collection of feedback from commercial real estate customers.

Contribution to society

The biggest and the most positive contribution of AS Pro Kapital Grupp to society is the development of living environments and commercial districts based on an integrated and long-term strategy. Therefore, our business does not consist only of development – we create new districts and have a positive impact on the living environment of people. We are aware of the impact of our operation on these districts that we develop. This is why we support and participate in activities and projects which involve local community, promote youth education, improve awareness and support culture. We are pleased to share our experience and knowledge with different stakeholders, be it professional events, investment communities or the public. Although 2020 was more challenging in its nature than the previous years and having more focus on main business rather than on community activities due to restrictions, we did our best to ensure the well-being of the people in this situation. Regardless, we aim to establish specific principles in the near future and dedicate ourselves to those activities that carry our values the most. We believe that introduction of support principles gives us an opportunity to contribute to joint work in a more systematic and substantive manner by creating thereby a long-term value both for the development of the entire Group as well as for the subjects we decide to address.

Support and cooperation projects in 2020

We mostly address three main subjects in case we find that it is important to keep and improve them – improvement of living environment, supporting art, working with the youth.

A living environment is much more than just physical space. This is an environment, together with its people, their expectations, joys and sorrows. We are responsible to people, we shape their living space in various aspects thereof, we consider it important to direct and shape it in the manner which would be equally good. Our contribution:

- We have been supporting and actively involved in the urban city conference and hackathon “Mad City Happening” in Riga – we engage the audience, telling them more about the impact of the Kliversala Quarter development to benefit the future of Riga and discuss relevant matters concerning the future of the left bank of river Daugava. Unfortunately, 2020 the event did not take place and we remain hopeful it will in 2021, as the format presents an important opportunity to participate in the urban city development dialogue.
- For several years already, we have given out an annual living room prize together with the home journal “Kodukiri” which has a long and distinguished history in Estonia. The 2020 award went to a young Kukke family, who’s restoring a childhood home. The awarded living room was a delightful balance between coziness and a romantic note with timeless simplicity. We consider it important to design and have a say but to also support creation of homely homes and recognition thereof. Our value world is focused on home, community and people who shape them.

Risk management

As part of the business of a responsible company is to identify and minimise any related risks.

Market risk

Focusing on the long duration of our business model allows us to mitigate potential market fluctuations. Based on our long-term strategy, we acquire a real property when the market is in recession, and we develop and sell it at the height of the market. This gives us an opportunity to take advantage of market opportunities and to hedge and manage the market risks.

Liquidity risk

We manage the liquidity risk on ongoing basis, taking into account the working capital developments and the needs. We monitor cash balances on weekly basis, also model short-term and long-term cash flows to timely spot any potential problems and to find solutions. Careful cash planning, monitoring of cash flows of our development projects and flexibility in everyday money matters effectively contribute to management of the liquidity risk.

Funding risk

The funding risk may extend the development process of the projects of the Company and slow down the realization of the real estate portfolio. The risk is managed by flexible ensuring of sustainable funding both by means of overdrafts, loans, bonds and other debt instruments as well as expansion of the investor base and raising of additional capital.

Property risks

Property risks are covered by insurance contracts.

Safety and security risks

As we develop buildings where people live, work and which they visit on a daily basis, we must ensure their safety and security. This means strict control and compliance with these principles throughout our activities. Both in our residential as well as commercial real estate projects we comply with all the design, construction work and safety requirements, we cooperate with only competent and reliable construction companies and their subcontractors, and we use high quality building materials and construction techniques. We equip the buildings managed by us with the required safety equipment and ensure adopting of security measures in case of any emergencies, we carry our regular risk analyses and training exercises. As building managers, we monitor that the risks arising from the general order of the real property and the surroundings thereof would not endanger people.

Community risks

In general, construction works have a temporary disturbing impact on the people living and working nearby. We will make every effort to minimize any inconveniences and we expect our partners to do the same. In case of any problems, we are open to communication in order to prevent aggravation of disagreements and we aim to promptly find solutions that are suitable for all parties. We understand that involvement of the public and local community is becoming an important part of any development activities. This is evidenced by the ever-growing social interest in the suitability of major infrastructure and industrial investments in the communities and the natural environment.

Environmental risks

Our activities do not involve any high-impact risks that could occur unexpectedly. We manage the most important risks to wildlife, soil and the surrounding environment by the selection of locations, proper design and construction work and by making previous analyses. A large proportion or our real estate developments is located in areas which are not yet used, often in industrial areas where the environmental damage arising from previous use of the area may be a problem. In this case we eliminate the pollution or other environmental damage, if necessary.

Our choice of partners is inter alia based on that the partner would be able to ensure proper compliance with the requirements and aspects related to the environment. Our activities involve significant energy consumption and waste generation, so we comply with all the energy efficiency and waste management requirements related to the buildings as well as other significant environmental impacts. In the light of increasingly stringent environmental regulations and growing market expectations, we have to be able not only to respond to them but also find ways to do more than is expected and required.

Employee-related risks

The jobs of our employees are not related to any important risk factors as most of the time is spent in the offices. At the same time, it is extremely important that our subcontractors would ensure the use of proper work techniques during the construction works of our developments and safety of people in the construction area. Therefore, these expectations are taken into consideration already in the selection of construction companies and in our mutual agreements. We cooperate with competent and reliable building companies that properly follow the safety rules. When our employees and representatives of other partners visit the constructions sites, we ensure that they follow the safety rules.

We estimate that labour shortage is not a direct risk for the Company as we are a relatively small team which stays relatively stable in time. Recruitment of new employees is based on the need.

However, we are very much aware of the significantly changed work habits and heightened expectations of the working life. Employers of different areas of activity also contribute to the well-being and satisfaction of their employees and this creates a growing need even for us to keep pace with these changes. Therefore, we need to pay more attention in the future to the overall strengthening of the reputation and image of AS Pro Kapital Grupp which would contribute to a strong employer brand. A good employer brand allows to also attract the attention of talented employees in the future. Like many other companies which have operated for a long time and whose key personnel has been with the Company for more than 10 years, we need to see to that people feel good in our team. We must pay particular attention to our long-term employees whose quitting of their jobs could have an unexpected impact on the competence and continuity of the entire Group.

Strategy and objectives for 2021

Our most important goal is to focus on our main target market, which comprises the Baltic States, and to develop our existing real estate portfolio. We foresee stable growth in the real estate markets of all the Baltic States, thus our main focus is on the knowingly managed development process which is based on the growth of the market and its expectations.

We develop new residential and commercial areas in the best locations in Tallinn, Riga and Vilnius. We take the long-term perspective into consideration and intentionally remain ahead of the market trends. In addition to the development of our already existing sizeable real estate portfolio, we constantly also assess our opportunities to extend and strengthen it.

Our long-term experience as one of the oldest professional real estate development company in the region supports our conservative borrowing principles and we are going to continue this in the future, too. We try to ensure optimal financing solutions for the development of our new projects, combining as appropriate reasonable loans from financial institutions, extension of the investor base or by attracting private capital.

In 2021 we completed Ratsuri Houses project in Kristiine City and handed over all the apartments. In Kalaranna we plan to complete first buildings in the beginning of summer and the following will be completed in phases during the year. The presales of Kindrali Houses and sales in Riga and Vilnius are continuing. We plan to start with new projects in the second half of the year. Hotel segment is suffering from emergency state and it is too early to tell, how will the hotel market act in Bad Kreuznach after the restrictions have been lifted. Maintenance segment will suffer the least. Though, as this segment is insignificant in the group, the influence to the result will be minimal.

Goal for 2021:

- To continue construction of commenced development projects and make preparations for launch of new development projects. To monitor carefully the impact of the worldwide pandemic and adjust the strategy and plans of the Company accordingly, also ensuring the health and safety of employees, clients and partners.

Development projects

Project name	Type	Location	Ownership	Classification
Kristiine City	Residential	Tallinn	100%	Inventories, investment property
Kalaranna District	Residential	Tallinn	100%	Inventories
Ülemiste 5	Offices	Tallinn	100%	Investment property
T1 Mall of Tallinn	Retail	Tallinn	93%	Investment property
City Oasis Quarter	Residential	Riga	100%	Investment property
Kliversala District	Residential	Riga	100%	Inventories, investment property
Brivibas Business Quarter	Offices	Riga	100%	Investment property
Šaltinių Namai	Residential	Vilnius	100%	Inventories

Kristiine City in Tallinn

Kristiine City is one of the largest residential areas in the Baltic countries, located in the Kristiine borough, a residential area close to the City Centre of Tallinn. The unique project plans exquisitely integrated historical red brick buildings with the modern architecture that will arise over the hill, at the very heart of the new quarter. Kristiine City development will bring lively and elegant atmosphere to the historical barrack area. The residential area is developed mainly to offer green living environment to families and people who prefer living near the very centre or the city.

Kristina Houses in Kristiine City

This is a development of ten new apartment buildings located in Kristiine City with 22 thousand square meters of net sellable area and over 300 apartments in total. The Company completed all apartment buildings, the last ones in October 2019. Kristina Houses have been highly valued by our customers as all apartments in this project are sold.

Ratsuri Houses in Kristiine City

The project Ratsuri Houses has been named after its history as a horse stable which will receive a new look being united with a modern New Holland style building. Ratsuri Houses was constructed by OÜ Vanalinna Ehitus. The construction included the reconstruction of a 20th-century, two-storey stables building on Talli 5 property and the construction of an extension with a partially underground car park. The buildings were completed this spring. Ratsuri Houses have a total of 39 apartments – 17 in the former stables and 22 in the modern New Holland style building. All apartments have been reserved or presold already prior to the end of construction. Handover of apartments started in March and ended in April 2021.

Kindrali Houses in Kristiine City

Located among the private houses and apple orchards of Kristiine district, the modern Kindrali Houses project has a warm and cosy heart. Kindrali Houses form a part of the Kristiine City district which is undergoing rapid development near the city centre and offering versatile opportunities for residents of all ages. New five-storey apartment buildings will be built at 6 Sõjakooli Street. The focus is on comfort, safety and living in harmony with environment. The contemporary and Nordic appearance of the buildings is complemented by carefully selected high-quality materials and details in interior design. There are both spacious five-room flats and ground floor studio apartments with separate entrances as well as a washing room for the four-legged friends. The two first buildings are scheduled for completion in summer 2022. To date, 90% of apartments have been reserved or presold.

Kalaranna in Tallinn

Kalaranna District is a unique sea-side residential district on the boarder of Tallinn's central city and old town. Kalaranna District, located at Kalaranna 8, will have twelve 4-5 storey buildings on nearly six hectares. The area is being developed in two stages. An integral part of the residential quarter is well-thought-out landscape architecture and a beach promenade that largely preserves the existing natural environment. During the first phase of construction, eight buildings will be completed with 240 apartments, commercial premises and an underground car park. The area will include the Kalaranna Park with versatile leisure opportunities and a Square connecting the buildings. The first buildings will be completed in the beginning of this summer. To date, 85% of apartments have been reserved or presold.

Ülemiste 5, Tallinn

Ülemiste 5 will be developed for commercial premises with gross leasable area of ca 14 thousand square meters. This development project will play a significant role in establishing a new public transportation centre of Tallinn.

T1 Mall of Tallinn – a new standard of retail and entertainment

The concept of T1 Mall of Tallinn is unique across the Baltics. The distinctive idea is to balance the traditional shopping experience by creating an environment where people can spend time and experience something new and exciting. T1 aspires to create new user journeys by introducing unique international brands to the market which in well-distinctive balance with the versatile world of entertainment allows a different customer mindset to emerge.

T1 has spacious, bright interior architecture, shopping and art, but also versatile dining area "Taste of Tallinn" or "TOT" which is unique in Estonia both, for scope and layout. Most restaurants are located on the fourth floor above regular shopping with an opportunity to admire the breath-taking views to the city. T1 has world-class Cinamon Movie Theatre, the region's largest indoor family entertainment centre – Super Skypark and a rooftop observation wheel Skywheel of Tallinn, unique in Europe.

In April 2020 the reorganisation proceedings of the owner and operator of T1 Mall of Tallinn were initiated. On 26 April 2021 the Supreme Court decided not to take AS Tallinna Moekombinaat's (T1 Mall of Tallinn operator) appeal into proceedings and Harju County Court ruling terminating the reorganisation proceedings came into force. Without the reorganisation proceedings AS Tallinna Moekombinaat is not capable of fulfilling its obligations and has become permanently insolvent. The subsidiary was declared bankrupt on 2 June 2021. However, T1 Mall of Tallinn is continuing its daily business. Since 15 March 2021 most of the centre has been closed due to spread of COVID-19 and restrictions applied by Estonian Government. The centre was reopened for the public on 3 May 2021.

Kliversala in Riga

The district of Klīversala is located in the most picturesque and beautiful part of the centre of Riga. A land plot of almost five hectares in total, is located on the peninsula on the Daugava River and Agenskalna bay, facing the towers of Old Riga and the President Castle. The property will be developed as an integral residential quarter.

The River Breeze Residence and the neighbouring territory are a significant part of the long-term development strategy of the city of Riga, which will be carried out through the period until 2030. Mainly, because the River Breeze Residence is located within the UNESCO heritage protection area and is thereby considered as a highly valuable territory.

Completion of River Breeze Residence represents the start of Kliversala Quarter development. We are in the process of projecting the following phase of the area - the first building will be named Blue Marine and second one Panorama Port. These names are related to the close proximity of the buildings to the river and yacht port area.

Brivibas Business Quarter in Riga

Commercial property development for modern office complex will be built on the site of a former factory. The area is located at one of the main transport arteries heading through the city – the Brīvības street - making it an attractive commercial area. The first phase of the project foresees renovation of the existing industrial building into an office building. The construction of new office and commercial buildings will be carried out as a second phase of the project. The site is ready for construction, existing building is conserved. The building permit has been issued and the Company will start with construction when market conditions will be favourable.

City Oasis Quarter in Riga

City Oasis Quarter lies in Tallinas street 5/7 and is a unique residential area in the central city of Riga, where new buildings, modern loft-style apartment buildings and also restored historical buildings can be found to create an extraordinary atmosphere in the area. The development foresees business premises on the first floors of the buildings. The building permit has been issued and the technical design is currently in progress.

Šaltinių Namai in Vilnius

Šaltinių Namai is a prestigious living area, surrounded by the nature in the most tranquil part of the Old Town, located within the UNESCO protection area. Šaltinių Namai is inspired by the baroque spirit of Vilnius Old Town and the tradition of Italian architecture in Lithuania. Homebuyers can choose from thoroughly planned apartments with exceptional views to spacious town houses.

As an integral part of the landscape, this unique area has the first Italian courtyard garden in the city, designed by an Italian concept architect Gianmarco Cavagnino. In

2019 we completed five houses of the Šaltinių Namai | Attico project and are currently planning the following construction phase with city villas and commercial building.

Segments

The Company's operations are spread across four geographical segments: Estonia, Latvia, Lithuania and Germany.

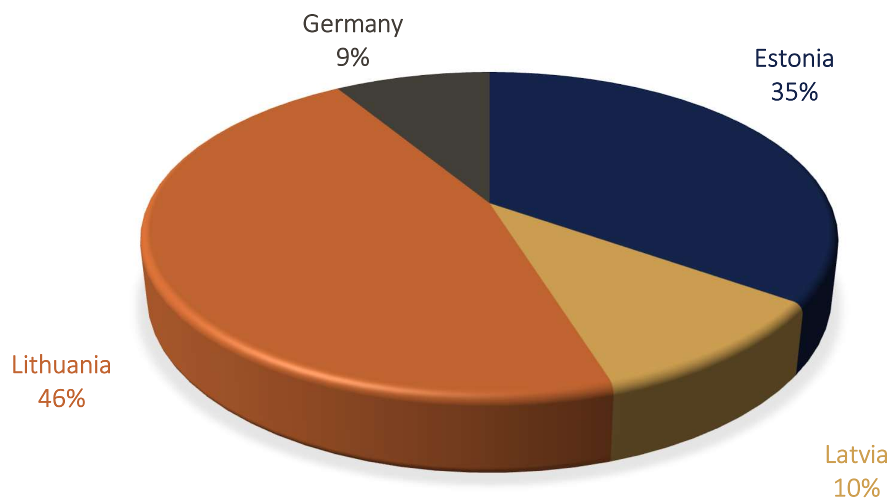
Key financial data of the segments, in thousands of euros

	Revenue			Gross result			Net result			
	2020	2019	Change	2020	2019	Change	2020	2019 (Restated)	2019	Change
Estonia	6 687	28 911	-77%	2 706	9 685	-72%	-57 251	-32 124	-30 028	-78%
Latvia	2 001	4 733	-58%	730	2 011	-64%	-627	343	343	-283%
Lithuania	8 874	17 688	-50%	3 550	3 140	13%	2 896	2 523	2 523	15%
Germany	1 672	3 944	-58%	-211	973	-122%	-342	181	181	-289%

	Gross margin		Net margin		
	2020	2019	2020	2019 (Restated)	2019
Estonia	40.5%	33.5%	-856.2%	-111.1%	-103.6%
Latvia	36.5%	42.5%	-31.4%	7.2%	7.2%
Lithuania	40.0%	17.8%	28.7%	14.3%	14.3%
Germany	-12.6%	24.7%	-20.7%	4.6%	4.6%

Internal transactions are eliminated in key financial data provided above. Estonian segment includes the financial data of the Parent. Net results are recorded before taxes and include non-controlling interests.

2020 revenue by geographical segments, %



The general market situation in Baltic capitals remained stable with modest but still an upward trend in 2020. Despite of the grown number of new development projects coming to the market there is a positive price growth outlook for the Company's residential markets based on the strategy to focus on large-scale premium development projects with less competition. Though, market in Tallinn and in Vilnius was more favourable for development activity than in Riga. The rapid change in the world economy due to the pandemic outbreak of COVID-19 in 2020 made home buyers more cautious but the interest recovered after first startle. There is significant interest shown towards our projects in all countries of operation.

Estonia

The Company's operations in Estonia mainly consist of the development and sales of apartments in middle and premium residential real estate properties, development, and lease of retail and office premises, management of real estate properties.

In Estonia real estate market kept stable moderately upward trend in 2020, with price levels, average transaction amount and transaction volume increasing at a steady pace.

In January 2020 the Company announced about the start of the construction of Ratsuri Houses – a new development project at Talli street 5 in Kristiine City. The development project has 39 apartments and it was completed in spring 2021. All apartments in the development project have been sold before the end of construction.

In October 2019, the Company signed the construction contract for building the first phase of two in Kalaranna District. The construction works started in January 2020 and completion of eight new buildings with 240 apartments, commercial premises and underground parking is scheduled for 2021-2022. Due to very strong interest towards the project, 85% of the apartments are covered with reservation or preliminary sales agreements.

In spite of good results and confidence in residential real estate development, the situation with the rental revenue generation is different. T1 Mall of Tallinn has now operated more than two years. The results of 2019 were below expectations and although the shopping centre was generating operating profit throughout the year, it was not able to meet financial covenants agreed with the main lender. While struggling to reach for expected results, the most of the shopping centre in Tallinn was closed from 27 March till 11 May 2020 due to restrictions set by Estonian Government in relation to COVID-19 and the emergency state in Estonia. Only main food store Selver, pharmacy and a couple of smaller food stores were open without restrictions. This situation influenced operations of the shopping centre significantly. On 31 March 2020 the owner and operator of T1 Mall of Tallinn shopping centre, AS Tallinna Moekombinaat (TMK), applied for reorganisation proceedings and Harju County Court initiated the process on 3 April 2020. The purpose was to overcome temporary liquidity issues, to reasonably reorganise liabilities and increase profitability of the centre. On 26 April 2021 the Supreme Court decided not to take TMK's appeal into proceedings and Harju County Court ruling terminating the reorganisation proceedings came into force. Without the reorganisation proceedings TMK is not capable of fulfilling its obligations and has become permanently insolvent. Bankruptcy of the subsidiary was declared on 2 June 2021.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted to 35% compared to 52% of the comparable period last year.

Revenue from Estonia

in thousands of euros	2020	2019	Change
Real Estate	1 002	19 367	-95%
Rent	5 588	9 467	-41%
Other	97	77	26%
Total	6 687	28 911	-77%

Revenues in real estate segment decreased by 95%. Sales revenues are recorded upon signing final notarised sales agreement. Therefore, the revenues from sales of real estate depend on the completion of the residential developments. During 2020 the total of 3 apartments, 4 parking lots and 8 storage rooms (2019: 133 apartments, 164 parking lots and 83 storage rooms) were sold. At the end of the reporting period the stock consisting of several parking spaces and storage rooms were available for sale in Tallinn. No completed apartment is available.

Revenue in rent segment decreased by 41% in 2020 from 9.5 million euros in 2019 compared to 5.6 million euros in 2020. Restrictions related to COVID-19 pandemic have had a great impact throughout the year due to the different restrictions set by the Estonian Government.

Other revenues consist mainly of maintenance services provided. Other services revenue increased by 26% mainly due to the increase in the clients' base.

Latvia

The Company's operations in Latvia mainly consist of the development and sales of apartments in premium residential real estate properties, development of commercial properties.

The River Breeze Residence with 47 exclusive apartments was completed in Kliversala development in Riga in 2018 and sales were ongoing in 2020. The projecting works of the rest of Kliversala area as well as of the City Oasis Quarter and Brivibas Business Quarter continued.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period was 10% compared to 9% in the comparable period last year.

Revenue from Latvia

in thousands of euros	2020	2019	Change
Real Estate	1 903	4 640	-59%
Rent	78	71	10%
Other	20	22	-9%
Total	2 001	4 733	-58%

During 2020 the total of 4 apartments, 8 parking lots and 4 storage rooms (2019: 7 apartments, 16 parking lots and 5 storage rooms) were sold. At the end of the reporting period 30 luxury apartments, several storage rooms and parking lots were available for sale in Latvia.

The rental revenue in Latvia increased by 10% in 2020.

Other revenue makes a minor contribution to overall segment's revenue. The Company provides maintenance services mainly to its tenants.

Lithuania

The Company's operations in Lithuania mainly consist of the development and sales of apartments in premium residential real estate properties.

In the middle of 2019, Šaltinių Namai | Attico with five new residential buildings were completed.

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 46% compared to 32% last year.

Revenue from Lithuania

in thousands of euros	2020	2019	Change
Real Estate	8 574	17 412	-51%
Rent	23	49	-53%
Other	277	227	22%
Total	8 874	17 688	-50%

Real estate sales decreased by 51% in 2020 comparing to last year. During the reporting period 22 apartments, 2 cottages, 2 business premises, 13 storage rooms and

23 parking lots were sold in Lithuania (2019: 83 apartments, 1 cottage, 77 storage rooms and 74 parking lots). There were 9 apartments, 1 business premise, several storage rooms and parking lots in stock in Vilnius at the end of the reporting period.

The Company temporarily rents out some of the properties available for sale. In 2020 rental revenues decreased by 53%.

The Company provides maintenance and other services to its sold a rented out apartments. In 2020 the revenue from maintenance activities has increased by 22% as a result of completion and sales of new premises in 2019.

Germany

The Company's operations in Germany consist of the development and management of PK Parkhotel Kurhaus located in Bad Kreuznach.

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 9% compared to 7% of the comparable period last year.

Revenue from Germany

in thousands of euros	2020	2019	Change
Hotels	1 672	3 944	-58%

The occupancy rate of PK Parkhotel Kurhaus hotel has decreased by 28% constituting the average of 48% for the year. Total annual revenues decreased by 58%. Net result for 2020 was 535 thousand euros loss (2019: 76 thousand euros profit). Due to the Emergency State and restrictions set by the German Government the hotel was closed during 21 March - 30 June 2020. The hotel was re-opened from 1 July 2020, but forced to close again from 2 November 2020 until further notice.

Occupancy rates, %

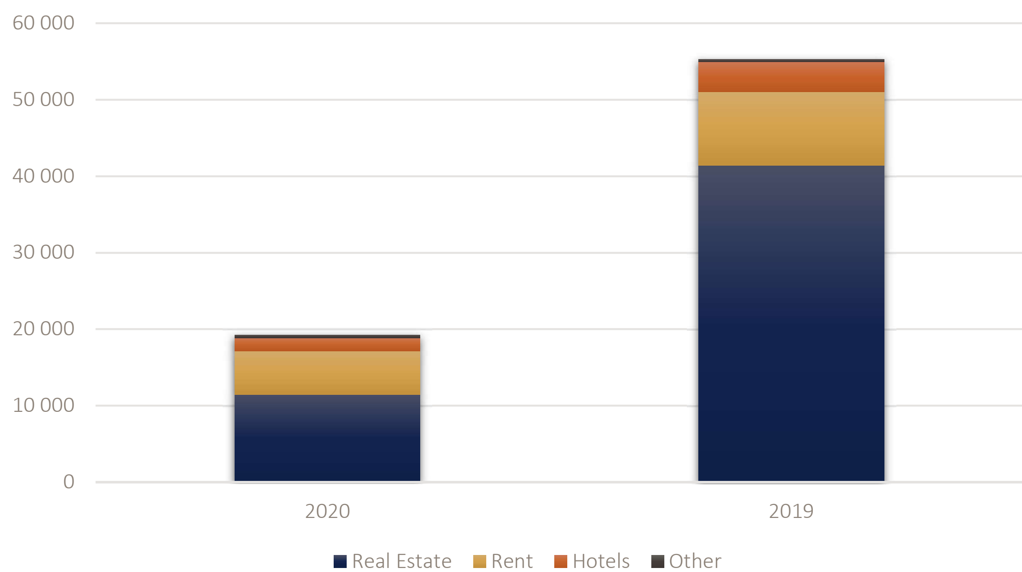
	2020	2019	Change
PK Parkhotel Kurhaus, Bad Kreuznach	47.5%	66.0%	-28%

At the time of preparation of this report, due to the coronavirus pandemic, PK Parkhotel Kurhaus in Bad Kreuznach is closed. We will reopen the hotel as soon as it becomes possible – the expected reopening date is scheduled at 11 June 2021.

Business lines

In addition to geographical segments, the Company also monitors its operations by business lines.

Revenue by business lines, in thousands of euros



Revenue by business lines

in thousands of euros	2020	2019	Change
Real Estate	11 479	41 419	-72%
Rent	5 689	9 587	-41%
Hotels	1 672	3 944	-58%
Other	394	326	21%

Revenue in real estate business line has decreased by 72% as no new developments were completed. Average price per m^2 sold in 2020 was 3 092 euros/m^2 (2019: 2 225 euros/m^2), prices are given without VAT. The change in average price in Estonia was 3% and in Lithuania 29%. Average price in Latvia decreased by 9% and was 2 783 euros/m^2 in 2020 (2019: 3 049 euros/m^2). The total of 3 319 m^2 of residential premises were sold in 2020 (2019: 16 896 m^2) altogether in all three countries.

The Company is focusing on development of existing land plots and properties, which expands sellable asset base of the group. In 2021 the Company continues with sales of current stock in Kliversala in Riga and Šaltinių Namai Residential Complex in Vilnius, complete buildings in Ratsuri Houses and Kalaranna projects, starts building and preselling Kindrali Houses in Tallinn.

Rental revenues decrease by 41% reflects the rental income from T1 Mall of Tallinn which was affected by COVID-19, as most shops were closed in the shopping centres since the end of March until 11 May 2020 in Estonia and there have been further restrictions affecting tenants in entertainment and restaurant segment.

In 2020 the Company operated PK Parkhotel Kurhaus in Bad Kreuznach, in Germany. Revenues from hotel business line have decreased by 58% in 2020 compared to 2019 due to the Emergency State and restrictions set by the German Government in relation to COVID-19. At the time of preparation of this report the hotel has not been opened during 2021 and is expected to reopen at 11 June 2021.

Maintenance business line is dependent on the volume of sold or rented spaces, which are maintained by the Company. Spaces under maintenance in 2020increased by 4% and were 52 510 m^2 as at 31 December 2020 (31 December 2019: 50 278 m^2). Gross profit of the segment has increased by 45% and overall profitability has increased for 11% compared to the last year.

Financing sources and policies

Pro Kapital Grupp pursues conservative financing policy. Company's goal is to use external financing in the way, which allows to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. In general, the Company seeks to maintain such long-term debt levels that are in reasonable proportion to growth in operations and which preserve the Company's credit standing. Company uses local bank financing for specific development projects. To manage possible risks, projects are kept in separate subsidiaries and usually no guarantees are provided for liabilities of another group company. Loans for specific projects are predominantly of middle-term duration, maturing within one to three years. Loans' repayment schedule is of mixed nature, consisting mainly of floating payments in dependence on sales volumes and to some extent fixed payments.

During 2020 the Company has repaid 1.4 million euros of its loans and has raised 14.4 million euros of loans. The Company has 78.5 million euros of loans to be repaid in 2021 (including 75.4 million euros loan debt of AS Tallinna Moekombinaat, which has become permanently insolvent after the balance sheet date) and 0.1 million euros of loans are repayable in 2022.

In February 2020 the Company has refinanced the old secured bonds in the value of 29.3 million euros in full by issuing the new non-convertible bonds (Note 18). The Company has issued the total of 28.5 million euros of secured fixed rate non-convertible bonds with maturity date 20 February 2024 and effective annual interest rate of 8%. Due to not meeting financial covenants and the breach of secured non-convertible bonds terms as an adjusting event, the Company has reclassified secured bonds as a short-term liability as at the end of 2020 (Note 18).

As at 31 December 2020 the Company had issued convertible bonds in nominal value of 1.50 million euros and balance sheet value 1.49 million euros (current portion: 1.3 million euros; long-term portion: 0.2 million euros). During the reporting period 8.72 million euros worth convertible bonds were refinanced and new unsecured non-convertible bonds were issued. As at 31 December 2020 the Company has issued unsecured non-convertible bonds in nominal value 8.72 million euros and balance sheet value 8.29 million euros. The bonds carry an effective annual interest rate of 8% and mature on 31 October 2024.

Shares and shareholders

As at 31 December 2020 AS Pro Kapital Grupp had 56 687 954 shares with the nominal value 0.20 euros. The registered share capital of the Company is 11 337 590.80 euros.

Composition of share capital

	31.12.2020	31.12.2019
Number of shares (pcs)	56 687 954	56 687 954
Nominal value (euros)	0.20	0.20
Share capital (euros)	11 337 590.80	11 337 590.80

On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange with an ISIN EE3100006040. On 19 November 2018 Company's shares were listed on the Main List of Tallinn's stock exchange. During the period 1 January – 31 December 2020 the shares were trading at the price range 0.68 – 1.39 euros, with the closing price of 0.70 euros per share on 31 December 2020. During the period 0.83 million of the Company's shares were traded with their turnover amounting to 0.77 million euros.

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January 2018 - 31 December 2020, NASDAQ Baltic Main List*

**Source: www.nasdaqbaltic.com*

Trade statistics in euros	31.12.2020	31.12.2019	31.12.2018
High price	1.39	1.71	1.99
Low price	0.68	1.00	1.54
Last price	0.70	1.39	1.63
Average price	0.88	1.38	1.71
Traded volume (pcs)	832 989	1 038 459	414 910
Turnover (million)	0.77	1.40	0.71
Capitalisation (million)	39.68	78.80	92.40

**Source: www.nasdaqbaltic.com*

Baltic market indexes 1 January - 31 December 2020*

**Source: www.nasdaqbaltic.com*

Index/ Equity	31.12.2020	31.12.2019	Change
OMX Baltic Benchmark GI	1 104.74	992.83	11.27%
B35PI Real Estate / B8600PI Real Estate	260.46	370.58	-29.72%
PKG1T (euros)	0.70	1.39	-49.64%

**Source: www.nasdaqbaltic.com*

On 13 March 2014 the Company's shares started trading on Frankfurt's stock exchange trading platform Quotation Board. During the period of 1 January – 31 December 2020 the shares were trading at the price range of 0.65 - 1.35 euros, with the closing price 0.67 euros per share on 31 December 2020. During the period 384 thousand of the Company's shares were traded with their turnover amounting to 0.37 million euros.

Shareholders

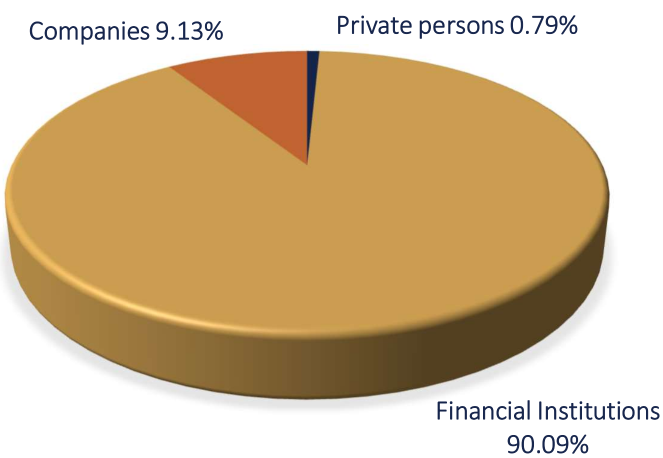
As at 31 December 2020 there were 388 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as at 31 December 2020:

Shareholders	Number of shares	Participation in %
Raiffeisen Bank International AG	31 010 717	54.70%
Clearstream Banking AG	11 372 980	20.06%
Nordea Bank ABP/Non-Treaty Clients	4 787 996	8.45%
Svalbork Invest OÜ	3 759 620	6.63%

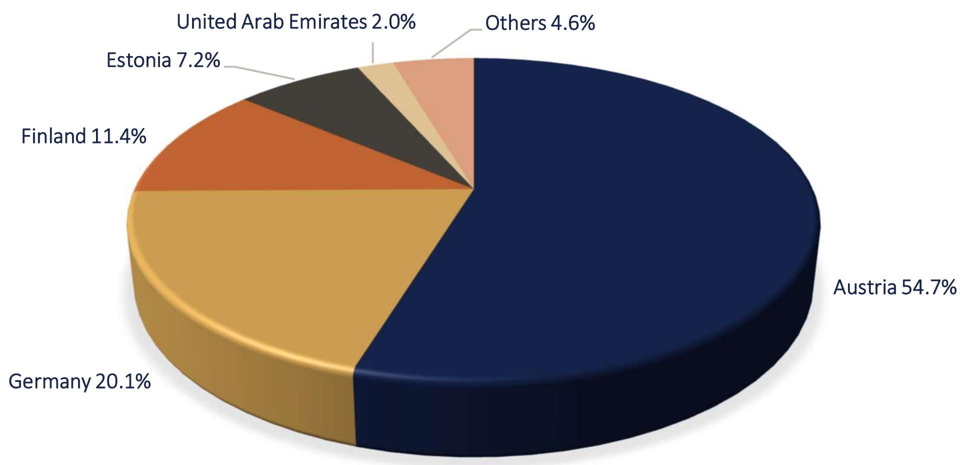
Shareholders split by holders as at 31 December 2020:

Shareholders	Number of shares	Participation in %
Financial institutions	51 068 571	90.09%
Companies	5 172 897	9.13%
Private persons	446 486	0.79%



Shareholders geographical split by residence as at 31 December 2020:

Shareholders	Number of shares	Participation in %
Austria	31 025 938	54.7%
Germany	11 373 268	20.1%
Finland	6 467 557	11.4%
Estonia	4 087 244	7.2%
United Arab Emirates	1 154 408	2.0%
Others	2 579 539	4.6%



The largest shareholders of AS Pro Kapital Grupp are Ernesto Preatoni and his affiliates. Based on the information at the possession of AS Pro Kapital Grupp as of 31 December 2020 Ernesto Preatoni and his affiliates control 45.99% of shares of AS Pro Kapital Grupp. The following shares are considered as being controlled by Ernesto Preatoni because the Management Board believes that he is able to control the use of voting rights by the following persons:

- OÜ Svalbork Invest, Estonian company controlled by Ernesto Preatoni which holds 3 759 620 shares representing 6.63% of the total shares of the Company.
- 18 803 439 shares representing 33.17% of the total shares of the Company held through a nominee account opened by Raiffeisen Bank International AG.
- 3 510 985 shares representing 6.19% of the total shares of the Company held through a nominee account opened by Nordea Bank.

Participation of Members of the Management Board and the Council Members as at 31 December 2020:

Name	Position	Number of shares	Participation in %
Paolo Michelozzi	CEO	281 647	0.50%
Allan Remmelkoor	COO	0	0.00%
Edoardo Preatoni	Board member	0	0.00%
Emanuele Bozzone	Chairman of the Council	0	0.00%
Petri Olkinuora	Council Member	30 000	0.05%
Oscar Crameri	Council Member	15 000	0.03%

As at 31 December 2020 Emanuele Bozzone, with his affiliates, is holding 86 564 unsecured, fixed rate non-convertible bonds of the Company with the nominal value of 2.80 euros each, i.e. 242 379.20 euros in total.

Earnings per share (EPS), P/E ratio

Earnings per share for year 2020 were -0.98 euro/share (2019: -0.48 and in restated value -0.51 euro per share). P/E ratio for year 2020 was -0.71 (2019: -2.92 and restated value -2.71).

Group structure

As at 31 December 2020

** On 25 September 2020 the merger of Company's subsidiaries in Lithuania was finalised. Pro Kapital Bonum UAB was integrated into its parent company PK Invest UAB. Following the merger, the share capital of PK Invest UAB has remained the same and all the assets, rights and obligations of Pro Kapital Bonum UAB were taken over by PK Invest UAB.*

*** After balance sheet date the Group lost control over AS Tallinna Moekombinaat (Note 31).*

Corporate governance report

Overview

Corporate governance constitutes of a system of principles for the management of the Company. Such principles are regulated by law, the Articles of Association, the internal rules of the Company and since 1 January 2006, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are recommended to follow the "Corporate Governance Recommendations" (CGR) issued by the Financial Supervision Authority.

The principles described in these CGR are recommended to be carried out by Issuers and each Issuer should decide whether or not it will adopt these principles as a basis for organizing its management. Issuers should describe, in accordance with the "Comply or Explain" principle, their management practices in a CGR Report and confirm their compliance or non-compliance with the CGR. If the Issuer does not comply with CGR, it should explain in the report the reasons for its non-compliance.

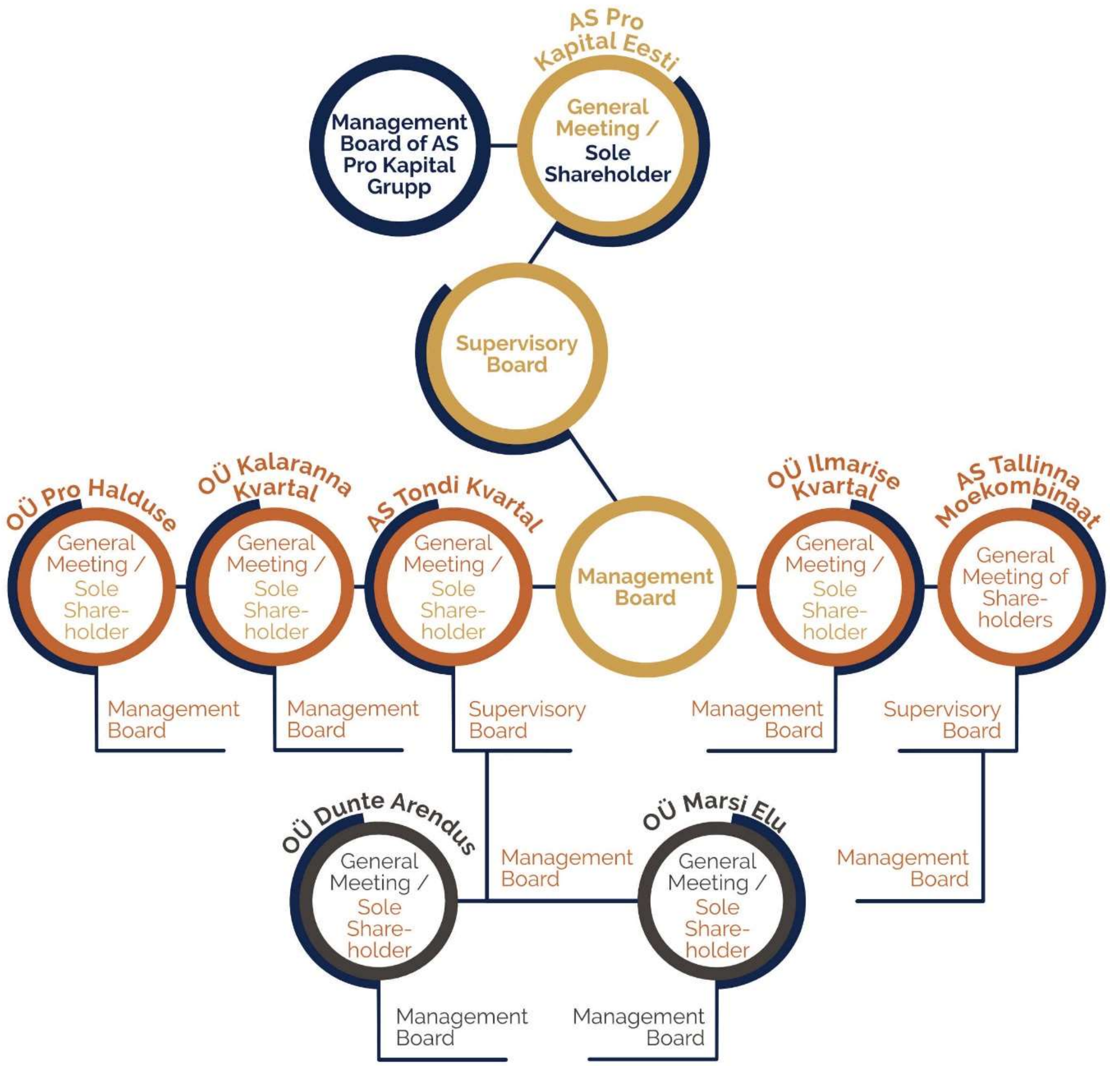
The Management Board of the Company gives the following overview of the management practices of the Company and confirms the compliance with the CGR except to the extent of non-compliance as described and explained below.

In addition, and only where applicable, the Management Board of the Company has also indicated where the Company is meeting even higher Corporate Governance standards adopted by G20/OECD in 2015 (G20/OECD Principles of Corporate Governance).

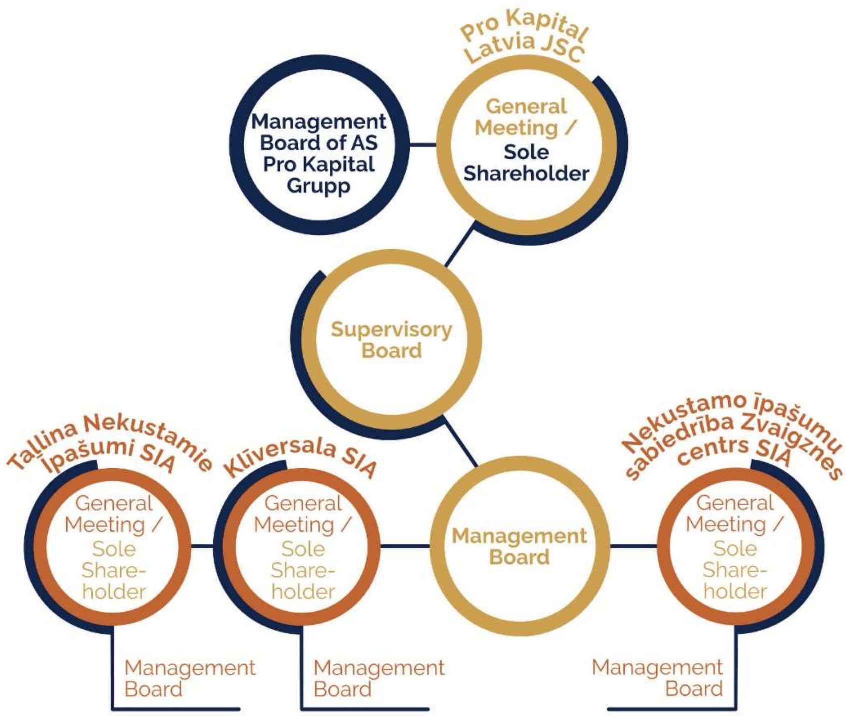
The Company's decision-making and governance structure was as follows as at 31 December 2020:

Holding company

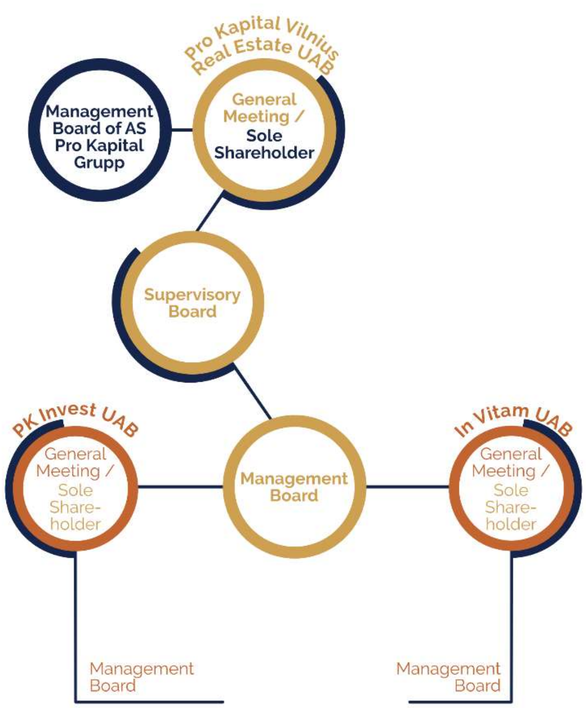
Governance structure of the Estonian group



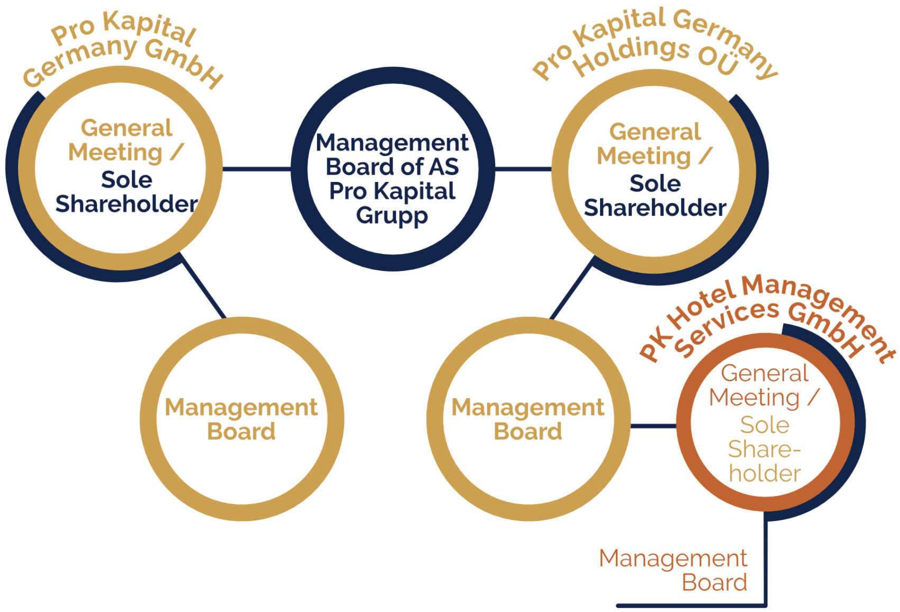
Governance structure of the Latvian group



Governance structure of the Lithuanian group



Governance structure of the German group



1. GENERAL MEETING OF SHAREHOLDERS

The Company is a public limited company and has regular General Meetings of Shareholders, a Supervisory Council and a Management Board as the management bodies. The General Meeting of Shareholders is the highest directing body.

1.1. Exercise of shareholders rights

Every shareholder has the right to participate in the general meeting, to speak in the general meeting on topics presented in the agenda, and to present reasoned questions and make proposals. Exercising of the shareholders' rights is ensured in a way that use of shareholders' rights are not hindered by unreasonable formalities and the use of rights is made convenient for shareholders. The General Meeting is conducted at the location of the Company. Company enables shareholders to present questions on topics mentioned in the agenda prior to the day of the General Meeting. The Company includes in the notice of calling the General Meeting the e-mail address to which the shareholders can send questions concerning the meeting. As per the corporate governance recommendation the Company guarantees a response to reasoned questions at the General Meeting during the discussion of a related subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Company gives its responses to questions presented before holding the General Meeting and publishes the question and response on its website.

During 2020, only one annual general meeting of shareholders was held and no questions as to the topics of the agenda of the meeting were presented to the Company before the general meeting. Questions asked during the AGM are recorded in the minutes. In the AGM notice it is clearly stated where the shareholders or their representatives can direct their questions before the meeting (email and phone number) and that should there be such questions, there will be answered and disclosed on the Company website. At the start of the general meetings, the Chairman of the meeting always makes it clear that questions can be asked throughout and before the meeting is adjourned, once more participants are given the opportunity to voice their questions.

1.1.1. Company's Articles of Association do not allow granting different types of shares with rights which would result in unequal treatment of shareholders in voting. Only one type of shares has been issued, giving all shareholders exactly the same rights related to the shares.

1.1.2. Company facilitates the personal participation of shareholders at the General Meeting. When calling the shareholders' meeting a notice period of at least 3 weeks is given for both general and extraordinary shareholders' meetings. In the notice the exact place, date and time of the meeting are stated. Representatives of the Company always participate at the General Meeting and are accessible to the shareholders during the holding of the General Meeting.

1.2. Calling of a General Meeting and information to be published

1.2.1. As per the recommendation, the notice of calling the General Meeting should be sent to shareholders and/or published in daily national newspaper concurrently with making it available on the Issuer's website. The Company is following the recommendation and is publishing the notice of calling the shareholders' meeting in daily national newspaper and making it available on the Company's website and the notice is also published via the NASDAQ OMX Tallinn Stock Exchange system. Shareholders of the Company are notified of calling both an extraordinary shareholders' meeting and general shareholders' meeting immediately after the decision is made to call such a meeting.

As per the recommendation, the notice should indicate the reason for calling the meeting and who made the proposal to call it (e.g. Management Board, Supervisory Council, shareholders or auditor). Information concerning the meeting should be immediately published on Issuer's website. The Company is following this recommendation and summarises in the notices a reason for calling the shareholders' meeting and states the body who is calling the meeting. Information about the meeting is published on the website of the Company.

1.2.2. The Management Board and Supervisory Council shall deliver all information available to them or essential information provided to them necessary for passing a resolution at the General Meeting to shareholders concurrently with the notice of calling the General Meeting.

As per the recommendation, Issuers should provide the reasons for calling the General Meeting and explanations for items included on the agenda, determining changes essential to shareholder (for instance changing the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions the content of which is the sale of all or a majority of the assets or the Company or which are concluded with a person related to the Issuer).

The Company is following the recommendation and summarises in the notice the reason for calling the shareholders' meeting. Materials related to the agenda are made available via the webpage of the Company concurrently with the notice of calling the General Meeting. In addition to publishing the notice of calling the general meeting via the Stock Exchange on its website, the Company provides separate links to the Council's and Board's proposals regarding the agenda and regarding the audited annual report.

There were no cases of non-compliance with requirements relating to related party transactions (RPTs) in 2020.

Any and all RPTs with Supervisory Council members are decided at general meeting level. Otherwise, within the group, all RPTs of any value are required to be explained and explanations documented in the minutes – if with Management Board members, then at the Supervisory Council levels and if with Supervisory Council members, then at shareholder level.

If the General Meeting is called by shareholders, the Supervisory Council or auditor or if an item has been entered on the agenda at the request of the Management Board or a shareholder, the bodies or persons requesting the calling of General Meeting or entering an item on the agenda should provide their reasons and explanations.

The shareholders should be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if this information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Council has the right to withhold this information, if this is in contravention of the Issuer's interests. In such case, the Management Board and Supervisory Council should justify the withholding of the information.

The Company has indicated in each notice of calling the shareholders' meeting an email for the shareholders to contact in case they have any questions related to the meeting. In 2020, before the general meeting shareholder representatives asked clarifying questions related to documentation needed to participate at the meeting (clarification that only formal shareholders entered into the registry and not ultimate beneficiaries can issue powers of attorney, apostilles to registration documents and by what time the original documents should arrive), which information was already mostly covered in the meeting notice. As no questions connected to the agenda topics were asked before the AGM, the Company has not published any questions of the shareholders or replies to the shareholders on the website regarding the 2020 AGM. If and when such questions will be asked in the future, the Company shall outline these questions and answers under a separate accessible link. (The link is currently absent so as not to confuse shareholders that there might have been questions and there is no point in keeping an empty page behind a link.)

Information to shareholders is provided in Estonian and in English.

1.2.3. The Management Board should publish on the Issuer's website the essential information connected with the agenda provided to it or otherwise available concurrently with compliance with the General Meeting calling requirements provided by law.

Company is following the recommendation and is publishing materials related to the general meetings on the website of the Company under section Company-Investors-Shareholders (data available from 2013). In addition, legal documentation like the Company's Articles of Association in English and in Estonian as well as the (2017) public offering prospectus, the (2020) Listing prospectus for NASDAQ Stockholm for 2020/2024 bonds and the (2021) listing prospectus for NASDAQ OMX Tallinn 20-2024 non-convertible bonds are also available on the Company's website. Investor presentations are also up on the Company's website (sub-page Investors-Presentation).

1.2.4. Within a reasonable period of time prior to holding a General Meeting the Supervisory Council should publish its proposed agenda items on the Issuer's website. If shareholders make substantive proposals to items on the agenda or proposals diverging from those of the Supervisory Council prior to the General Meeting the Issuer should publish the proposals on its website.

The Company is following the recommendation. In 2020, no proposals regarding additional agenda items or amendment of existing agenda items or draft resolutions were made. If and when such proposals are made, the Company outlines them under a separate accessible link, e.g. as for the 2017 EGM. (Otherwise, the link is absent so as not to confuse shareholders that there might have been modifying proposals.)

1.3. Procedure of the General Meeting

1.3.1. The Chair of the General Meeting should ensure that the General Meeting is conducted in a smooth manner, i.e. swift while considering the interests of all interested parties. The General Meeting should be conducted in the Estonian language.

During 2020 the Company held 1 (one) shareholders' meeting. The Annual General Meeting of the shareholders took place on 27 May 2020.

The Company is following the recommendation and ensures that the General Meeting is conducted in a smooth manner while considering the interests of all interested parties therefore with the approval of all shareholders present at the meeting the Annual General Meeting of the shareholders was held in parallel in Estonian and English.

As per the recommendation the Chairman of the Supervisory Council and members of the Management Board cannot be elected as Chair of the General Meeting.

Company is following the recommendation. At the 2020 Annual General Meeting of the shareholders the Company's internal Legal Counsel, Ilona Nurmela, was elected as the Chair of the Meeting.

1.3.2. Members of the Management Board, the Chairman of the Supervisory Council and if possible, the members of the Supervisory Council and at least one of the auditors should participate in the General Meeting.

Company held 1 (one) shareholders' meeting in 2020.

The Annual General Meeting of the shareholders took place on 27 May 2020. Due to COVID-19 public traffic restrictions Chairman of the Supervisory Council Emanuele Bozzone and the candidate for member of the Supervisory Council Oscar Crameri participated via Skype. Supervisory Council member Petri Olkinuora was unable to participate via Skype due to unforeseen travel needs. Other participants were: the CEO and Chairman of the Management Board Paolo Michelozzi, Member of the Management Board Allan Remmelkoor, the CFO of the Company Angelika Annus and the auditor of the Company Erki Usin from AS Deloitte Audit Eesti participated at the meeting. The former member of the Supervisory Council, Ernesto Achille Preatoni did not participate at the meeting, and his tenure in office ended on 22 May 2020.

1.3.3. Issuers should make participation in the General Meeting possible by means of communication equipment (Internet), if the technical equipment is available and doing so is not too cost prohibitive for the Issuer.

Company has not followed this recommendation and does not plan to follow the recommendation and making participation in the General Meeting possible by means of communication equipment (Internet). The reason for not following the recommendation is that there is no good and cost-efficient technical solution to verify the identities of foreign shareholders, who form the majority of the Company's shareholders. Therefore, allowing the participation of the shareholders by means of communication equipment poses legal risks to the Company, in verifying the list of participants of the shareholders' meeting. In the notice of calling the general meeting, the Company clearly indicates that shareholder or their representatives are expected to participate in person. Thus, while proxy voting or voting in absentia is not prohibited, it is not enabled. Since international shareholders can and do engage local representation, which is the common practice in Estonia, the Company has not made it unduly difficult or expensive to cast votes at general meetings and, thus, has followed the OECD 2015 CGR.

1.3.4. As per the recommendation the profit distribution (or covering the loss) has been considered in General Meeting as a separate agenda topic and a separate resolution has been passed regarding it.
At the 27 May 2020 Annual General Meeting the shareholders decided to cover the loss for the financial year of 2019 in the amount of 26 981 682 Euros with the retained earnings of previous periods (agenda item no 3), and payment of dividends was not discussed.

2. MANAGEMENT BOARD

2.1. Duties

2.1.1. The Management Board is making independent day-to-day decisions without favouring personal and/or controlling shareholders' interests. The Management Board is making the decisions based on the best interests of the Company and all of its shareholders and ensures the reasonable development of the Company according to goals and strategy set. The Management Board is using its best efforts to ensure that the Company and all companies belonging to the group comply in their activities with current legislation in force. The Management Board ensures that it undertakes proper risk management and internal audit controls in the activities of the Company and those proceeding from its activities. To guarantee proper risk management and internal audit the Management Board: analyses on reoccurring basis the risks connected with the activities and financial objectives of the Company, has prepared adequate internal control provisions and elaborated forms for drawing up financial reports and instructions for drawing up these reports, has organized the system of control and reporting.

2.2. Composition and charge

2.2.1. As of 31 December 2020, the Management Board of the Company has three Management Board members: Paolo Michelozzi, Allan Remmelkoor and Edoardo Preatoni. Paolo Michelozzi has been elected as the Chairman of the Management Board. Management Board Members are selected by the Supervisory Council of the Company based on their expertise in the sector the Company is operating in, in addition candidates' leadership and management experience is taken into account as well as their integrity and their commitment to the Company.

Name	Citizen-ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Paolo Michelozzi	Italian	1961	22.11.2001	Chairman	31.12.2021	281 647
Allan Remmelkoor	Estonian	1971	30.05.2008	Member	31.12.2021	0
Edoardo Preatoni	Italian	1987	01.03.2016	Member	31.12.2021	0

Mr. Paolo Michelozzi holds a General Certificate of Education (building surveyor) from Collegio Arcivescovile, Saronno, Italy. Mr. Michelozzi has been employed in the Company since 1994 and is currently also a Council member of two of the group companies – AS Pro Kapital Eesti and AS Tallinna Moekombinaat (which operates T1 Mall of Tallinn). Mr. Michelozzi has an extensive experience of more than 30 years in different real estate development projects in Italy as well as other European countries. As the CEO of the Management Board of AS Pro Kapital Grupp he is responsible for managing and organising the daily business of the Company (including budgeting) and representing the Company internationally, also effecting the instructions and resolutions given by the Supervisory Council and the general meetings of shareholders, as well as promoting the Company with international investors. He was also a member of the management board of AS Domina Vacanze Holding, a company that was established in the course of the Division of the Company (2011-2012), CEO (2005-2008) and Chairman of the Board of Directors (2008-2012) of Domina Vacanze SpA, a company that was separated from the group in the course of the Division. Mr. Michelozzi has also been the Chairman of the Board of Domina Hotel Group SpA (2008-2010), member of the supervisory council of Hypermarket AS (1997-2008) and the member of management board of SIA PK Investments (2003-2011). Since 2006 Mr. Michelozzi is the member of the management board of SIA PB11 (Latvia), a company owned by him. Owning 281 647 shares, Mr. Michelozzi is also a shareholder in the Company.

Mr. Allan Remmelkoor holds a bachelor's degree in small business administration from Tallinn University of Technology. Mr. Remmelkoor has held executive positions in the Group since 1997. In addition to being a member of the management board of the Company, Mr. Remmelkoor is also a member of the Management Board of other group companies (AS Pro Kapital Eesti, AS Tallinna Moekombinaat and OÜ Ilmarise Kvartal) and the Chairman of the Supervisory Council of AS Tondi Kvartal. As a member of the Management Board of AS Pro Kapital Grupp he is responsible for representing the Company mostly in Estonia and managing and organising the daily business of AS Tallinna Moekombinaat as the managing director of the group's largest real estate project - T1 Mall of Tallinn. Mr. Remmelkoor is a member of the management board of Hypermarket SIA and was a member of the management board of AS Domina Vacanze Holding, a company that was established in the course of the Division of the Company (until May 2012). He has also been a member of supervisory council of AS BALTIKA (2006-2012), a company listed in Tallinn Stock Exchange, the managing director and a member of the management board of SIA PK Investments (2003-2011). Mr. Remmelkoor does not own any Company shares or bonds.

Mr. Edoardo Preatoni holds a diploma in classical studies from Instituto De Amicis, Milano Italy. Mr. Preatoni has experience in hotel and real estate development business and he is the founder & CEO of Preatoni Real Estate Development LLC in Dubai, UAE. As a member of the Management Board of AS Pro Kapital Grupp he is responsible for divesting the one remaining hotel of the Company, which is non-core business and from the end of 2019 he is also the Head of Development of the group. Mr. Preatoni does not own any Company shares or bonds.

The Supervisory Council has established an area of responsibility for each member of the Management Board, defining their duties and powers. The principles for co-operation between members of the Management Board and between the Management and Council have also been established.

As per the recommendation the Chairman of the Supervisory Council should conclude a contract of service with each member of the Management Board for discharge of their functions. The Company is following the recommendation partially. The CEO, Paolo Michelozzi, has concluded a Management Board service contract with the Company. Members of the Management Board Allan Remmelkoor and Edoardo Preatoni do not have a service contract with the Company. Because of his area of responsibility as a Management Board member of Estonian and Latvian sub-group holding companies and due to the principle of payment for services rendered at the level they are rendered, Allan Remmelkoor has concluded service contracts with the subsidiary holding companies in Latvia, with AS Tallinna Moekombinaat (since he is the general manager of the T1 Mall of Tallinn shopping centre) and with AS Pro Kapital Eesti (since that it T1 Mall of Tallinn project's mother company). As Head of Development, Member of the Management Board Edoardo Preatoni has concluded a service contract with AS Pro Kapital Eesti (an umbrella company for all development project companies).

2.2.2. As per the recommendation the member of the Management Board should not be at the same time a member of more than two Management Boards of an Issuer and should not be the Chairman of the Supervisory Council of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Council in a Company belonging to same group as the Issuer. The Company follows this recommendation.

Company Management Board members do not belong to Management Boards of any other Issuers.

Paolo Michelozzi is the Chairman of the Supervisory Council of AS Pro Kapital Eesti (term expires 31 December 2021) and AS Tallinna Moekombinaat (term expires 27 June 2023).

Allan Remmelkoor is the Chairman of the Supervisory Council of AS Tondi Kvartal (term expires on 30 January 2024).

Edoardo Preatoni does not hold Chairman of Supervisory Council positions in any group companies.

2.2.3. As per the recommendation the bases for Management Board remuneration should be clear and transparent. The Supervisory Council should discuss and review regularly the bases for Management Board remuneration. Upon determination of the Management Board remuneration, the Supervisory Council is guided by evaluation of the work of the Management Board members. Upon evaluation of the work of the Management Board members, the Supervisory Council is taking into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector. Remuneration of members of the Management Board, including bonus schemes, should be such that they motivate the member to act in the best interest of the Issuer and refrain from acting in their own or another person's interest.

Monthly remuneration of Chairman of the Management Board Paolo Michelozzi is agreed in the service contract concluded for three years. Additional remuneration of the CEO is determined by the Supervisory Council of the Company based on the evaluation of the Remuneration Committee regarding the achievement of annual targets by CEO set by the Supervisory Council. Monthly remuneration of the Management Board Member Allan Remmelkoor is agreed in the service contracts concluded with AS Pro Kapital Eesti and AS Tallinna Moekombinaat. Additional remuneration of Allan Remmelkoor is determined by the Chairman of the Management Board of the Company acting in the capacity of the Chairman of AS Pro Kapital Eesti as per the assessment of achieving annual targets, which is approved by the Supervisory Councils of the group's relevant subsidiary with whom Mr. Remmelkoor has service contracts. Monthly remuneration of the Management Board Member Edoardo Preatoni is agreed in the service contract concluded with AS Pro Kapital Eesti and any additional remuneration is determined by the Supervisory Council of AS Pro Kapital Eesti as per the assessment of Edoardo Preatoni having achieved set annual targets.

2.2.4. As per the recommendation, the use of long-term bonus systems (for example options, pension programs) should be connected with the activities of the Management Board member and should be based on explicit and comparable pre-determined factors. The factors, which are the basis for determining the bonus scheme, should not be changed retroactively.

Bonus systems with all Management Board Members have been agreed in their service contracts, they are performance-related and based on explicit and pre-determined targets being achieved.

2.2.5. As per the recommendation, the bonus scheme of a Management Board member that is connected with the securities of the Issuer, as well as changes in such bonus schemes should be approved at the General Meeting of the Issuer. The exercise date for share option should be determined at the General Meeting of the Issuer. When granting share options, the Issuer should comply with the rules and regulations of the Tallinn Stock Exchange.

The Management Board does not have a bonus scheme connected to the securities of the Company, except the CEO whose service contract allows the Council at their discretion to pay the CEO's bonus in cash or in shares. At the 23 May 2019 AGM shareholders decided the terms and conditions of payment of bonuses in shares to Management Board members of the Company, agreeing to waive the pre-emptive purchase right of the shareholders in case the Supervisory Council decides to exercise its right under clause 5.8. of the Company's Articles (to increase the Company's share capital up to 1.2 million euros) in order to pay out the management's bonus in shares (agenda item no 7).

2.2.6. As per the recommendation severance packages of a Management Board member are connected with their prior work performance and should not be payable if doing so would harm the interests of the Issuer.

All Members of the Management Board have severance packages agreed in their service contracts. Severance compensation is not payable in case the Management Board member is recalled due to the breach of his obligations.

2.2.7. As per the recommendation basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) should be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published should be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Supervisory Council should present the essential aspects of the Management Board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting should be presented the differences together with the reasons therefore.

The Company is not following this recommendation at the moment. The Company is aware of the change of the Securities Act that took force on 14 December 2019, obligating listed Companies to comply and publish remuneration information individually per Management Board member regarding the financial year following 31 December 2020, i.e. the 2021 financial year and the Company intends to comply with this change when publishing its 2021 annual report in 2022. For the financial year 2020, the Company is publishing in the annual report of the Company the remuneration of all management board and council members of all group companies as an aggregate amount. In addition to his remuneration, the Chairman of the Management Board is compensated for the accommodation costs of living in Riga.

2.3. Conflict of interests

2.3.1. Members of the Management Board avoid conflicts of interests in their activity. Member of the Management Board do not make decisions on the basis of their own interests or use business offers addressed to the Company in their own interests.

As per the recommendation, the members of the Management Board are aware that they should inform the Supervisory Council and other members of the Management Board regarding the existence of a conflict of interests before the conclusion of a contract of service or immediately upon arising of a conflict of interest. Members of the Management Board are aware that they are required to promptly inform other Management Board members and the Chairman of the Supervisory Council of any business offer related to business activity of the Company made to them, a person close to them or a person connected with them. Persons close to members of the Management Board include spouses, children who are minors and persons having shared a household with them for at least one year. Persons connected with members of the Management Board include civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or persons close to them or which is made for the benefit of them or persons close to them and which economic interests are to a significant extent similar with their economic interests or economic interests of persons close to them. The Company, its members of the Management Board follow this recommendation whenever applicable.

As per the OECD 2015 Corporate Governance recommendations, the Supervisory Council assigns an independent member capable of exercising independent judgment to tasks where there is a potential for conflict of interest. For example, when discussing and approving the CEO's achievement of targets and respective remuneration, the Remuneration Committee of the Supervisory Council holds a meeting without the participation of the CEO. Also, when discussing transactions with a Management Board member or parties related to them, the person in question is excluded from the discussion and needs to exit the room after a round of questions before the voting. Discussions of transactions with a Supervisory Council member or parties related to them are undertaken at the level of general meetings and relevant Council members if they are also shareholders abstain from voting.

2.3.2. As per the Commercial Code the Supervisory Council has to approve the transactions between the Company and a member of its Management Board.

The Company is following this recommendation.

As per the OECD 2015 Corporate Governance recommendations, the Supervisory Council of the Company as well as Supervisory Councils of subsidiaries approve and conduct related-party transactions in a manner that ensures proper management of conflict of interest and protects the interests of the Company.

On 29 April 2020 the Supervisory Council approved the extension of the powers (re-election) of Allan Remmelkoor until 15 November 2020 and on 29 October 2020, the Supervisory Council approved the extension of the powers (re-election) of Allan Remmelkoor until 31 December 2021, aligning his term of office with that of the CEO.

During 2020 there were no new transactions with member of the Management Board Allan Remmelkoor.

During 2020 there were no transactions with the CEO and the member of the Management Board Paolo Michelozzi.

During 2020 there were no new transactions with member of the Management Board Edoardo Preatoni.

2.3.3. A member of the Management Board shall strictly adhere to the prohibitions of competition prescribed by the Commercial Code (*Commercial Code § 312*) and shall promptly inform the Supervisory Council of their intention to engage directly or indirectly in an enterprise in the same field of activity as the Issuer. Members of the Management Board may engage in other duties alongside their duties as members of the Management Board only on approval of the Supervisory Board.

Member of the Management Board of the Company Allan Remmelkoor does not engage in other active duties alongside his duties as a member of the Management Board. In his service contract with AS Pro Kapital Eesti, Management Board Member of the Company Edoardo Preatoni has notified the Supervisory Council of AS Pro Kapital Eesti that the companies he owns make investments into real estate in Dubai, UAE, however they are not in competition with the Company and the Supervisory Council has confirmed that it does not deem such business activities as unfair competition. In his service agreement, the Chairman of the Management Board of the Company Paolo Michelozzi has been authorised by the Supervisory Council to act as a director of SIA PB11 (Latvian company), his personal real-estate holding company with its principal business being not in direct competition with the Company.

2.3.4. As per the recommendation a member of the Management Board or employee of the Issuer should not demand or take money or other benefits from third parties in connection with their work and should not provide unlawful or ungrounded advantages to third parties in name of the Issuer.

According to the knowledge of members of the Management Board, which is based on the internal control procedures of the Company, the Company is following this recommendation.

2.3.5. Interest of members of the Management Board in other companies who are Company’s business partners, suppliers, clients and other related companies:

Mr. Paolo Michelozzi is the sole owner of Latvian company PB11 SIA, which is renting an apartment located in Riga to the Company. In addition to his remuneration, Mr. Paolo Michelozzi as the Chairman of the Management Board is compensated for the accommodation costs in Riga during business trips to Latvia. As of 31 December 2020, Mr. Michelozzi holds 281 647 shares of the Company as a beneficiary holder through Swedbank AS Clients.

Mr. Allan Remmelkoor does not have any interests in companies who are Company's business partners, suppliers, clients and other related companies.

Mr. Edoardo Preatoni does not have any interests in companies who are Company's business partners, suppliers, clients and other related companies.

3. SUPERVISORY COUNCIL

3.1. Duties

3.1.1 The duty of the Supervisory Council is to manage internal control of the Management Board activities. The Supervisory Council participates in making important decisions relating to the activities of the Company. The Supervisory Council acts independently and in the best interests of the Company and all shareholders. The Supervisory Council determines and regularly reviews the Company's strategy, general plan of action, principles of risk management and annual budget. The Supervisory Council together with the Management Board ensures the long-term planning of the Company's activity.

The Supervisory Council has approved on 16 May 2012 the risk management policy of the Company, which is implemented in the Company and all of its subsidiaries. On 19 December 2018, the Supervisory Council reviewed a detailed assessment of all the Company's risks regarding likelihood and severity resulting in a risk rating, with top risks highlighted for regular monitoring at Council level. On 19 March 2019, the Supervisory Council approved an updated Risk Management Policy document where all previously denoted risks were grouped under logical general headings of: (i) business and economic risks related to Company's business, industry and market conditions; (ii) environmental risks; (iii) human resources and health and safety risks; and (iv) legal and political risks. On 29 October 2020, the Supervisory Council reviewed the top 15 risks of the Company in the course of the annual risks review.

The Supervisory Council also approves the annual budget of the Company. The Supervisory Council has actively discussed the progress of the development projects of the Company and the necessary financing to start with the development projects.

The Chairman of the Supervisory Council is in regular contact with the Chairman of Management Board and discusses the issues related to the Company's strategy, business activity and risk management, as per the recommendation.

The Chairman of the Management Board has the obligation to inform the Chairman of the Supervisory Council of any significant events, which may affect the Company's development and management. The Chairman of the Supervisory Council has to inform the Supervisory Council of it and call an extraordinary meeting of the Supervisory Council if necessary. The Company is following this recommendation.

3.1.2. The Supervisory Council regularly assesses the activities of the Management Board and its implementation of the Company's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Company has been communicated to the Supervisory Council and the public as required.

The Company's Supervisory Council meets at least once per quarter, before publication of the Company's quarterly reports and reviews the quarterly report and the Management Board's report of its activities performed during the quarter. The Company publishes important information to the public and its shareholders via the Tallinn Stock Exchange system. The Company made 37 announcements in 2020. In addition to the quarterly and annual report announcements, the Company notified the public and its investors regarding: successful issue of new secured, callable, fixed rate bonds (for refinancing and early redemption of previously issued secured bonds) and for amending some terms and conditions of these bonds as well as about publishing a listing prospectus and listing the said bonds on NASDAQ Stockholm, ongoing updates about filing for reorganisation of a subsidiary AS Tallinna Moekombinaat, regarding issuing new nonconvertible bonds by private placement to refinance the convertible bonds PKG1-PKG7 as well as results of subscription and extension of subscription period, also regarding the merger of two of its Lithuanian subsidiaries, regarding the signing of a construction and re-construction agreement with OÜ Vanalinna Ehitus for Talli street 5 (Ratsuri Houses), also about several notices of prolongation of redemption dates of convertible bonds PKG2, PKG3, PKG4 and PKG5 convertible bonds and partial redemption of convertible bonds PKG4, also regarding notification of calling the AGM and relevant resulting decisions and regarding the 2021 financial calendar as well as changes in the 2020 financial calendar.

The Supervisory Council has established an Audit committee comprising from 29 July 2019 onwards of Emanuele Bozzone and Petri Olkinuora, all Council members of the Company. The Company has published on its website the existence, duties, membership and position in the organisation of the audit committee members. The Audit committee is an advisory body of the Supervisory Council in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight and budget preparation and legality of the activities of the Company.

The function of an audit committee is to monitor and analyse:

1) processing of financial information;

2) efficiency of risk management and internal control;

3) the process of auditing of annual accounts and consolidated accounts;
4) independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of the activities thereof with other requirements of Auditors Activities Act.
An audit committee is required to make recommendations or proposals to the Supervisory Council regarding the following issues:
1) appointment or removal of an audit firm;
2) appointment or removal of an internal auditor;
3) prevention or elimination of problems and inefficiencies in an organization;
4) compliance with legislation and the good practice of professional activities.
In 2020, the Audit Committee met one time to discuss the auditor's report and main findings and the approve the audited 2019 annual report of the Company.
The Company does not have an internal auditor as the Financial Controller performs this function as well. The Company would like to assure that its external auditors have never performed internal audit duties for the Company.
The Supervisory Council has established a Remuneration Committee from 8 July 2020 onwards comprising of Emanuele Bozzone and Oscar Crameri, both Supervisory Council Members (until 22 May 2020 of Emanuele Bozzone and Ernesto Achille Preatoni). The Remuneration Committee is an advisory body of the Supervisory Council in matters involving remuneration of the Management Board of the Company. The committee has been established to safeguard that the Management Board's remuneration and company performance are linked when they annually assess the results of management of the Company.
In 2020, the Remuneration Committee met three times:
- to discuss the assessment of CEO achieving his 2019 targets, and
- to discuss setting the CEO's targets for 2020 (two meetings due to COVID-19 issues).

The decision regarding the amount and procedure of remuneration of the members of the Supervisory Council is decided at the level of general meetings of the shareholders, the last such shareholders' resolution dating back to 20 June 2016. There is no separate committee to oversee matters of remuneration and election of Supervisory Council members and it is the Management Board that makes the relevant proposals to the general meeting of shareholders based on equivalent market remuneration of Board members adjusted for the Baltics. As for proposing new members of the Council, it is the Chairman of the Council who speaks to the larger shareholders to gauge their views as to the requirements of competence of the potential candidates and composition of the Council and either approaches the potential candidates himself or tasks the CEO to approach potential candidates in line with the Company's strategic objectives and suggestions from the largest shareholders, bearing in mind that 1/3 of the Council members should always be independent, before any new candidates are proposed to the general meeting.

3.1.3. The Chairman of the Supervisory Council manages the work of the Supervisory Council. The Chairman of the Supervisory Council determines the agenda of the Supervisory Council meeting, chairs the meetings, monitors the efficiency of the Supervisory Council's work, organizes the transmission of information to the members of the Supervisory Council, ensures that the Supervisory Council has enough time to prepare for decisions and examine information and represents the Supervisory Council in communications with the Management Board. The Company is following this recommendation.

3.2. Composition and charge

3.2.1. The members of the Supervisory Council are elected from persons having sufficient knowledge and experience for participation in the work of the Supervisory Council. Upon the election of a member of the Supervisory Board, the nature of the Supervisory Board's and the Issuer's activities, the risks of conflict of interests and, if necessary, the age of the potential member shall be taken into account. The membership of the Supervisory Board shall be sufficiently small to ensure efficient management and sufficiently large to involve necessary know-how.

The Company considers that its Supervisory Council is well-balanced and composed of individuals who have a broad experience in key business sector – construction and development of international real-estate. Pursuant to articles of association of AS Pro Kapital Grupp the Supervisory Council consists of at least 3 (three) to maximum 7 (seven) members. The Annual General Meeting of the shareholders which took place on 27 May 2020 prolonged the powers of two members of the Supervisory Council until 5 July 2023 and elected a new Supervisory Council member (Oscar Crameri) also until 5 July 2023. There are three Supervisory Council members. Mr. Emanuele Bozzone was re-elected as the Chairman of the Supervisory Council of the Company on 8 July 2020.

Information about the members of the Supervisory Council:

Name	Citizen-ship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2023	0
Oscar Crameri	Swiss	1961	27.05.2020	Member	05.07.2023	15 000
Petri Olkinuora	Finnish	1957	13.04.2012	Member	05.07.2023	30 000

Mr. Emanuele Bozzone holds a degree in economics and trade. Mr. Bozzone has a vast experience in finance. He has been a manager and independent consultant in the finance field since 1999. Mr. Bozzone is a Swiss licensed fiduciary. From 2010 Mr. Bozzone is a director, wealth manager and partner in Regis Invest SA in Lugano, Switzerland. Additionally, he is a sole director, founder and partner in

EBCO Fiduciaria SA in Chiasso, Switzerland. Mr. Bozzone is also holding a senior managing position in EBCO Trustees Services Ltd Liab Co in Chiasso, Switzerland and Archer Consulting SA. Mr. Bozzone with his affiliates holds 86 564 unsecured, fixed rate non-convertible bonds of the Company with the nominal value of 2.80 euros each, i.e. 242 379.20 euros in total.

Mr. Petri Olkinuora holds M.Sc. (construction engineering) and MBA degrees. Former CEO of listed shopping centre company Citycon Oyj (2002-2011), he is a senior advisor and professional board member of several companies. His current positions of trust are as follows: Chairman of the board: Forbia Oy (private investment company, since 2011), Salo IoT Park Oy (office campus, since 2018), Tampereen Tilapalvelut Oy (municipal property service provider, since 2018) and Tampereen Infra Oy (municipal infra company, since 2019). Board member: 7Bros Oy (angel investor, since 2018), Evli-Rahastoyhtiö Oy (bank´s asset manager, since 2018), Hartela-Yhtiöt Oy (Finnish construction company and developer, since 2013), Koja Oy, Koja-Yhtiöt Oy (industrial company making ventilation machines for marine and buildings, since 2004), NoHo Partners Oyj (listed restaurant company, since 2012), Rapal Oy (software company, since 2002), Rentto Oy (real estate developer and owner, since 2019), TPI-Control Oy (service provider for heating and cooling systems, since 2018) and Royal Areena Oy (real estate developer, since 2019. Mr. Olkinuora has also, *inter alia*, served as the Deputy Chairman (2002-2003) and a Board Member (2007-2009) of the Board of Finnish Association for Building Owners RAKLI ry, member of the Board of European Public Real Estate Association EPRA (2006-2009) and a founding member of the Board of Finnish Green Building Association ry (2010-2012). Mr. Olkinuora indirectly owns 30 000 shares of the Company.

Mr. Oscar Crameri has law and banking background, specialising in compliance, corporate and tax law. In the last 10 years he has worked as an executive for a tax and legal consulting firms. Previously he has worked as an executive member and Head of Legal and Compliance for an investment bank (for 4 years); before he held a position as Head of Tax and Legal departments for major audit firms (for 6 years first in Arthur Andersen and then in Deloitte). Mr. Crameri has also been a Board member of the Federation of the Ticino Raiffeisen Banks and a Chairman of a local Raiffeisen Bank as well as a member and Chairman of the Board of the notary Public Association of Canton Ticino. He is also an attorney-at-law in the Canton of Ticino (Switzerland). Mr. Crameri holds the position of director (board member) in the following small Swiss real estate companies: TATA Real Estate SA; RACSO Real Estate SA; OVVI Real Estate SA; Nausica SA (as liquidator); Wamasch Trade SA; Wamasch AG; Elettro G. SA; ELC Consulting SA; Gewiss Swiss SA; Eliticino-Tarmac SA; European Helicopter Holding SA; Bearea SA (as liquidator); Axel P'Real Estate SA; Studio Tdesign SA (as liquidator) and in Olympian Sicav (a Luxembourg company). Mr. Crameri owns 15 000 shares of the Company.

The nature of the Supervisory Council's and the Company's activities, the risks of conflict of interests and the age of Supervisory Council members have been taken into account when proposing to elect them to the Supervisory Council.

3.2.2. At least half of the members of the Supervisory Council of the Issuer should be independent. If the Supervisory Council has an odd number of members, then there may be one independent member less than the number of dependent members. An independent member is a person, who has no such business, family or other ties with the Issuer, a company controlled by the Issuer, a controlling shareholder of the Issuer, a company belonging to the Issuer's group or a member of a directing body of these companies, that can affect their decisions by the existence of conflict of interests. The independence requirements are presented in the annex of the Corporate Governance Recommendations. No more than two previous members of the Management Board having been members of the Management Board of the Issuer or a company controlled by the Issuer within the past three (3) years shall be members of the Supervisory Board at the same time. According to the belief of the Management Board this recommendation is followed.

Mr. Emanuele Bozzone – the Chairman of the Supervisory Council is not considered an independent member of the Council due to the formality of him being also the Chairman of the Supervisory Council of Pro Kapital Latvia JSC and the Member of the Council of the following group companies: AS Tondi Kvartal, AS Tallinna Moekombinaat, and AS Pro Kapital Eesti.

Mr. Oscar Crameri is not considered an independent member of the Council due to him serving on the boards of the following group subsidiaries: AS Pro Kapital Eesti and AS Tondi Kvartal.

Mr. Petri Olkinuora is considered an independent Council member, having been elected on 13 April 2012 and the Annex of the NASDAQ OMX Corporate Governance recommendations allowing 10 years of tenure until 12 April 2022. While minority shareholders are not given a seat on the Supervisory Council with the Articles of Association of the Company, the function of independent Supervisory Council members is to safeguard the rights of minority shareholders and minority shareholders always have the right to propose new Supervisory Council members to be elected at a general meeting.

3.2.3. As per the recommendation a member of the Supervisory Council and the Chairman of the Supervisory Council in particular should ensure that they have enough time to perform the duties of a Supervisory Council member.

According to the belief of the Management Board of the Company this recommendation is followed. The Chairman of the Supervisory Council, Mr. Emanuele Bozzone, holds a senior management position in 4 other companies, none of them listed companies. In addition to serving on the Company's Supervisory Council and on the Councils of 2 group subsidiaries, Mr. Oscar Crameri holds 15 appointments in managing bodies (out of which

2 companies are dormant and in 1 company he is the liquidator). In addition to serving on the Company's Supervisory Council, Mr. Olkinuora holds 14 Supervisory Council appointments, 4 as Chairman of the Council.

3.2.4. As per the recommendation upon determination of the remuneration of members of the Supervisory Council, the General Meeting should take into consideration the duties of the Supervisory Council and their scope and the economic situation of the Company. Based on the nature of the Chairman of the Supervisory Council's work, the related requirements of that work may be taken into consideration upon determination of remuneration amount.

According to the belief of the Management Board of the Company this recommendation is followed.

3.2.5. The amount of remuneration of a member of the Supervisory Council should be published in the CGR Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).

The amount and procedure of payment of remuneration of a member of the Supervisory Council was decided by the Annual General Meeting of the shareholders which took place on 17 June 2016.

Council members are paid 25 000 euros per year (gross). Chairman of the Council is paid 27 500 euros per year (gross). In addition, a fee of 600 euros (gross) is paid to the Council member for each attended meeting. Council members are reimbursed their travel, accommodation and postal expenses relating to participation in the Council meetings and in the meetings of the committees. Supervisory Council members are not entitled to any compensation for termination.

No other remuneration or bonuses are paid to members of the Supervisory Council.

3.2.6. As per the recommendation, if a member of the Supervisory Council has attended less than half of the meetings of the Supervisory Council, this should be indicated separately in the Corporate Governance Recommendations Report.

During 2020, in total 16 meetings of the Supervisory Council were held out of which 11 were minuted as resolutions made in writing without convening a meeting (foregoing the 7-day prior notice) due to COVID-19-related travelling restrictions. All Supervisory Council Members attended all 16 meetings of the Supervisory Council.

As per the OECD 2015 Corporate Governance recommendations regarding the accountability of the Supervisory Council, the Company would like to point out that it has a clear risk management system and policy and that the Council regularly reviews Company risks (financial and economic, legal and political, environmental and human resources and health and safety risks).

3.3. Conflict of interests

3.3.1. Members of the Supervisory Council should prevent conflict of interests from arising through their activities. Members of the Supervisory Council should give preference to interests of the Company over their own or those of a third party upon his word as a member of the Supervisory Council. Members of the Supervisory Council should not use business offers addressed to the Issuer for their personal interests. The Supervisory Council should operate in the best interests of the Issuer and all shareholders.
According to the belief of the Management Board of the Company this recommendation is followed.

3.3.2. A Supervisory Council member candidate should inform other members of the Supervisory Council about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Council should promptly inform the Chairman of the Supervisory Council and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year should be indicated in the CGR Report along with their resolutions. The persons close to a member of the Supervisory Council are spouses, a minor child and a person having shared a household with them for at least one year. Persons connected with a member of the Supervisory Council are civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or person close to them or which is made for their benefit or the benefit of a person close to them and which economic interests are to a significant extent similar with their economic interests or the economic interests of a person close to them.
According to the belief of the Management Board of the Company this recommendation is followed. No conflict of interest had occurred during the financial year of 2020.

3.3.3. A member of the Supervisory Council should resign or be removed if their conflict of interests is of material and permanent nature.
No conflict of interest occurred in the financial year 2020 and no Supervisory Council Member resigned in relation to that.

3.3.4. A member of the Supervisory Council should strictly adhere to the prohibition of competition prescribed by the Commercial Code (*Commercial Code § 324)* and should promptly inform other members of Supervisory Council of their intention to engage in an enterprise in the same field of activity as the Company.
According to the belief of the Management Board of the Company this recommendation is followed.

3.3.5. Interest of members of the Supervisory Council in other companies which are Company’s business partners, suppliers, clients and other related companies.

Save for owning 86 564 unsecured, fixed rate non-convertible bonds of the Company (total nominal value of 242 379.20 euros as at 31.12.2020), Mr. Emanuele Bozzone does not have any interests in companies which are Company's business partners, suppliers, clients and other related companies.

Save for owning 15 000 (0.03%) of Company's shares as of 31 December 2020, Mr. Oscar Crameri does not have any interests in companies which are Company's business partners, suppliers, clients and other related companies.

Mr. Petri Olkinuora holds 30 000 shares (0.05%) of the Company as of 31 December 2020 through SEB Bank.

4. CO-OPERATION OF MANAGEMENT BOARD AND SUPERVISORY COUNCIL

4.1. Management Board and Supervisory Council co-operate closely for the purpose of better protection of Company's interests. The basis of this co-operation is first of all the open exchange of ideas between and within the Management Board and Supervisory Board. The Management Board and Supervisory Council jointly develop plans and principles of activities and strategy of the Company. The Management Board operates under strategic guidelines provided by the Supervisory Council and discusses its strategic management questions with the Supervisory Council regularly. The Company follows this recommendation.

The Supervisory Council considers the co-operation between the Management Board and the Supervisory Council to be adequate and well-functioning, with both bodies pertaining to their designated roles of implementing and strategic guidance. The Management Board and Supervisory Council division of tasks are regulated in the Articles of Association of the Company. The Supervisory Council is a directing body of the Company which plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management Board. The Supervisory Council should notify the general meeting of shareholders of the results of supervision. The Supervisory Council should approve the budget of the Company. The Company follows this recommendation.

The Management Board needs the consent of the Supervisory Council for concluding transactions which are beyond the scope of everyday economic activities of the Company and, above all, for concluding transactions which bring about:

- the acquisition or termination of holdings in other companies; or
- the acquisition, transfer or dissolution of a business; or
- the transfer of immovable's or registered movables the value whereof exceeds 300 000 euros, and encumbrance of immovable's or registered immovable's (of any value); or
- the foundation or closure of foreign branches; or
- the making of investments exceeding a prescribed sum of expenditure for the current financial year; or

- the assumption of loans or debt obligations exceeding a prescribed sum for the current financial year (except intra-group loans); or
- the granting of loans or the guarantee of debt obligations (except intra-group loans) if this is beyond the scope of everyday economic activities.

The general meeting of shareholders may grant the Supervisory Council the right to increase share capital to the extent and pursuant to the procedure provided by the Commercial Code.

Such right was granted by the shareholders meeting held on 17 June 2016, according to which the Supervisory Board may, within three years as of the approval of the wording of the Articles of Association (which was approved by the shareholders meeting held on 17 June 2016, i.e. until 16 June 2019), increase the share capital of the company by 1 200 000 euros. This right to increase share capital to the same extent of 1 200 000 euros for another three years, i.e. until 22 May 2022 was granted by the shareholders meeting held on 23 May 2019. Payment for the shares issued by the Supervisory Board may be made by monetary or non-monetary contributions pursuant to the resolution of the Supervisory Board. Valuation of the non-monetary contributions shall be performed pursuant to law and the Articles of Association.

In a related resolution at the 23 May 2019 AGM, shareholders voted to preclude their pre-emptive purchase right of new shares - if issued by the Supervisory Council of the Company. This was done with the primary intent of allowing the Company to pay the Management's bonuses in shares rather than in cash (that they can later buy shares for). For this reason, it was also decided that claims for the bonuses of the Management shall be set off against the payment they would otherwise need to make when subscribing for the new shares. The Supervisory Council explained at the 23 May 2019 shareholders' meeting that such a pre-emption and set off does not damage the interests of the company or its creditors, provided the issue price (nominal value + premium) is at least the average share price of the Company for the 3 months preceding such decision. The terms and conditions of pre-emption and set-off were recorded in the minutes and constitute the rules according to which such transactions can be done.

The Management Board is a directing body of the Company which represents and directs the Company. The Management Board should, in directing the Company, act in compliance with the articles of association and lawful orders of the Supervisory Council. Each member of the Management Board may represent the Company alone in all legal acts. The Management Board should appoint and dismiss the Company's directors and person responsible for accounting (the executive management). The Management Board should approve the scope of authority of such persons. The Company follows this recommendation.

4.2. The Management Board and the Supervisory Council ensure that the mutual exchange of data should be adequate and efficient. The Management Board informs the Supervisory Council regularly of all material circumstances, which pertain to planning of the Company's activities, business activities, risks connected with its activities and management of those risks. The Management Board should separately call attention to such changes in the business activities of the Company deviating from plans and purposes set formerly and indicate the reasons of such changes. The information should be delivered promptly and should cover all material circumstances. The Supervisory Council has specified the conditions for the delivery of information by the Management Board and its content. The Management Board sends data necessary for the Supervisory Council decision making, including the annual accounts, the annual accounts of the consolidation group and the auditor's report to the Supervisory Council in sufficient time before the Supervisory Council meeting. The Company follows this recommendation.

4.3. The Members of the Management Board and Supervisory Council observe the rules of confidentiality upon organization of the mutual exchange of data ensuring above all the control over the transfer of price sensitive information. The Company follows this recommendation. The Management Board has ensured the observance of the rules of confidentiality by employees of the Company, who access such information. Management Board has established rules on handling insider information, established the circle of permanent insiders as well as temporary insiders and persons discharging managerial responsibilities along with persons closely associated with them and rules for submitting insider declarations to the Company and appointed a responsible person to handle the insiders register on an ongoing basis. As of the end of 2018 the company also notifies its persons discharging managerial responsibilities after the 30-day prohibition (to trade in Company shares and other securities) period ends and before another prohibition period begins to make sure the prohibition to trade is observed and exceptions to trade are acknowledged.

5. PUBLICATION OF INFORMATION

5.1. The Company treats all shareholders equally and notifies all shareholders equally of material circumstances. Upon notification of shareholders and investors the Issuer shall use proper information channels, including its own web site. The equal treatment of shareholders principle shall not affect the Issuer's right to delay publication of inside information and to deliver the unpublished inside information to persons entitled to receive it.

As of listing of the Company's shares on the NASDAQ OMX Tallinn Stock Exchange the Company uses NASDAQ OMX Tallinn Stock Exchange to communicate with the shareholders in Estonian and English and uploads the information to the Company's website upon notification of shareholders and investors through the stock exchange.

On its website (About the Company, Contacts) the Company has clearly stated that the CFO, Angelika Annus, is the Investor Relations contact and indicated her contact information (phone number and email) so that investors would be able to directly communicate with a relevant responsible Company representative.

As per the OECD 2015 CGR, the Company's process to ensure *ad hoc* disclosure of important matters is as follows: (i) the concept of 'material information' and 'insider information' is understood by managers and Management Board as well as Supervisory Council members; (ii) whenever there is a resolution of governing bodies or business decisions that fulfil the material information criteria, the persons responsible for Investor Relations and Insider information are consulted as to whether and if, then when a disclosure to the public needs to be made; (iii) if a disclosure needs to be made, it is made immediately, but not later than 3 business days from the time the need for disclosure became known.

Also, as per the OECD 2015 CGR, the Company encourages direct contact and dialogue with its Management Board and the Managing Directors of its key subsidiaries and has stated the relevant contacts (phone numbers and emails) under the subheading 'Management' in the section 'About the Company'.

5.2. The web site of the Issuer shall be clear in structure and published information shall be easy to find. Published information shall also be available in English. The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year (including the annual report, interim reports and notice calling a general meeting) at the beginning of the fiscal year in a separate notice, called financial calendar. The Issuer shall also publish this notice on its web site.

The web-site of the Company has an 'About the Company' section with an overview of its management, Supervisory Council and its committees and news. In addition, the Company has a separate Investors' section with subheadings of 'Shareholders', 'Info from Nasdaq', 'Structure' (added in 2018, outlining Company's organisational chart, displaying all group companies), 'Financial reports' and 'Presentation'. Information on the website is published in Estonian, English, Latvian, Lithuanian and Russian, with important documents being in Estonian and English only. The Company is following the recommendation and is publishing the investor's calendar through the stock exchange and on its website usually already at the end of the previous financial year.

5.3. As per the recommendation on the Issuers web-site the following should be accessible to the shareholders:

- report on Corporate Governance Recommendations;
- date, place, and agenda of the General Meeting and other information related to the General Meeting;
- articles of association;
- general strategy directions of the Issuer as approved by Supervisory Council;
- membership of the Management Board and Supervisory Council;
- information regarding the auditor;
- annual report;
- interim reports;
- agreements between shareholders concerning concerted exercise of shareholders rights (if those are concluded and known to the Issuer);

- other information, published on the basis of these Corporate Governance Recommendations.

The Company is following the recommendation. The Corporate Governance report is part of the Company's annual report and can be found under 'Investors', subheading 'Financials' in the consolidated 2017, 2018, 2019 as well as 2020 annual reports of the Company. Financials section houses all annual and interim (quarterly) reports as well. Information about shareholder meetings (date, place, agenda), relevant resolutions and proposals (including archived ones) is under 'Investors' subheading 'Shareholders' (for data older than the previous year click the 'Archive' link) and there, in a separate sub-section you can also find the Company's legal documentation, including articles of association in Estonian and English, annual reports before the Company was listed and listing prospectuses. Information regarding membership of the Management and Supervisory Council is under the section 'About the Company'. Information about the auditor is under the respective sub-heading 'Auditor' under the section 'About the Company'. Information regarding membership of the Supervisory Council committees is under its own sub-section 'Audit and Remuneration Committees' under the section 'About the Company'.

According to the knowledge of the Company there are no agreements between shareholders concerning concerted voting or otherwise concerted exercise of shareholders rights, which is why no such documents are displayed on the Company website under the 'Shareholders' section.

The Company is considering creating a separate Corporate Governance section on its website.

5.4. As per the recommendation, the Management Board and the Supervisory Council should describe the management practices of the Issuer including their compliance with these CGR in the annual report presented to the General Meeting. If the management of the Issuer deviates from the management structure described in these CGR the Management Board and Supervisory Council should justify the deviation. The Management Board and the Supervisory Council should also describe in the report presented at the General Meeting any circumstances required under these CGR. CGR shall be presented as separate chapter of management report.

The Company is following this recommendation and is including in the annual report the overview of compliance with the CGR as a separate chapter.

5.5. As per the recommendation, if the Issuer notifies financial analysts or other persons of facts or estimates related to the Issuer, it should also publish this information to shareholders on the Issuer's web-site. Inside information disclosed at the General Meeting in response to questions presented by shareholders or other means and which has not been formerly disclosed should be published by the Issuer immediately after holding of the General Meeting.

The Company has not notified financial analysts of any estimates which have not been made public during the listing of the Company's shares or thereafter. The

Company also publishes a respective Stock Exchange notice as well as the detailed minutes of its General Meetings either on the day of the date when the meeting was held or on the following day, thus disclosing any information discussed at such General Meetings.

From time to time the Company discloses sensitive information to persons with whom the Company is holding business negotiations. As per the Requirements for Issuers of NASDAQ OMX Tallinn Stock Exchange an Issuer does not need to disclose information about the progress of business negotiations. An Issuer may give undisclosed information confidentially to persons with whom it is holding or intends to hold business negotiations. In such cases the Company always signs a non-disclosure confidentiality agreement and notifies the party to the negotiations of the fact that any inside information can't be used for insider trading. The Company registers such persons as temporary insiders in the insiders' register.

5.6. As per the recommendation the Issuer should organize the exchange of information with journalists and analyst after a careful consideration. The Issuer should refrain from compromising the independence of the analyst or the Issuer's independence from analyst when communicating with analysts. The Issuer should disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website. The Issuer should not arrange meetings with analysts and presentations organized for investors directly before dates of publishing a financial report (interim reports, annual report).

According to the belief of the Management Board of the Company this recommendation is followed. When organising investor conference webinars, the Company has always timed them after publishing the interim and annual reports. No webinars were held in 2020.

As per the OECD 2015 Corporate Governance recommendations regarding transparency and timely and accurate disclosure of information on all material matters regarding the Company, the Company would like to additionally point out that it is also quarterly (within a week following quarter end) disclosing its main shareholders and true beneficiaries on its website under sub-section 'Shareholders' under 'Investors'.

As per the OECD 2015 Corporate Governance recommendations regarding transparency and disclosure of information, the Company would also like to point out that the Company's shares are, in fact, broadly held and that it was transferred to the main list of NASDAQ OMX Tallinn on 19 November 2018. The prerequisites for the main listing, which the Company fulfilled were: (i) at least 25% free float; (ii) 4 million euros market capitalisation (the Company's market capitalisation was 92.97 million euros as at 31 December 2018) and (iii) using international reporting standard (the Company uses IFRS) and (iv) being in operation for 3 years (the Company has operated for over 20 years). The Company's official free float at the time of transfer was c.a. 15.51%. However, as a result of the EU 5th Money-

Laundering directive, which requires transparency regarding the ultimate beneficiaries behind holding accounts and which Estonia stringently implemented from 30 October 2018, the Company queried its main shareholders as to the true beneficiaries and received replies that very few individuals or companies who are the ultimate beneficiaries behind the holding accounts of the main shareholders actually hold more than 5% of the Company's shares. As a consequence, the Company was able to prove to the NASDAQ Tallinn OMX that the real free float of the Company as at 30 September 2018 (as well as at 31 December 2018) was actually c.a. 51%.

6. FINANCIAL REPORTING AND AUDIT

6.1. Reporting

6.1.1. As per the recommendation, Issuers should publish annually its annual report and within a fiscal year its interim reports. The Management Board should draw up annual accounts, which should be audited by the auditor and the Supervisory Council. On meeting of the Supervisory Council, where the annual account is reviewed, the auditor of the Issuer should participate upon invitation of the Supervisory Council. Members of the Management Board of the Issuer and other persons belonging to management should leave the meeting during the auditor reports the most material conclusions of audit. The shareholders should be presented with the annual report signed by members of the Management Board and the Supervisory Council for examination. Together with annual report, the Supervisory Council should make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code. The Company is following this recommendation. Previously, the Company has published its interim reports within 2 months after period end and the annual report within the legal allotted 4 months from fiscal year-end. In 2019, the Company has considerably brought forward its reporting and also in 2020 published most of its interim reports within 1 month from period end. 2019 annual report was published at 4 May 2020 with a delay compared to initial financial calendar due to technical obstacles.

6.1.2. As per the recommendation, the Issuer should publish an annex of the annual accounts including a list of companies not belonging to the Issuer's group, in which the holding of Issuer has significant importance to the Issuer. The Issuer should disclose the business name, location, and size of the holding, area of activity, amount of share capital, and net profit or loss during the previous financial year of this Company.
There are no companies in which the Company has participation, which do not belong to the group.

6.1.3. As per the recommendation, the annexes to the annual accounts should contain information regarding the connections of the Issuer with shareholders which are

deemed to be connected persons pursuant to standards of international financial reporting provided for in sub section 17 (2) of the Accounting Act.
The Company is following this recommendation.

6.2. Election of the Auditor and Auditing of the Annual Accounts.

6.2.1. Together with notice of calling the General Meeting the Supervisory Council should make available to shareholders the information on a candidate for auditor, including information on their business connections specified below. If there is a desire to appoint an auditor who has audited Issuers reports on previous financial year the Supervisory Council should pass judgment on their work. Before the Supervisory Council presents a candidate of auditor for election in a General meeting, the Supervisory Council should require from a candidate for auditor an overview of what kind of connection pertaining to work, economic connection or other connection possibly affecting the independence of the auditor exists between the auditor, its management body and the auditors in charge on one side and the Issuer and its management body on other side. The Supervisory Council should describe in its evaluation report to judgment of the auditors work *inter alia* the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or should provide during the next year. Also, the remuneration the Issuer has paid or shall pay to the auditor should be published. If the Supervisory Council makes a proposal to elect a new auditor it should justify to the General Meeting its reasons for terminating the contract with previous auditor.
The Company is following this recommendation.
In 2018, the Management Board of the Company sought offers from at least three different audit companies to perform the audit of the Company for the next 2 (two) years, i.e. from 2019-2020). Upon the recommendation of the Audit Committee and the Supervisory Council, due to the best proportion of the price offer and their quality of work AS Deloitte Audit Eesti was elected to continue as the auditor of the Company for the financial years of 2019-2020, which for 2020 was reconfirmed at the Company's AGM of 27 May 2020. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2020 is 73 300 euros (net of VAT). The price increase is related to significant increase in the engagement risk level and merger proceedings in Lithuanian subgroup.
In 2020, besides provision of audit services AS Deloitte Audit Eesti has not rendered any advisory or other services to the Company. As per the OECD 2015 Corporate Governance recommendations regarding avoidance of using external auditors for performance of non-audit services, the Company is certain that rendering tax advisory and translation services will not impair the auditor's independence as to auditing nor will it result in auditing their own work.

6.2.2. As per the recommendation, before entering a contract for auditing services with an auditor, the Management Board should present the Supervisory Council with the draft contract for approval. In a contract to be concluded with an auditor, above all the auditor's functions, timetable and remuneration should be agreed upon. The Issuer should not conclude a contract, where it is indicated that disclosure of remuneration payable for auditing is breach of contract. Pursuant to the contract the auditor obliges to promptly inform the Chairman of the Supervisory Council of any danger to the independence or professionalism of their work that becomes evident during the course of their work, unless the danger is promptly eliminated. Pursuant to the contract, the auditor should oblige to promptly inform the Supervisory Council of any material circumstances that become known to them that may affect the work of the Supervisory Council and management of the Issuer. The contract to be concluded with an auditor should not in any manner hinder the auditor's evaluation of the Issuer's activities.

The Company is following this recommendation.

6.2.3. Upon organizing the rotation of auditors, the Issuer should comply with guidelines of the Financial Supervision Authority from 24 September 2003, "Rotation of auditors of certain entities under state supervision".

As of listing of the Company shares on NASDAQ OMX Tallinn Stock Exchange, the Company has followed this recommendation.

6.2.4. Pursuant to the contract the auditor obliges to disclose to the Supervisory Council and at the General Meeting the facts, which become evident to them during the course of exercising of a regular audit, indicating non-compliance with the Corporate Governance Recommendations by the Management Board or the Supervisory Council. The Auditor should prepare a memorandum to the Issuer regarding these facts along with the auditor's report. The auditor should not reflect in the memorandum the facts that the Management Board has explained in the Corporate Governance Recommendations Report.

The Company is following this recommendation. The lead auditor was present at the Company's 2020 AGM to enable shareholders to ask questions about the results of the audit.

6.2.5. The General Meeting, Supervisory Council and Management Board should enable auditor to carry out the auditing according to international auditing standards.

The Company's annual accounts are audited in accordance with international auditing standards.

6.2.6. Upon introducing the findings of the audit to the Supervisory Council, the Auditor should present *inter alia*:

- an overview of the progress of the audit, co-operation with employees, subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;
- an overview of the independence of the auditor and the absence of conflict of interests during the audit;

- an analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;
- their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;
- his or her opinion regarding financial forecasts made and the quality of the budget.

The Auditor should present an overview, analysis and opinion described above in writing to the Supervisory Council.
The Company is following this recommendation.

7. HUMAN RESOURCE POLICY

7.1. The aim of the Company's human resource policy is to ensure the implementation of the strategic goals of the Company by all employees and ensuring the reputation of valued employer. Company uses both internal and external hiring processes, and persons already working for the Company are preferred for filling the vacant positions. Human resource policy regulates the management techniques and practices, group communication and fundamental work principles. Training and remuneration policy support the learning organization with the aim to remain competitive as an employer. The Company has a well-established induction policy, including regarding health and safety matters, for all new employees, new appointments to the Supervisory Council and the Management Board. Company's human resource policy is constantly evolving.

8. DIVIDEND POLICY

8.1. The Company has historically been financing its operations mainly from retained earnings. Hence there have been limited dividend payments in the past. For the year 1998 dividends in the amount of 345 123 euros were paid, for 2004 dividends in the amount of 2 039 501 euros were paid and for 2017 dividends in the amount of 850 319.31 euros were paid. The declaration and payment by the Company of dividends and their amount depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management to be relevant at the time of making a dividend payment proposal. The Supervisory Board has the right to amend such proposal by the Management Board and the proposal is ultimately to be approved by the General Meeting of Shareholders.

In 2020, the Company did not distribute any dividends as profit to the shareholders, but covered the loss of 26 981 682 euros with retained earnings of previous periods.

Management declaration

The Management Board declares and confirms that according to their best knowledge, the year 2020 consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a true and fair view of consolidated assets, liabilities, financial situation and loss or profit of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Paolo Michelozzi
Chief Executive Officer
Chairman of the Management Board

11 June 2021

Allan Remmelkoor
Chief Operating Officer
Member of the Management Board

11 June 2021

Edoardo Preatoni
Member of the Management Board

11 June 2021

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

Consolidated financial statements

Consolidated statement of financial position

in thousands of euros	Notes	31.12.2020	31.12.2019 (Restated*)
ASSETS			
Current assets			
Cash and cash equivalents	8	9 393	10 616
Current receivables	9	1 797	1 475
Inventories	10	58 352	41 031
Total current assets		69 542	53 122
Non-current assets			
Non-current receivables	11	3 517	2 297
Property, plant and equipment	12	6 745	7 146
Right-of-use assets	12	357	519
Investment property	13	98 512	145 104
Intangible assets		375	372
Total non-current assets		109 506	155 438
TOTAL ASSETS		179 048	208 560
LIABILITIES AND EQUITY			
Current liabilities			
Current debt	14	107 581	111 759
Customer advances	23	7 866	3 974
Current payables	15	22 211	8 741
Tax liabilities		458	1 155
Short-term provisions		459	267
Total current liabilities		138 575	125 896
Non-current liabilities			
Non-current debt	16	27 255	10 871
Other non-current payables	20	2 295	1 013
Deferred income tax liabilities	28	1 170	1 348
Long-term provisions		182	127
Total non-current liabilities		30 902	13 359
TOTAL LIABILITIES		169 477	139 255
Equity attributable to owners of the Company			
Share capital in nominal value	21	11 338	11 338
Share premium	21	5 661	5 661
Statutory reserve	21	1 134	1 134
Revaluation surplus	21	2 984	3 262
Retained earnings		47 647	76 725
Profit/ loss for the financial year		-55 678	-29 078
Total equity attributable to owners of the Company		13 086	69 042
Non-controlling interest	7,22	-3 515	263
TOTAL EQUITY		9 571	69 305
TOTAL LIABILITIES AND EQUITY		179 048	208 560

** See Note 2 for details regarding the restatement as a result of an error*

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Notes	2020	2019 (Restated*)
CONTINUING OPERATIONS			
Operating income			
Revenue	23	19 234	55 276
Cost of sales	24	-12 459	-39 467
Gross profit		6 775	15 809
Marketing expenses	25	-621	-728
Administration expenses	25	-6 154	-6 013
Other operating income	26	478	95
Other operating expenses	26	-43 586	-26 602
Including net result from fair value adjustments of investment properties	*13*	*-43 127*	*-26 497*
Operating profit/ loss		-43 108	-17 439
Interest income	27	4	4
Finance cost	27	-15 998	-14 019
Profit/ loss before income tax		-59 102	-31 454
Income tax	28	-354	21
Profit/ loss from continuing operations		-59 456	-31 433
Attributable to:			
Owners of the Company		-55 678	-29 078
Non-controlling interests	22	-3 778	-2 355
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Net change in properties revaluation reserve		-278	0
Total comprehensive profit/ loss for the year		-59 734	-31 433
Attributable to:			
Owners of the Company		-55 956	-29 078
Non-controlling interests		-3 778	-2 355
Earnings per share			
From continuing operations			
Basic (euros per share)	29	-0.98	-0.51
Diluted (euros per share)	29	-0.98	-0.51

** See Note 2 for details regarding the restatement as a result of an error*

The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

in thousands of euros	Note	2020	2019 (Restated*)
Cash flows from operating activities			
Profit/ loss for the year		-59 456	-31 433
Adjustments for:			
Depreciation and amortisation of non-current assets		416	399
Gain from disposal of investment property		0	-3
Loss from write-off of PPE and intangible assets		8	6
Change in fair value of property, plant and equipment		-16	-15
Change in fair value of investment property	13	43 127	26 497
Finance income and costs	27	15 994	14 016
Change in deferred tax assets and liabilities	28	-178	-656
Other non-monetary changes (net amounts)		-3 110	419
Movements in working capital:			0
Change in receivables and prepayments		-1 514	-630
Change in inventories		-13 011	18 276
Change in liabilities and prepayments		10 025	-6 412
Change in provisions		59	-51
Net cash used/ generated in operating activities		-7 656	20 413
Cash flows from investing activities			
Payments for property, plant and equipment	12	-94	-226
Payments for intangible assets		-43	-74
Payments for investment property	13	-844	-6 019
Proceeds from disposal of investment property		0	2 170
Interests received		1	4
Net cash used in investing activities		-980	-4 145
Cash flows from financing activities			
Net proceeds from secured bonds	18	28 500	0
Redemption of convertible bonds	14,18	-33	0
Redemption of non-convertible bonds	14	-28 000	-500
Proceeds from borrowings		14 410	16 461
Repayment of borrowings		-1 376	-21 551
Repayment of lease obligations		-135	-192
Interests paid		-5 953	-6 910
Net cash used/ generated by financing activities		7 413	-12 692
Net change in cash and cash equivalents		-1 223	3 576
Cash and cash equivalents at the beginning of the period		10 616	7 040
Cash and cash equivalents at the end of the period	8	9 393	10 616

** See Note 2 for details regarding the restatement as a result of an error*

The accompanying Notes are an integral part of these consolidated financial statements.

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

Consolidated statement of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Properties revaluation reserve	Retained earnings	Attributable to equity owners of the parent	Non-controlling interests	Total equity
01.01.2019	11 338	5 661	1 082	3 262	76 771	98 114	2 624	100 738
Changes in statutory reserve	0	0	52	0	-52	0	0	0
Changes in statutory reserve in non-controlling interest	0	0	0	0	6	6	-6	0
Comprehensive loss for the period (restated*)	0	0	0	0	-29 078	-29 078	-2 355	-31 433
31.12.2019	11 338	5 661	1 134	3 262	47 647	69 042	263	69 305
Comprehensive loss for the period	0	0	0	-278	-55 678	-55 956	-3 778	-59 734
31.12.2020	11 338	5 661	1 134	2 984	-8 031	13 086	-3 515	9 571

Changes in non-controlling interests are described in Note 7 and Note 22. Changes in revaluation reserve are described in Note 21.

** See Note 2 for details regarding the restatement as a result of an error*

The accompanying Notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Note 1. General information

The consolidated financial statements of AS Pro Kapital Grupp (hereinafter the Parent) and its subsidiaries (hereinafter the Group or the Company) for the financial year ended 31 December 2020 were signed by the Management Board at 11 June 2021.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Pro Kapital Grupp is a corporation incorporated in the Republic of Estonia and it operates in Estonia, Latvia, Lithuania and Germany.

Since 23 November 2012, the shares of AS Pro Kapital Grupp have been listed on NASDAQ OMX Tallinn (Nasdaq Baltic) Stock Exchange secondary list, since 19 November 2018 in the main list. Starting from 13 March 2014, the shares of AS Pro Kapital Grupp have been traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurt Stock Exchange (Frankfurter Wertpapierbörse). On 9 July 2020 the secured non-convertible bonds were listed on Nasdaq Stockholm Stock Exchange.

At the end of reporting period the main shareholders of the Parent are the following:

Shareholder	Country of incorporation	Ownership 31.12.2020	Ownership 31.12.2019
Raiffeisen Bank International AG	Austria	54.70%	48.68%
Clearstream Banking AG	Germany	20.06%	20.80%
Nordea Bank ABP/Non-treaty Clients	Finland	8.45%	N/A
OÜ Svalbork Invest	Estonia	6.63%	6.41%
Nordea Bank Finland Plc Clients	Finland	N/A	11.13%

The address of its registered office and principal place of business is disclosed in the introduction to the annual report. The principal activities and the structure of the Company and its subsidiaries are described in Note 5.

Note 2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs affecting amounts reported in the financial statements

Accounting policies applied in the year 2020 are consistent with those followed in the preparation of the Group`s annual financial statements for the year ended 31 December 2019, except for the changes outlined below.

Amendments to the existing standards and new standards and interpretation effective for current financial period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted in EU are effective for the current reporting period:

- Amendments to IFRS 3 "Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
  The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, they clarify that a business can exist without including all of the inputs and processes needed to create outputs.
  The other key amendments include:
  - Removal of the assessment of whether market participants are capable of replacing any missing outputs or processes and continuing to produce outputs
  - Adding guidance and illustrative examples to help entities assess whether a substantive process has been acquired
  - Narrowing the definitions of business and outputs by focusing on goods or services provided to customers and by removing the reference to an ability to reduce costs
  - Adding an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business

  These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any acquisition. The Group expects that the amendments will reduce the number of transactions that are accounted for as a business combination.
- Amendments to IFRS 16 "Leases" - COVID-19-Related Rent Concessions - The amendment exempts lessees from having to consider individual lease contracts

to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications (effective from 1 June 2020 for financial years starting on or after 1 January 2020);
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - Interest Rate Benchmark Reform (1st phase) - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material - the amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards - The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance, in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting - (effective for annual periods beginning on or after 1 January 2020).

The Group has used the IFRS 16 “Leases” exemption and recognised the temporary rental discounts in the amount of 10 thousand euros related to the COVID-19 pandemic, in the statement of profit and loss.

The adoption of other amendments to the existing standards and interpretation has not led to any material changes in the Group’s consolidated financial statements.

Standards and amendments to the existing standards issued by IASB and adopted in EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective:
- Amendments to IFRS 4 “Insurance Contracts” – “Extension of the Temporary Exemption from Applying IFRS 9” (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement”, IFRS 7 “Financial Instruments: Disclosures”, IFRS 4 “Insurance Contracts” and IFRS 16 “Leases” - Interest Rate Benchmark Reform (2nd phase) - adopted by the EU on 13 January 2021 (effective for annual periods beginning on or after 1 January 2021).

The Group has decided not to adopt these new standards and amendments to existing standards and interpretation in advance of their effective dates. The Group anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Group in the period of initial application.

New standards and amendments to the existing standards issued by IASB but not yet adopted in EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU (the effective dates stated below is for IFRS as issued by IASB):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 "Insurance Contracts" IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023);
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);

- Amendments to IFRS 3 “Business Combinations” - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- Annual improvements to IFRS standards 2018-2020; (effective for annual periods beginning on or after 1 January 2022).
  - The amendments to IFRS 9 “Financial instruments” clarify that, when assessing whether an exchange of debt instruments between an existing borrower and lender is on terms that are substantially different, the fees to include together with the discounted present value of the cash flows under the new terms include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - The amendments IFRS 16 “Leases” remove illustrative example 13 accompanying IFRS 16, which in practice creates confusion in accounting for leasehold improvements for both lessee and lessor. The purpose of the amendment is to remove the illustrative example that creates confusion.
  - The amendments to IAS 41 “Agriculture” remove the requirement to use pre-tax cash flows to measure fair value of agriculture assets. Previously, IAS 41 had required an entity to use pretax cash flows when measuring fair value but did not require the use of a pre-tax discount rate to discount those cash flows.

The Group anticipates that the adoption of these new standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principals have not been adopted by the EU remains unregulated.

According to the Group’s estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement” would not impact the financial statements, if applied as at the balance sheet date.

Prior period errors

When determining the fair value of investment property, double counting of assets or liabilities that are separately recognised in the balance sheet should be avoided. When making the adjustment to the fair value of investment property in the balance sheet as at 31 December 2019, the Management did not take into account the fact that a receivable had already been recognised for a portion of the future cash flows. The carrying amount of the T1 Mall of Tallinn investment property is therefore 108.6 million euros as at 31 December 2019, restated by 2 261 thousand euros which is equal to non-current receivables recognised in the balance sheet.

The following table summarises the impact of the prior period error on the financial statements of the Group.

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	2019 (Restated)	2019
Other operating expenses	-26 602	-24 341
Including net result from fair value adjustments from investment property	*-26 497*	*-24 236*
Operating profit/ loss	-17 439	-15 178
Profit/ loss before income tax	-31 454	-29 193
Profit/ loss from continuing operations	-31 433	-29 172
Total comprehensive loss for the year	-31 433	-29 172
Attributable to:		
Owners of the Company	-29 078	-26 981
Non-controlling interests	-2 355	-2 191
Earnings per share		
Basic (euros per share)	-0.51	-0.48
Diluted (euros per share)	-0.51	-0.48

Consolidated statement of financial position

in thousands of euros	2019 (Restated)	2019
Non-current assets		
Investment property	145 104	147 365
Total non-current assets	155 438	157 699
TOTAL ASSETS	208 560	210 821
Equity attributable to owners of the Company		
Profit/ loss for the financial year	-29 078	-26 981
Total equity attributable to owners of the Company	69 042	71 139
Non-controlling interest	263	427
TOTAL EQUITY	69 305	71 566
TOTAL LIABILITIES AND EQUITY	208 560	210 821

Note 3. Significant accounting policies

3.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in European Union, and in accordance with Estonian Accounting Act.

3.2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment, investment properties, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration at the moment of exchange for assets.

The principal accounting policies are set out below.

3.3. Going concern

The Management Board has, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, we continue to adopt the going concern basis of accounting in preparing the financial statements.

3.4. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent and entities controlled by the Company (its subsidiaries). Control is achieved where the Parent:
- has power over the investee;
- is exposed to variable returns from its involvement with the investee;
- has the ability to use its power to affect its return.

The Parent reassess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of subsidiary begins when the Parent obtains control over the subsidiary and ceases when the Parent loses control of the subsidiary. The financial statements of the Parent and its subsidiaries are consolidated line-by-line basis and all transactions, balances and unrealized profits which have arose as a result of transactions between the Parent and its subsidiaries are eliminated. Specifically, income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

Investments into subsidiaries are recorded at cost in separate financial statements of the Parent. In case of need cost value is adjusted with impairment losses.

3.5. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

3.6. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.5 above) less accumulated impairment losses, if any.

Goodwill is not amortised but a cash-generating unit to which goodwill has been allocated is tested for impairment. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergy of the combination.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit of loss disposal.

3.7. Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions, quoted by European Central Bank. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, quoted by European Central Banks of sub-group’s country of incorporation.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

3.8. Cash and cash flows

Cash on the statement of financial position and statement of cash flows comprises cash on hand, bank accounts, and short-term bank deposits (with time term less than three months).

Cash flows from operating activities are presented using the indirect method, according to which the net profit (loss) for the financial year is adjusted by the effect of transactions of a non-monetary nature, net changes in assets and liabilities related to business operations, and items of income and expense (profits and losses) associated with financing and investing activities. Cash flows from investing and financing activities are reported based on direct method, presenting gross receipts and disbursements of the accounting period.

3.9. Inventories

Inventories are initially recognised at cost which includes direct purchase costs and other costs directly attributable to the acquisition of the inventories incurred in bringing the inventories to their present location and condition. The principles of recognition of borrowing cost are described in 3.17 “Financial liabilities and equity instruments“.

Inventories are stated at the lower of cost and net realisable value. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, the weighted average cost method is used. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Inventories regarding real estate developments are recognised as property held for sale or works in progress depending on the level of completion.
Transfers from inventory to investment property shall be made when, the property no longer meets the definition of inventory and there is a change in use, evidenced that the assets are hold for capital appreciation.

3.10. Property, plant and equipment

An item of property, plant and equipment is an asset for production, provision of services or administrative with cost at least 1 000 euros and with useful life of over one year and it is probable that future economic benefits attributable to them will flow to the Company. Assets with cost less than 1 000 euros are recognised as expenses at the time they are incurred and are accounted for off-balance sheet.

Land and buildings held for supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties' revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties' revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Right of use assets are stated at cost less accumulated depreciation and accumulated impairment losses. Right of use assets are generally depreciated over their lease period.

The annual depreciation rates for groups of property, plant and equipment are as follows:

- Buildings in use 2 to 5% per annum;
- Machinery and equipment 8 to 20% per annum;
- Other fixtures 20 to 50% per annum.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Subsequent expenditure incurred for items of property, plant and equipment are added to the carrying value if it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Replaced parts are derecognised. Other repair and maintenance costs are recognised as expenses at the time they are incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.11. Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property.

In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied. When development of a part or entire investment property starts with the aim to sell developed product, this part or entire investment property is reclassified as inventory when the developed product enters active development phase. The Group considers the start of active development phase when one or several of the following events occur:

- signing reservation agreements with customers;
- applying for construction permit from local municipality;
- signing of development loan agreement;
- signing construction agreement.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, based on the market price determined annually by independent appraisers, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items “Other operating income/other operating expenses”. No depreciation is calculated on investment property recognised at fair value.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn form use and no future economic benefits are expected from the disposal. Any gain or loss arising on de-recognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.12. Intangible assets (excluding goodwill)

Intangible assets include purchased franchises, patents, licenses, trademarks, usage rights and websites.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. Intangible assets with indefinite useful lives that are acquired separately are carried at costs less accumulated impairment losses.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The straight- line method is used for amortisation. The amortisation rate for intangible assets is generally 20% per annum, excluded the usage rights, websites and intangible assets with indefinite useful lives. Usage rights and websites are amortised on a straight-line basis and the length of the amortisation period is the period where the asset is being used.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

3.13. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see Note 3.10 above).

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3.14. Investments in subsidiaries (in Parent company´s unconsolidated financial statements)

Investments in subsidiaries that are not held for sale are recognised in the unconsolidated financial statements of the Parent company at cost.

3.15. Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets of financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.16. Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Measurement of financial assets at amortized cost

Financial assets that are measured at amortized cost: cash and cash equivalents, trade receivables, loans granted and other financial assets.

The method of amortized cost is applied to financial assets which are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the unpaid principal, using the effective interest rate method. Financial asset is initially recognised at its fair value plus transaction costs that are directly attributable to the acquisition of the financial assets except trade receivables (not including financing component) that are initially recognised at their transaction price.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit or loss.

Measurement of financial assets at fair value through other comprehensive income

Gains and losses on a financial asset constituting an equity instrument for which was applied the option of fair value through other comprehensive income is recognized in other comprehensive income, except for revenues from received dividends.

The Group doesn't have financial assets measured at fair value through other comprehensive income.

Measurement of financial assets at fair value through profit or loss

Gains or losses on the measurement of a financial asset that is classified as measured at fair value through profit or loss are recognized in profit or loss during the period in which they were recognized. Gains or losses from the valuation of items measured at fair value through profit or loss also include interest and dividend income.

The Group doesn't have financial assets measured at fair value through profit or loss.

Impairment of financial assets

The Company uses the following models for determining impairment allowances:

- general model (basic);
- simplified model.

In the general model, the Group monitors the changes in the level of credit risk associated with a given financial asset and classifies financial assets to one of the three stages of impairment allowances based on the observation of the change in the credit risk level in relation to the initial recognition of the instrument.

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime expected credit losses (ECL) for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(i) *Definition of default*

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(ii) *Write-off policy*

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

(iii) *Measurement and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Group's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used for determining the expected credit losses is consistent with the cash flows used in measuring the lease receivable in accordance with IFRS 16.

For a financial guarantee contract, as the Group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Group expects to receive from the holder, the debtor or any other party.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which the simplified approach was used.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognised in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

3.17. Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Compound instruments

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. The Company is issued convertible bonds that are convertible into shares at bondholder's request. The Company is classified those convertible bonds as financial liability.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. Transaction costs that relate to the issue of the convertible bonds are included in the carrying amount of the liability and amortised over the lives of the convertible bonds using the effective interest method. Interest expense from convertible bonds is recorded in the income statement for the reporting period based on actual interest rates.

Financial liabilities

Financial liabilities (including borrowings and trade and other current and non-current payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Financial liabilities are classified as current when they are due to be settled no more than twelve months after the reporting period; or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Borrowings that are due no more than twelve months after the reporting period, but which are refinanced after the reporting period as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had a contractual right at the reporting period to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time (two years) to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification;

and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses.

3.18. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Provision is discounted to its present value when the effect of the time value of money is material.

3.19. Contingent liabilities

Pledges and other commitments, which at certain conditions may turn into liabilities in the future, are disclosed in the Notes of the consolidated financial statements as contingent liabilities.

3.20. Statutory reserve

Statutory legal reserve is recorded based on the requirements of the Estonian Commercial Code and is comprised of the provisions made from the net profit. The annual provision must be at least 1/20 of the approved net profit of the financial year until the statutory legal reserve equals at least 1/10 of share capital amount.

3.21. Revenue recognition

The Group recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.

Revenues from sales of goods and services the Company applies the principles of IFRS 15 in the five-step model:

- Identification of contract with a costumer;
- Identification of performance obligations in the contract;
- Determination of transaction price;
- Allocation of transaction price to the performance obligations in the contract;
- Recognition of revenue when the entity satisfies a performance obligation.

Revenue from contracts with customers other than rental income

Revenues from the sale of real estate

The Group develops and sells residential and commercial properties. The Group enters into preliminary contracts with customers to sell property that are either completed or under development. Property is sold when the real right agreement is confirmed by the notary and the control over the property has been transferred to the customer. The revenue is measured at the transaction price under the contract and the consideration is due when legal title has been transferred. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognised at a point in time when the legal title has passed to the customer.

(i) *Completed inventory property*

The sale of completed property constitutes a single performance obligation and the Group has determined that this is satisfied at the point in time when control transfers. For unconditional exchange of contracts, this generally occurs when legal title transfers to the customer. For conditional exchanges, this generally occurs when all significant conditions are satisfied. Payments are received when legal title transfers which is usually within six months from the date when contracts are signed.

(ii) *Inventory property under development*

The Group considers whether there are promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. For contracts relating to the sale of property under development, the Group is responsible for the overall management of the project and identifies various goods and services to be provided, including design work, procurement of materials, site preparation and foundation pouring, framing and plastering, mechanical and electrical work, installation of fixtures (e.g., windows, doors, cabinetry, etc.) and finishing work. The Group accounts for these items as a single performance obligation because it provides a significant service of integrating the goods and services (the inputs) into the completed property (the combined output) which the customer has contracted to buy. For the sale of property under development, the Group has determined that it generally does not meet the criteria to recognise revenue over time. In these cases, control is transferred and hence revenue is recognised at a point in time. This is either property sold to one customer encompassing either all of the land and building or multi-unit property. However, the Group has determined that, for its typical contracts of multi-unit property, its performance does not create an asset with alternative use to the Group and it has concluded that, at all times, it has an enforceable right to payment for performance completed to date. Therefore, control transfers over time for these contracts.

For contracts that meet the over time revenue recognition criteria, the Group's performance is measured using an input method, by reference to the costs incurred to the satisfaction of a performance obligation (e.g., resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the completion of the property. The Group excludes the effect of any costs incurred that do not contribute to the Group's performance in transferring control of goods or services to the customer (such as unexpected amounts of wasted materials, labour or other resources) and adjusts the input method for any costs incurred that are not proportionate to the Group's progress in satisfying the performance obligation (such as uninstalled materials).

(iii) *Other consideration related to the sale of inventory property*

In determining the transaction price, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

If the consideration in a contract for the sale of property under development includes a variable amount in the form of delay penalties and, in limited cases, early completion bonuses, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur. At the end of each reporting period, an entity updates the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

For some contracts involving the sale of property, the Group is entitled to receive an initial deposit. This is not considered a significant financing component because it is for reasons other than the provision of financing to the Group. The initial deposits are used to protect the Group from the other party failing to adequately complete some or all of its obligations under the contract where customers do not have an established credit history or have a history of late payments.

In addition, for certain contracts involving the sale of property under development, the Group may require customers to make advance payments of 10-20% of the selling price, as work goes on, that give rise to a significant financing component. For contracts where revenue is recognised over time, the Group uses the practical expedient for the significant financing component, as it generally expects, at contract inception, that the length of time between when the customers pay for the asset and when the Group transfers the asset to the customer will be one year or less. For contracts where revenue is recognised at a point in time (i.e., upon completion of the development) and the practical expedient cannot be applied, the Group adjusts the transaction price for the effects of the significant financing component by discounting it using the rate that would be reflected in a separate financing transaction between the Group and its customers at contract inception. However, the Group has concluded that the impact from this adjustment is immaterial to the financial statements of both the current and prior years.

The Group has determined that contracts involving the sale of completed property do not contain significant financing components. In addition, there is no non-cash consideration or consideration payable to customers.

Revenue from hotel operating revenue

The Group operates a hotel in Bad Kreuznach, Germany. The hotel derives revenue from providing accommodation, renting of banquet halls and related facilities, providing catering, offering access to the thermal bath etc. Revenue from the sale of goods and sale of services is recognised when the Group sells a product or services to the customer which represents the point in time at which the right to consideration becomes unconditional. Payment of the transaction price is usually due immediately when the customer purchases a product or the service is provided.

Revenue from maintenance services

The Group provides maintenance services, which includes only one performance obligation to apartment associations in the residential buildings that the Group has developed. These services represent a series of daily services that are individually satisfied over time because the tenants simultaneously receive and consume the benefits provided by the Group. The services are regularly provided to the customers for a fixed fee based on long-term contracts and the Group records revenues monthly on accrual basis and receives payments accordingly. The Group applies the time elapsed method to measure progress and revenue is recognised over time.

Revenue from other services

Revenue from other services is irregular and is recognised depending on the provided service over time or at point in time when the promised goods or service is transferred to the customer.

Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 3.23 below.

Other income

Income, which is not related to the core operations of the Group entities, is recorded as other income.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised using the effective interest rate method. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset.

3.22. Expenses

Cost of sales

Cost of sales includes the costs of bringing real estate objects that are realized during the reporting period and recorded in the net sales to a marketable condition. Real estate rental, development and management expenses, and costs related to hotel management services are also recorded in income statement under "Cost of sales".

Marketing expenses

Marketing expenses include selling expenses, i.e. advertising, agency fees and other marketing expenses.

Administration expenses

Administration expenses include personnel and office management expenses, research and development expenses, amortisation cost of plant, property and equipment.

Other expenses

Expenses, which are not related to the core operations of the Group entities, are recorded as other expenses.

Borrowing cost

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time (more than one year) to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Interest and financing costs are recorded using effective interest rate method on the accrual basis as financial expenses of the reporting period.

3.23. Leasing

The Group as a Lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to

exercise the options; and

- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the ‘Property, Plant and Equipment’ policy.

The Group as a Lessor

The Group earns revenue from acting as a lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature, except for contingent rental income which is recognised when it arises. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

For investment property held primarily to earn rental income, the Group enters as a lessor into lease agreements that fall within the scope of IFRS 16. These agreements include certain services offered to tenants (i.e., customers) including common area maintenance services (such as cleaning, security, landscaping and snow removal of common areas), as well as other support services. The consideration charged to tenants for these services includes fees charged based on proportion of rented spaces and reimbursement of certain expenses incurred. These services are specified in the lease agreements and separately invoiced.

The Group has determined that these services constitute distinct non-lease components (transferred separately from the right to use the underlying asset) and are within the scope of IFRS 15. The Group allocates the consideration in the contract to the separate lease and revenue (non-lease) components on a relative stand-alone selling price basis.

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains substantially all the risks and rewards incidental to ownership of this property and accounts for the contracts as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the investment property.

Rent receivables

Rent receivables are recognised at their original invoiced value except where the time value of money is material, in which case rent receivables are recognised at fair value and subsequently measured at amortised cost. For more details see financial assets section 3.16 in this note.

Tenant deposits

Tenant deposits are initially recognised at fair value and subsequently measured at amortised cost. Any difference between the initial fair value and the nominal amount is included as a component of operating lease income and recognised on a straight-line basis over the lease term. Refer also to accounting policies on financial liabilities in this note.

3.24. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.25. Taxation

Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. The tax rate applicable is 20/80 from taxable amount since 1 January 2015. From 2019, tax rate of 14/86 can be applied to dividend payments that be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. 2018 is the first year to be taken into account.

Income tax expense to be incurred at the payment of dividends is recognized in the income statement as expense at announcement of dividends or any other distribution of equity.

The Company recognises a deferred tax liability for all taxable temporary differences associated with subsidiaries, except if the timing of reversal of the temporary differences can be controlled and it is probable will not reverse in the foreseeable future.

Other subsidiaries

Profit earned by subsidiaries of the Group is imposed to income tax according to the tax rate stipulated by the legislation of domicile countries. Deferred income tax liability is accounted from all relevant temporary differences between the tax bases of assets and liabilities and their book value. Deferred income tax assets, which are mainly caused by the tax losses carried to future periods, are recognized in the statement of financial position only, when it is likely that it will be realized through the taxable profit earned in the future. Deferred tax assets and liabilities are offset when there is a legally enforceable right in the Group subsidiaries' countries of incorporation to set off current tax assets against current tax liabilities. For calculation of the deferred income tax assets and liabilities, generally the income tax rate applicable on the balance sheet date is used.

3.26. Segment reporting

According to IFRS 8 Operating Segments, segment reporting is applicable to operating segments whose results are regularly reviewed by the parent to make business-related decisions. The primary decisions are made on country basis. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance. Primary criteria for monitoring of operating segments are the following: Revenue from third parties, EBIT, net profit earned and total assets.

3.27. Subsequent events

Consolidated financial statements include impact of significant events that are related with the events of previous periods that affect the valuation of assets and liabilities and occurred between the end of the reporting period and the date that the financial statements are finalized by the management board of the Parent.

Events after the reporting period that do not affect the valuation of assets and liabilities but have a significant effect on the result of the following financial year, are disclosed in the Notes to the consolidated financial statement.

Note 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1. Critical judgements in applying accounting policies

The following are the critical judgements, that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Loss of control

After the balance sheet date, a loss of control event occurred in the Group's subsidiary AS Tallinna Moekombinaat. The management considers the moment of loss of control over the subsidiary when bankruptcy of the subsidiary is declared and bankruptcy trustee appointed. The bankruptcy of AS Tallinna Moekombinaat was declared on 2 June 2021. Derecognition of the subsidiary is described in 3.4.

Going Concern

The management has assessed the effect of the loss of control of the subsidiary to the Group and potential consequences related to the possible recall of secured bonds (events are described in Notes 17, 18, 31, 34). The management assesses that the Group is able to continue as a going concern.

Classification of real estate

Real estate classification to inventory, investment property or property, plant and equipment is done based on management's intention over the future use of the object (see Note 10; 12 and 13). Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary course of business. Objects are recognized as investment property if purchase objective is gaining profit from rent or rise of market value. Also, objects are recognized as investment property if it is intended to keep them for long time and which have several purposes of use.

The Group takes into account the following considerations when reviewing the strategy and which were decisive to the transfer of some of the properties:

- there has been no development of such properties over the past 10 years;
- during the upcoming 5+ years perspective the Group has no intention to start developing these properties;
- there are no current plans to sell these properties in the near future;
- the essence of these properties is to be held for capital appreciation;
- an average operating cycle of the Group is usually about 2 years, very complex projects can take up to 4 years, which is less than 5+ years perspective.

Property used for rendering services or for administrative purposes and with useful life of over one year is considered to be property, plant and equipment.

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated individually. Expected credit loss from receivables are estimated using a provision matrix based on the Group's historical credit loss experience.

The Group may have receivables that are not allowed for. Such receivables have been assessed by the management of the Group on individual basis and have found them to be collectable with an exception of rental income, where receivables are assessed collectively.

4.2. Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets Notes 10, 11, 12, 13 include details of their nature and their carrying amount through the end of the reporting period.

Estimation of net realisation value of inventories

According to the Group principles, inventories are stated on the statement of financial position at the lower of cost or net realizable value, depending on which is lower. The management should decide upon net realization value if indication occurs that inventory value might be fallen below cost price. If this is the case inventories are written down to their net realization value.

Real estate that has been acquired and developed for sale is presented on the statement of financial position as inventories. In assigning value to such assets, management takes in account market sale transactions of similar type of assets made close to the balance sheet date. Additionally, for assigning the value there were used professional valuations made by property specialists. If actual sale prices of real estate objects were below the statement of financial position value the assets were written down to their net realizable value. In assigning the value to property purchased for development purpose, the Group has used professional valuation reports prepared by certified real estate appraisers.

Fair value of investment property

As of balance sheet date the investment properties are measured at their fair value. In determination of the fair value estimations of management are used, and if needed opinion of independent certified real estate appraisers. In determination of the fair value two methods are used: discounted cash flow method and comparative transaction price method, whichever is more appropriate considering the circumstances.

Recoverable value of property, plant and equipment

At the end of each reporting period, the management reviews the carrying amounts of its assets to determine whether there are any indications that the assets may be impaired. If the indication is detected, recoverable value is calculated. In determining the recoverable value of an asset, the impairment test is carried out during what the recoverable value is identified. The recoverable value of the asset is the higher of the present value of the future cash flows from the asset or the fair value of the asset less costs to sell.

For assets carried at revalued amount the management is assessing yearly whether carrying amount approximates fair value.

Useful life of property, plant and equipment

In determining useful life of property, plant and equipment, taken into account the Group business conditions and volumes, previous experience in relevant field and future plans. According to management estimation useful life for buildings is 20-50 years. Useful life for machinery and equipment 5 to 12.5 years depending on the purpose of use and for other equipment 2 to 5 years.

Note 5. Entities belonging to the Group

Please see also Group structure in the management report.

Name of the Entity	Country of incorporation and operation	Proportion of ownership interest and voting power held by the Group 31.12.2020	31.12.2019	Principal activity
AS Pro Kapital Grupp	Estonia			Holding activities, parent
Held directly by AS Pro Kapital Grupp:				
AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Vilnius Real Estate UAB	Lithuania	100.00%	100.00%	Real estate development
Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
OÜ Pro Kapital Germany Holdings	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Germany GmbH	Germany	100.00%	100.00%	Real estate development
Held directly by AS Pro Kapital Eesti:				
OÜ Ilmarise Kvartal	Estonia	100.00%	100.00%	Real estate development
AS Tondi Kvartal	Estonia	100.00%	100.00%	Real estate development
OÜ Pro Halduse	Estonia	100.00%	100.00%	Real estate management
AS Tallinna Moekombinaat**	Estonia	93.35%	93.35%	Shopping centre
OÜ Kalaranna Kvartal	Estonia	100.00%	100.00%	Real estate development
Held directly by AS Tondi Kvartal:				
OÜ Marsi Elu	Estonia	100.00%	100.00%	Real estate development
OÜ Dunte Arendus	Estonia	100.00%	100.00%	Real estate development
Held directly by Pro Kapital Vilnius Real Estate UAB:				
PK Invest UAB	Lithuania	100.00%	100.00%	Real estate development
In Vitam UAB	Lithuania	100.00%	100.00%	Real estate management
Held directly by PK Invest UAB:				
Pro Kapital Bonum UAB *	Lithuania	N/A	100.00%	Real estate development
Held directly by Pro Kapital Latvia PJSC:				
Klīversala SIA	Latvia	100.00%	100.00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Latvia	100.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Latvia	100.00%	100.00%	Real estate development
Held directly by OÜ Pro Kapital Germany Holdings:				
PK Hotel Management Services GmbH	Germany	100.00%	100.00%	Hotel management

** Pro Kapital Bonum UAB was merged into its parent company PK Invest UAB on 25 September 2020 due to the SPV (Special Purpose Vehicle) achieving its goals*

*** After balance sheet date the Group lost control over AS Tallinna Moekombinaat (Note 31)*

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

Below are presented the financial figures of the Group companies:

in thousands of euros	Cost 31.12.2020	Cost 31.12.2019	Revenue for 2020	Revenue for 2019	Profit/loss for 2020	Profit/loss for 2019	Net Assets 31.12.2020	Net Assets 31.12.2019 (Restated)	Net Assets 31.12.2019
AS Pro Kapital Eesti	17 981	17 981	841	777	3 330	3 249	127 107	123 777	123 777
OÜ Ilmarise Kvartal	286	286	9	135	135	121	3 510	3 375	3 375
AS Tondi Kvartal	4 364	4 364	65	825	3 717	421	28 618	24 901	24 901
OÜ Marsi Elu	458	458	999	19 240	-335	3 082	5 262	5 597	5 597
OÜ Dunte Arendus*	3	3	0	0	0	0	3	3	3
OÜ Pro Halduse*	27	27	61	47	-36	-49	508	544	544
AS Tallinna Moekombinaat**	13 375	13 375	5 597	9 486	-57 538	-30 221	-52 636	4 902	7 163
OÜ Kalaranna Kvartal	4 003	4 003	21	2	-2 217	-1 609	-181	2 036	2 036
Pro Kapital Vilnius Real Estate UAB*	2 375	2 375	143	659	-167	127	1 805	1 972	1 972
PK Invest UAB	6 679	6 679	8 608	16 927	3 491	5 703	12 811	9 320	9 320
Pro Kapital Bonum UAB*	N/A	800	N/A	0	N/A	26	N/A	907	907
In Vitam UAB*	43	43	256	210	39	27	70	31	31
Pro Kapital Latvia PJSC	10 188	10 188	390	453	-373	-225	8 876	9 249	9 249
Klīversala SIA	9 819	9 819	1 984	4 713	-173	1 349	19 653	19 826	19 826
Tallina Nekustamie Īpašumi SIA*	10 089	7 289	0	0	-261	-1 081	2 135	-404	-404
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA*	4 300	2 500	14	15	-291	-211	1 522	13	13
OÜ Pro Kapital Germany Holding*	971	971	0	0	-2	0	965	967	967
Pro Kapital Germany GmbH*	25	25	492	492	-11	-106	2 425	2 714	2 714
PK Hotel Management Services GmbH*	966	966	1 683	3 959	-543	76	-308	235	235

** the subsidiary's accounts are not being subject of external audit.l*

*** Due to the fact of becoming permanently insolvent, a new financial year will begin when bankruptcy is declared and bankruptcy trustee is appointed according to Estonian Bankruptcy Act § 128. This marks the point of ending current financial year. On 2 June 2021 bankruptcy of the subsidiary was declared. The annual accounts of TMK have not been audited as at 31 December 2020.*

Note 6. Segment reporting

Group companies consolidated segment information derived from geographical intercompany segment reporting is presented below.

Segment result, assets and liabilities are presented on line with items associated directly with particular segment and are sufficiently motivated. Internal transactions are not eliminated in separate segment reporting provided below.

The business activity of the Group is exercised in Estonia (sale of real estate, rent revenues from operating T1 Mall of Tallinn and real estate maintenance), Latvia (sale of real estate, rent and real estate maintenance), Lithuania (sale of real estate, rent and real estate maintenance) and Germany (hotel operating).

in thousands of euros	PKG Holding	Estonia	Latvia	Lithuania	Germany	Elimina-tions	Total
2020							
Revenue (Note 23)	736	6 687	2 007	8 874	1 684	*-754*	19 234
Incl. sales of real estate	*0*	*1 002*	*1 903*	*8 574*	*0*		*11 479*
Incl. rental income	*0*	*5 588*	*78*	*23*	*0*		*5 689*
Incl. hotel operating	*0*	*0*	*0*	*0*	*1 684*	*-12*	*1 672*
Incl. maintenance services	*0*	*62*	*0*	*224*	*0*		*286*
Incl. other services	*736*	*35*	*26*	*53*	*0*	*-742*	*108*
Other operating income & expenses (net)	22	-42 874	-602	0	346		-43 108
Incl. fair value adjustments	0	-42 526	-602	0	0		*-43 128*
Segment operating profit/ loss	-1 369	-43 517	-613	2 786	-404	*9*	-43 108
Finance income and cost (net)	-5 917	-9 425	-475	-15	-148	*-14*	-15 994
Profit/ loss before income tax	-7 286	-52 942	-1 088	2 771	-552	*-5*	-59 102
Income tax	0	0	-2	-348	-4		-354
Non-controlling interest	0	-3 778	0	0	0		-3 778
Net profit/ loss for the financial year attributable to owners of the Company	-7 286	-49 164	-1 090	2 423	-556	*-5*	-55 678
31.12.2020							
Assets	53 832	214 948	28 224	13 518	7 492	*-138 966*	179 048
Liabilities	124 237	125 854	20 306	1 401	5 096	*-107 417*	169 477
Acquisition of non-current assets (excluding investment properties)	0	60	1	3	73		137
Write-off of non-current assets	0	-33	-11	0	0		-44
Depreciation and amortisation	-5	-62	-49	-29	-227		-372

in thousands of euros	PKG Holding	Estonia (Restated)	Estonia	Latvia	Lithuania	Germany	Eliminations	Total
2019								
Revenue (Note 23)	760	28 911	28 911	4 739	17 688	4 451	*-1 273*	55 276
Incl. sales of real estate	*0*	*19 367*	*19 367*	*4 640*	*17 412*	*0*		*41 419*
Incl. rental income	*0*	*9 467*	*9 467*	*71*	*49*	*0*		*9 587*
Incl. hotel operating	*0*	*0*	*0*	*0*	*0*	*4 451*	*-507*	*3 944*
Incl. maintenance services	*0*	*48*	*48*	*0*	*172*	*0*		*220*
Incl. other services	*760*	*29*	*29*	*28*	*55*	*0*	*-766*	*106*
Other operating income & expenses (net)	-3	-23 537	-25 798	-696	-26	16		-26 507
Incl. fair value adjustments	*0*	*-23 529*	*-25 790*	*-707*	*0*	*0*		-26 497
Segment operating profit/ loss	*-1 354*	*-16 660*	*-18 921*	*381*	*2 336*	*110*	*9*	-17 439
Finance income and cost (net)	-5 042	-8 123	-8 123	-495	-200	-140	*-16*	-14 015
Profit/ loss before income tax	-6 396	-24 782	-27 043	-114	2 136	-30	*-7*	-31 454
Income tax	0	0	0	-30	50	1		21
Non-controlling interest	0	-2 191	-2 355	0	0	0		-2 355
Net profit/ loss for the financial year attributable to owners of the Company	-6 396	-22 591	-24 688	-144	2 186	-29	*-7*	-29 078
31.12.2019								
Assets	58 336	238 504	236 243	29 810	17 048	7 106	*-139 983*	208 560
Liabilities	121 454	94 205	94 205	20 803	7 076	4 154	*-108 437*	139 255
Acquisition of non-current assets (excluding investment properties)	1	133	133	2	2	162		300
Write-off of non-current assets	0	-14	-14	0	-1	0		-15
Depreciation and amortisation	-5	-78	-78	-54	-32	-230		-399

Note 7. Changes in ownership in subsidiaries

Changes in minority shareholding	AS Tallinna Moekombinaat
Minority (%) as at 31.12.2018	6.65%
Minority (%) as at 31.12.2019	6.65%
Minority (%) as at 31.12.2020	6.65%

Value of minority shareholding

in thousands of euros	
Non-controlling interest as at 31.12.2018	2 624
Changes in statutory reserve in non-controlling interests	-6
Loss for the reporting period (Restated)	-2 355
Non-controlling interest as at 31.12.2019 (Restated)	263
Loss for the reporting period	-3 778
Non-controlling interest as at 31.12.2020	-3 515

No changes occurred in the shareholding of AS Tallinna Moekombinaat during 2020. After the reporting date reorganisation proceedings were terminated and AS Tallinna Moekombinaat became permanently insolvent. On 2 June 2021 bankruptcy of the subsidiary was declared and the Company will no further consolidate the subsidiary into consolidated financial reports. More information can be found in Notes 17, 22 and 31.

During reporting period PK Invest UAB and PK Bonum UAB were merged in Lithuanian subgroup. The merger was completed in September 2020.

Note 8. Cash and cash equivalents

in thousands of euros	31.12.2020	31.12.2019
Cash at hand	12	25
Bank accounts	9 381	10 591
Total	9 393	10 616

Cash and cash equivalents recorded in the statement of financial position and statement of cash flows comprise cash at hand and bank accounts as at the end of each reporting period. Foreign currency accounts have been translated into euros at the European Central Bank currency exchange rates prevailing on the reporting date.

Note 9. Current receivables

in thousands of euros	31.12.2020	31.12.2019
Trade receivables from contracts with customers	152	721
Trade receivables related to operating leases	1 027	1 070
Allowance for doubtful debts	-511	-619
Other receivables	60	101
Accrued income	27	50
Prepaid expenses	1 042	152
Total	1 797	1 475

Trade receivables from contracts with customers have decreased by 0.6 million euros compared to the previous period. Prepaid expenses comprise mainly of prepaid VAT and in minor value other expenses (e.g. insurance costs). Prepaid expenses have increased by 0.9 million euros in 2020, mostly due to reclaimed VAT in relation to the ongoing construction. Allowance for doubtful debts in amount of 511 thousand euros, which are related to T1 Mall of Tallinn shopping centre, have been estimated and recognised by using provision matrix based on Group's historical credit loss experience (IFRS 9).

The Company has analysed the maturity of signed rental agreements in T1 Mall of Tallinn as at the end of the year and estimated lease payments to be as follows:

Maturity analysis of operating lease payments

in thousands of euros	31.12.2020	31.12.2019
Year 1	1 971	3 120
Year 2	2 110	4 869
Year 3	2 279	7 102
Year 4	2 278	7 982
Year 5 and onward	2 274	8 240
Total	10 912	31 313

Note 10. Inventories

in thousands of euros	31.12.2020	31.12.2019
Completed property held for sale	11 534	17 782
incl. Kristina Houses, Tallinn	*58*	*459*
incl. River Breeze, Riga	*8 705*	*9 890*
incl. Šaltinių Namai | Attico, Vilnius	*2 663*	*7 209*
incl. other properties	*108*	*224*
Works in progress	46 694	23 091
incl. Kristiine City, Tallinn	*7 059*	*722*
incl. Kalaranna District, Tallinn	*33 663*	*16 399*
incl. Šaltinių Namai, Vilnius	*5 972*	*5 970*
Goods bought for resale	124	119
Prepayments for inventories	0	39
Total	58 352	41 031

Completed property held for sale include completed real estate stock in Tallinn, Riga and Vilnius. Works in progress include properties under development or waiting for development in the nearest future in Tallinn and Vilnius.All completed properties are transferred from “works in progress” to “property held for sale”.
Works in progress as at 31 December 2020 include two development projects being currently under construction in Tallinn – Ratsuri Houses in Kristiine City and Kalaranna District. Ratsuri Houses have been completed and sold in March-April 2021. Kalaranna’s first buildings are being completed this summer. Construction of Kindrali Houses in Kristiine City started in March 2021. The following phase of Šaltinių Namai is waiting for the start of development.

In Tallinn storages of Kristina Houses are recorded as completed property held for sale as at the end of 2020. Properties of Ratsuri and Kindrali Houses are recorded as works in progress with the total of 14 163 m² net sellable area. The Group expects to receive the average income of 2 288 €/m² including parking and storages and considering estimated annual price increase. Total average development cost of net area is estimated to be 1 493 €/m². Kindrali Houses property in Tallinn was reclassified from investment properties into inventories during reporting period in the amount of 4.3 million euros because of the start of development. Works in progress include also Kalaranna development with the total estimated net sellable area of 33 259 m². The Company expects to receive the average income of 3 458 €/m² from residential and commercial areas, including parking and storages and considering estimated annual price increase. Total average development cost of net area is estimated to be 2 022 €/m².

In Riga, in River Breeze project in Kugu iela 28, 4 352 m² were available for sale at the end of 2020. The company expects to receive the average income of 3 413 €/m² including parking and storages and considering estimated annual price increase.

In Vilnius, in Šaltinių Namai | Attico project 660 m² were available for sale at the end of 2020 with the estimated average income of 4 351 €/m². The following development with 5 638 m² of net sellable area waits for construction. The Company expects to receive average income of 3 154 €/m² on residential and commercial areas, both including storage and parking areas and considering estimated annual price increase. The estimated average development cost of net area is 1 465 €/ m².

All estimations are excluding VAT.

The cost of inventories recognised as an expense during the year was 7.1 million euros (2019: 31.3 million euros). The balances of inventories are net amounts including write-downs. The management estimates that property held for resale and goods bought for resale will be sold in full during normal business cycle after the reporting period. Inventories including part of works in progress in total amount of 35.0 million euros are expected to be sold within one to two years period and works in progress on amount of 23.3 million euros within two to five years.

Note 11. Non-Current receivables

in thousands of euros	31.12.2020	31.12.2019
Accrued income	3 490	2 265
Finance leases	26	30
Other non-current receivables	1	2
Total	3 517	2 297

Accrued income includes rental income, which has increased by 1.2 million euros in balance sheet value. 4 387 thousand euros at the end of 2020 was accrued rental income of T1 Mall of Tallinn according to IFRS 16, which was adjusted with expected credit losses in the amount of 901 thousand euros according to IFRS 9. Rent concessions provided to the lessees are accounted as rent modifications on short term basis.

Note 12. Property, plant and equipment

Since 2011 the Group's land and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value of property is determined either based on the valuation of an independent expert or the management. Revaluations are performed with sufficient regularity so that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period. Revaluation reserve (accounted for under equity) was formed to account for revaluation differences (see Note 21). Revaluation reserve totals to 3.0 million euros as at 31 December 2020 and 3.3 million euros as at 31 December 2019, consisting of Bad Kreuznach hotel revaluation reserve. There are no restrictions on distribution of revaluation reserve.

Offices premises include office in Tallinn as at the end of the reporting period.

Hotel property and office premises	Cost value		Revaluation value	
in thousands of euros	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Kurhausstrasse 28, Bad Kreuznach	3 030	3 134	5 864	6 232
Office premises	715	715	730	730
Total	3 745	3 849	6 594	6 962

On 1 January 2019 the Group recognised leases in total amount of 674 thousand euros as right-of-use assets using modified retrospective approach (initial application of IFRS 16). Right-of-use assets comprise of land in Germany (rentable until end of heritable building right agreement) and Lithuania (rentable until sales of the properties), office premises in Latvia and machinery and equipment in the group.

Property, plant and equipment at cost

in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Total	Right-of-use assets
01.01.2019	8 956	918	280	10 154	674
Additions:					
Acquired	121	41	64	226	0
Disposals and write offs:					
Written off	0	0	-8	-8	0
31.12.2019	9 077	959	336	10 372	674
Additions:					
Acquired	47	27	20	94	0
Change in fair value	-278	0	0	-278	0
Disposals and write offs:					
Adjustments	0	0	0	0	-10
Written off	0	0	-34	-34	0
31.12.2020	8 846	986	322	10 154	664

Accumulated depreciation

in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Total	Right-of-use assets
01.01.2019	1 982	864	180	3 026	0
Additions:					

Signed for identification purposes:
AS Deloitte Audit Eesti

Charge for the period	148	25	49	222	155
Change in fair value	-15	0	0	-15	0
Disposals and write offs:					
Written off	0	0	-7	-7	0
31.12.2019	2 115	889	222	3 226	155
Additions:					
Charge for the period	152	20	52	224	152
Change in fair value	-16	0	0	-16	0
Disposals and write offs:					
Written off	0	0	-25	-25	0
31.12.2020	2 251	909	249	3 409	307

Residual value

in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Total	Right-of-use assets
31.12.2019	6 962	70	114	7 146	519
31.12.2020	6 595	77	73	6 745	357

Valuation of properties

According to IFRS 13 classification, land and buildings measured at revalued amounts are classified as belonging to Level 3 fair value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement.

Valuations of the Group’s properties are mainly being made by using discounted cash flows (DCF) method. Considering that the Group is operating a hotel in a property owned by real estate subsidiary, the valuators do not take into account rental income to property owner, but hotel’s ability to generate cash flows and to operate properties effectively. Historical data and expected projections of hotel performance, which include such inputs as occupancy, average rate, departmental revenues and costs, administrative and marketing costs are used for valuation. This information is derived from management reporting prepared by hotel manager and reviewed by Financial Controller. If external valuator is assessing, also assumptions and valuation models, which are typically market related such as discount rates and exit yields, are used. Valuation reports are reviewed and accepted by the Management of the Company.

Sensitivity of measurement to variance of significant unobservable inputs:

- a decrease in the estimated revenues either due to lower occupancy or lower average room rate will decrease the fair value;
- an increase of departmental and other costs will decrease the fair value;
- an increase in discount and exit yield rates will decrease the fair value.

Discount and exit yield rates are partially determined by market rate conditions but are also influenced by expected return rate, which is the rate of return expected by the shareholders.

Latest independent valuation was carried out in 2016 for the hotel. However, as per management's decision it was not used for revaluation because of too optimistic approach of the valuator. Due to COVID-19 effect to accommodation industry, the Group decided not to renew valuation but the management assessed the fair value of the hotel property. As a result, hotel property value decreased by 278 thousand euros at the end of 2020, as the present value of the future cash flows from the asset indicated a decrease in value.

The following assumptions have been used by the management. GOP of the 1st year is the same as 2020 actual, 2nd year the same as budgeted for 2021, 3rd year the same as was in 2019. Growth rate of 3% has been used for GOP starting from the 4th year. Calculations include property taxes, insurance expenses and payments related to the property which are made by the owner of the heritable right. Although historical investments into property have been lower with an exception of renovation works in 2016-2017, the management has estimated 110 500 euros for the 1st year and 105 000 euros for the following years. Discount rate of 7.5% was used. No exit value nor related sales costs were accounted for.

Sensitivity analyses

	GOP		CAPEX		Discount rate	
in thousands of euros	+5%	-5%	+5%	-5%	+5%	-5%
Fair value of the hotel property (5 864 thousand euros)	207	-200	-68	68	-399	439

Note 13. Investment property

in thousands of euros	Investment property held for increase in value	Investment properties held for operating lease (T1 Mall of Tallinn)	Total
Balance at 01.01.2019	**38 945**	**129 200**	**168 145**
Additions:			
Acquired	1 273	4 746	6 019
Disposals:			
Sold	-2 167	0	-2 167
Changes in fair value:			
Loss from change in fair value (Note 26)	-1 190	-23 046	-24 236
(Restated) Double-counted adjustment - recognised as separate assets	0	-2 261	-2 261
Reclassified into inventories	-396	0	-396
(Restated) Balance at 31.12.2019	**36 465**	**108 639**	**145 104**
Additions:			
Acquired	687	157	844
Changes in fair value:			
Income/ Loss from change in fair value (Note 26)	2 880	-42 520	-39 640
Double-counted adjustment - recognised as separate assets	0	-3 487	-3 487
Reclassified into inventories (Note 10)	-4 309	0	-4 309
Balance at 31.12.2020	**35 723**	**62 789**	**98 512**

The fair value of most of the Group's investment property at 31 December 2020 and 31 December 2019 has been derived on the basis of valuations carried out by Colliers International independent valuators not related to the Group, except for the T1 Mall of Tallinn. Valuation company has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuations were performed by reference to recent market information. Mainly discounted cash flow method was used due to low number of comparable market transactions. At the end of 2020, the management of AS Tallinna Moekombinaat valued the property, which is held for operating lease. An independent valuator has made an initial calculation, but it has not been accounted for in the annual report. The valuator considered existing terms and conditions for rent payments, namely short-term discounts, which are being renewed periodically. As the management has more detailed information about agreements with the tenants and their capability to make payments, it was considered to be more conservative to use calculations based on potential cash flows according to the most recent information.

As a result of 2020 valuations, the total of 43 million euros loss was recorded of which 46 million euros decrease in value was related to the T1 Mall of Tallinn, incl. double-counted adjustment in the amount of 1.2 million euros - recognised as separate assets (in 2019 respectively 24 million euros loss, of which 23 million from T1 and after adjustment 26 million euros loss of which 25 million euros related to T1). Please see Note 31 for more information. The valuation of the last year was made based on estimations and expectations. After the first year of operations (the Mall was opened in November 2018) it became apparent that the financial performance of the shopping mall was below the initial estimates. The underperformance was partially explained by higher vacancies than originally anticipated, largely driven by lower demand for retail spaces than estimated. In 2020 additional influence came from COVID-19 as there have been restrictions on operations and also change in behaviour of the customers. In order to reduce vacancies, the operator has offered rebates and rent payment holidays which have come at the expense of a lower operating profit in the short term, and which in turn has led to a decrease in property value. After balance sheet date reorganisation proceedings of the operator of T1 Mall of Tallinn were terminated and bankruptcy proceedings were initiated. More detailed information is in Notes 17, 22, 31.

During 2020 the Group has paid for investments 0.9 million euros (2019: 6.0).

In 2020 the Group reclassified the property related to Kindrali Houses project in Tallinn from investment properties into inventories in amount of 4.3 million euros, as the Group prepared to start the development activities.

Valuation of properties

According to IFRS 13 classification, investment properties owned by the Group are classified as belonging to Level 3 value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement.

Valuations of the Group's properties are being made by independent and qualified experts or the management, using residual valuation approach through discounted cash flows (DCF) method. The Group provides valuators with the following information: purpose of a property, development plans, estimated construction costs and estimated sales or rental prices if available. Valuators also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. Valuation reports prepared by the experts are reviewed and accepted by the Management of the Group.

T1 Mall of Tallinn - Peterburi road 2, Tallinn

In November 2018 T1 Mall of Tallinn was opened with ca 55 thousand square meters of leasable area. The mall represents the first new-generation shopping and entertainment centre concept, where retail areas are combined with numerous options of leisure and entertainment activities. 5-year discounted cash flow method has been used with a discount rate 8.7% (2019: the same) and exit yield 7%. The valuator (management in 2020) has considered the following inputs in valuation: average rent is supposed to be 3.17 €/m^2 on 1st year, 4.99 €/m^2 on 2nd year, 6.36 €/m^2 on 3rd year, 7.74 on 4th year and 9.45 on the 5th year of operations (2019: 12.97 €/m^2 on 1st year, 13.95 €/m^2 on 2nd year, 14.24 €/m^2 on 3rd year, 14.52 on 4th year and 15.24 on the 5th year of operations), annual vacancy rate 13% on 1st year, 7% on 2nd year, 5% on 3rd year, 3% on 4th year, 3% on 5th year (2019: 17% on 1st year, 12% on 2nd year, 8% on 3rd year, 6% on 4th year and 5% on the 5th year of operations) total average rent including annual increase and vacancy loss 6.34 €/m^2 (2019: 8.07 €/m^2), exit yield after 5 year rental period 7% (2019: the same) with exit price after vacancy, operating expenses and brokerage fee 10.33 €/m^2 (2019: 13.61 €/m^2). The decrease in fair value comparing to last valuation was 44.6 million euros, the subsidiary company has invested 0.2 million euros into the project in 2020, total net effect of revaluation is -44.8 million euros.

Ülemiste 5, Tallinn

Ülemiste property is situated next to above mentioned Peterburi road 2 land plot. It is planned to develop office and retail spaces with total leasable area of 14 410 square meters (2019: 7 000 square meters). The valuator has considered the following inputs in valuation: construction period of 3 year, starting after 2 year of waiting period (2019: construction period of 1 year, starting after 2 year of waiting period), construction cost 906 €/m^2 (2019: 562 €/m^2), total average cost of net leasable area 1 532 €/m^2 (2019: 1 759 €/m^2), average rent 13.20 €/m^2 for retail spaces (2019: 15.37 €/m^2), total average rent including annual increase and vacancy loss 11.30 €/m^2 (2019: 13.90 €/m^2), exit yield after 3.5 year rental period 7% (2019: exit yield after 3 year rental period 7%) with exit price after vacancy, operating expenses and brokerage fee 13.64 €/m^2 (2019: 13.37 €/m^2). 6-year discounted cash flow method has been used by the valuator with a discount rate of 12.0% (2019: the same). The increase in fair value comparing to last valuation was 240 thousand euros, the subsidiary has invested 19 thousand euros into the project in 2020, total net effect of revaluation is 221 thousand euros.

Kristiine City, Tallinn

Kristiine City is one of the largest residential blocks in the Baltics, located close to the city centre in the former Dunte summer manor and latter territory of the military school. It has been planned to develop the territory in 5 phases. The first two phases have been almost completed: a red brick historical building (Tondi 51) and a former officers' building (Marsi 6 lofts) have been renovated and 10 new houses with more than 300 apartments have been built. The last project in the second phase is Ratsuri Houses at Talli 5 (former Marsi 5), which is recorded as inventories in the Group's statement of financial position. During the reporting period part of the investment property was reclassified into inventories due to start of the development of the following phase called Kindrali Houses (Note 10). The valuator has considered the following inputs in valuation of investment for different phases: total net sellable residential area of 46 929 square meters and rentable commercial area of 4 130 square meters (2019: 58 225 square meters and 6 500 square meters), construction period for each phase 2-3 years (2019: first phase up to 3 years, second phase up to 4 years starting from 2021, third phase up to 4 years starting from 2024 and last phase up to 3 years starting 2027), construction cost 691-738 €/m² (2019: 698-754 €/m²), total average cost of net areas 1 524 €/m² (2019: 1 473 €/m²), starting average apartment sale price 2 130 €/m² (2019: 1 900 €/m²), total average apartment sale price with annual increase including storage and parking areas 2 384 €/m² (2019: 2 271 €/m²), starting average rent 11 €/m² (2019: the same) for commercial spaces, total average rent including annual increase and vacancy loss 12.01 €/m² (2019: 10.67 €/m²), exit yield after 2 year rental period 7.25-7.75% (2019: the same) with exit price after vacancy, operating expenses and brokerage fee 11.99 €/m² (2019: 12.46 €/m²). For valuation 11.5-years (2018: 14-years) discounted cash flow method has been used by the valuator with discount rate 12.0% (2019: the same). The decrease in fair value comparing to last valuation was 616 thousand euros, the subsidiary has invested 433 thousand euros into the project, in 2020, reclassified property into inventories in amount of 4 309 thousand euros, total net effect of revaluation is 3 260 thousand euros.

Kliversala residential complex, Riga

Kliversala is a residential and commercial development project located on the left bank of river Daugava. The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. The property is situated on the waterfront and provides views of the Old Town on the opposite bank. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises. It has been planned to develop the property in phases. The first phase, the River Breeze Residence, was completed in spring 2018 and is recorded as saleable inventories. Remaining phases are classified as investment property. The valuator has considered the following inputs in valuation of the three phases: net sellable residential area of 51 575 square meters and rentable commercial area of 1 271 square meters (2019: residential area of 38 311 square meters and rentable commercial area of 3 550 square meters), construction period of 2 years for each phase, average construction cost 992 €/m² (2019: 928 €/m²), total average cost of net areas 2 232 €/m² (2019: 2 221 €/m²), starting average apartment sale price 3 000 €/m² (2019: the same), total average apartment sale price with annual increase including storage and parking areas 3 583 €/m² (2019: 3 439 €/m²), starting average rent 13 €/m² (2019: the same) for commercial spaces, total average rent including annual increase and vacancy loss 19.29 €/m² (2019: 19.55 €/m²), exit yield after 2 year rental period 7.5% (2019: the same) with exit price after vacancy, operating expenses and brokerage fee 18.04 €/m² (2019: 20.12 €/m²). 13-year discounted cash flow method has been used by the valuator with a discount rate of 11.35% and starting without delay (2019: 10-year discounted cash flow method has been used by the valuator with a discount rate of 11.10% and starting without delay). The decrease in fair value comparing to last valuation was 222 thousand euros, the subsidiary has invested 81 thousand euros into the project in 2020, total net effect of revaluation is -303 thousand euros.

City Oasis residential complex, Riga

City Oasis is a residential development project located in Tallinas street, Riga at the right bank of river Daugava, right next to the border of Riga's historical City Centre. The project for the residential area foresees a series of apartment buildings with commercial functions on the first floor with net sellable area of 20 814 square meters and 357 square meters respectively. It has been planned to develop the property in one phase. The valuator has considered the following inputs in valuation: construction period of two years, construction cost 857 €/m², total average cost of net areas 1 810 €/m², starting average apartment sale price 2 500 €/m², total average apartment sale price with annual increase including storage and parking areas 2 768 €/m², starting average rent 13 €/m² for commercial spaces, total average rent including annual increase and vacancy loss 12.55 €/m², exit yield after 2 year rental period 7.25% with exit price after vacancy, operating expenses and brokerage fee 7.21 €/m². All the above-mentioned assumptions were the same for 2019 valuation. 7-year discounted cash flow method has been used by the valuator with a discount rate of 11.00% (2019: 10.75%) and with the assumption of start after one year waiting period (2019: the same). The decrease in fair value comparing to last valuation was 84 thousand euros, the subsidiary has invested 23 thousand euros into the projecting of the property in 2020, total net effect of revaluation is -107 thousand euros.

Brivibas Business Quarter, Riga

Brivibas is a mixed development project located at one of the main transport arteries heading through the City, next to the railways within a former industrial area. The project foresees renovation of the existing industrial building into mostly office buildings with total net rentable area of 18 080 square meters. The project is expected to be developed in two phases as the initial phase includes the renovation. The valuator has considered the following inputs in valuation: construction period of 2 years of each phase, 4 years in total without a waiting period, construction cost 822 €/m² (2019: 933 €/m²), total average cost of net areas 1 678 €/m² (2019: 1 722 €/m²), starting rent 11.5-13.5 €/m² (2019: the same) for commercial spaces, total average rent including annual increase and vacancy loss 7.39 €/m² (2019: 8.04 €/m²), exit yield after 3-5 year rental period 7.5% (2019: the same) with exit price after vacancy, operating expenses and brokerage fee 13.17 €/m² (2019: 13.32 €/m²). For valuation 6 -year discounted cash flow method has been used by the valuator with a discount rate of 11.25% (2019: 11.00%). The decrease in fair value comparing to last valuation was 61 thousand euros, the subsidiary has invested 131 thousand euros into the project in 2020, total net effect of revaluation is -192 thousand euros.

For all investment properties the average of 4.5% disposal costs (property costs and maintenance until sales, direct sales costs including commissions) from total sales and rental revenue as an average.

The following tables illustrate possible changes to fair value of investment property (in thousands of euros) given changes in main unobservable inputs as presented in Colliers valuation reports:

		Construction costs/m^2		Sale price/ m^2		Rent price/ m^2		Exit yield	
31.12.2019	Fair value	5%	-5%	5%	-5%	5%	-5%	5%	-5%
T1 Mall	110 900	N/A	N/A	N/A	N/A	3 900	-3 900	-5 700	6 600
Ülemiste	2 370	-310	420	N/A	N/A	600	-470	-670	740
Kristiine City	14 416	-910	890	3 020	-2 940	N/A	N/A	N/A	N/A
Kliversala	13 570	-3 160	3 160	1 160	-1 150	340	-340	N/A	N/A
City Oasis	3 660	-1 560	1 560	700	-700	30	-30	N/A	N/A
Brivibas	2 449	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

		Construction costs/m^2		Sale price/ m^2		Rent price/ m^2		Exit yield	
31.12.2020	Fair value	5%	-5%	5%	-5%	5%	-5%	5%	-5%
T1 Mall	66 276	N/A	N/A	N/A	N/A	3 660	-3 660	-2 763	4 463
Ülemiste	2 610	-780	760	N/A	N/A	920	-900	-730	790
Kristiine City	13 800	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kliversala	13 348	-3 450	3 450	4 080	-4 090	100	-100	N/A	N/A
City Oasis	3 576	-1 560	1 560	1 735	-1 735	36	-36	N/A	N/A
Brivibas	2 388	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Kristiine City and Brivibas Business Quarter sensitivity analyses were not provided in 2020 valuation reports.

All estimated costs, sales and rental prices in this Note are presented without VAT.

Investment properties of the Group are evaluated based on the assumed highest and best use according to management judgement.

Information about investment property pledged as collaterals is disclosed in Note 19 to these consolidated financial statements.

Note 14. Current debt

in thousands of euros	Loans and overdrafts (Note 17)	Convertible bonds (Note 18)	Non-convertible bonds (Note 18)	Current portion of financial lease	Total
01.01.2019	5 397	4 331	600	0	10 328
Changes from financing cash flows	-10 390	-108	-500	-192	-11 190
Other changes	82 719	1 652	27 867	383	112 621
31.12.2019	77 726	5 875	27 967	191	111 759
Changes from financing cash flows	345	-33	-28 000	-181	-27 869
Other changes	387	-4 546	27 675	175	23 691
31.12.2020	78 458	1 296	27 642	185	107 581

The Company repaid loans for 1.4 million euros and refinanced 27.9 million euros of non-convertible bond liabilities with non-current debt in value of 28.5 million euros. Additionally, the convertible bonds were partially refinanced and prolonged.

Other changes row includes non-monetary changes and are mainly reclassification of debt for non-current debt to current debt and vice versa. Due to the breach of loan covenants and start of the reorganisation proceedings of the group subsidiary AS Tallinna Moekombinaat related uncertainty, the loan provided to the company was reclassified as a short-term debt in amount of 75.4 million euros (Note 17) already in 2019. In 2020 short term proportion of loans was transferred from non-current debt in the value of 0.4 million euros. Due to refinancing of convertible bonds, which were exchanged against new non-convertible bonds, the short-term part of the existing bonds in the value of 4.5 million euros was terminated and new long term non-convertible bonds were issued. During the year, the existed convertible bonds were reclassified from long term bonds to short term bonds in the value of 1.3 million euros. Due to not meeting financial covenants and the breach of secured non-convertible bonds terms as a result of an adjusting event, the Company has reclassified secured bonds as a short-term liability as at the end of 2020 (Note 18).

Note 15. Current payables

in thousands of euros	31.12.2020	31.12.2019
Trade payables	7 069	5 262
Accrued expenses	15 140	3 441
Other	2	38
Total	22 211	8 741

Trade payables have increased due to payments to construction companies in relation to Kalaranna District and Ratsuri Houses developments in Tallinn. Accrued expenses include interest payable to the main creditor T1 Mall of Tallinn Lintgen Adjacent Investments S.A.R.L. in the amount of 12.3 million euros as at 31 December 2020 (Note 17).

Note 16. Non-current debt

in thousands of euros	Loans and overdrafts (Note 17)	Convertible bonds (Note 18)	Non-convertible bonds (Note 18)	Payables to minority share-holders	Non-current portion of financial lease	Total
01.01.2019	77 970	5 802	27 763	474	0	112 009
Changes from financing cash flows	5 300	0	0	0	0	5 300
Other changes	-77 583	-1 552	-27 763	36	424	-106 438
31.12.2019	5 687	4 250	0	510	424	10 871
Changes from financing cash flows	12 688	0	27 451	100	0	40 239
Other changes	-487	-4 059	-19 158	41	-192	-23 855
31.12.2020	17 888	191	8 293	651	232	27 255

The balance of non-current debt has changed due to loans received in amount of 14.4 million euros and secured non-convertible bonds refinanced in the value of 28.5 million euros. Additionally, convertible bonds were refinanced and replaced with unsecured non-convertible bonds in the amount of 8.7 million euros, thus classified as non-current debt. Please see Note 14 for more detailed information about “Other changes”.

Note 17. Loans and overdrafts

Borrower	Creditor	Loan balance in thousands of euros 31.12.2020	31.12.2019	Maturity
AS Pro Kapital Grupp	Swedbank AS (credit cards)	0	1	Monthly
OÜ Marsi Elu	Coop Pank AS	1 722	0	25.02.2022*
AS Tondi Kvartal	Luminor Bank AS	387	417	02.09.2021
OÜ Kalaranna Kvartal	AS LHV Pank	8 610	5 300	21.02.2023
OÜ Kalaranna Kvartal	AS LHV Pank	8 778	0	18.02.2023
PK Hotel Management Services GmbH	Sparkasse	500	0	30.06.2030
Kliversala SIA	AS Swedbank (Latvia)	993	2 339	14.11.2021
AS Tallinna Moekombinaat	Lintgen Adjacent Investments S.A.R.L.	75 356	75 356	27.12.2021**
AS Tallinna Moekombinaat	Colosseum Finance OÜ	104	0	31.12.2022
AS Tallinna Moekombinaat	Fiduciaria Emiliana SRL	353	329	22.05.2029
AS Tallinna Moekombinaat	Anndare Limited	194	181	14.10.2029
Total		96 997	83 923	

** loan has been repaid after the balance sheet date and was classified as a short-term liability as at 31 December 2020*

*** on demand due to the declaration of permanent insolvency after the balance sheet date (Note 31)*

All debts are related to development activities with an exception of AS Tondi Kvartal loan from Luminor Bank AS with the balance of 387 thousand euros. The loan was taken to renovate Sõjakooli 11 building in Tallinn and it is used as the Company's head-office.

The most significant loan facility has been provided to AS Tallinna Moekombinaat for the construction of T1 Mall of Tallinn. The total amount of the facility agreement was 65 million euros to which accumulated interests have been added until interest payment obligation started (September 2019). The lower operating profitability of AS Tallinna Moekombinaat triggered non-fulfilment of two financial maintenance covenants under the loan facility agreement with the subsidiary's main creditor (DSCR or Debt Service Coverage Ratio and NLR or Net Leverage Ratio – which are ratios to assess the health of the investment in conformity with expected operating results). However, the operating result of AS Tallinna Moekombinaat before non-monetary revaluation effect and the interest costs have been positive. AS Tallinna Moekombinaat is also in payment default under the above-mentioned loan facility agreement. While the first regular interest payment under the loan facility agreement was duly made in September 2019, during ongoing negotiations with the lender and the following reorganisation proceedings AS Tallinna Moekombinaat has made no further interest or default interest payments. However, the lender has transferred in its favour 2 million euros from a secured account to cover interest costs. Such non-payment and the above-described non-fulfilment of financial covenants entitle the creditor to accelerate its claims under the facility agreement. On 3 April 2020 Harju County Court initiated reorganization proceedings of AS Tallinna Moekombinaat. With its 14 August 2020 ruling the County Court terminated the reorganization proceedings because it had established that AS Tallinna Moekombinaat was allegedly permanently insolvent. AS Tallinna Moekombinaat contested the ruling and three creditors of the subsidiary also filed an appeal to the District Court. After the reporting period, Tallinn District Court decided on 29 January 2021 not to satisfy the appeals and AS Tallinna Moekombinaat filed an appeal to the Supreme Court of Estonia on 15 February 2021. On 26 April 2021 the Supreme Court decided not to take AS Tallinna Moekombinaat's appeal into proceedings and Harju County Court ruling terminating the reorganisation proceedings came into force. Without the reorganisation proceedings AS Tallinna Moekombinaat is not capable of fulfilling its obligations and has become permanently insolvent. On 7 May 2021 the court appointed an interim trustee in bankruptcy. The management of T1 Mall of Tallinn in cooperation with the interim trustee continued daily business of the centre. Bankruptcy was declared on 2 June 2021. Since 15 March 2021 most of the centre has been closed due to spread of COVID-19 and restrictions applied by Estonian Government. The centre was reopened for the public on 3 May 2021.

All agreements and liabilities are fixed in euros. Loan amounts to be repaid within 12 months total to 79.1 million euros (including 76 euros in the bankruptcy proceedings), remaining 17.4 million euros are expected to be repaid within two years and 0.5 million euros by 30 June 2030. Current loans are described also in Note 14, non-current loans in Note 16, collaterals of the loans in Note 19 and finance costs in Note 27.

The total interest cost on loans for the reporting period was 12.1 million euros (2019: 10.8 million euros).

Note 18. Convertible and non-convertible bonds

in thousands of euros	31.12.2020	31.12.2019
Current convertible debt (Note 14)	1 296	5 875
Current non-convertible debt (Note 14)	27 642	27 967
Non-current convertible debt (Note 16)	191	4 250
Non-current non-convertible debt (Note 16)	8 293	0
Total	**37 422**	**38 092**

Convertible bonds

On 13 April 2009 AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 convertible bonds of the Parent in nominal value of 0.6 euro per convertible Note and increase conditionally the Parent's share capital by up to 10 000 000 shares in nominal value of 0.6 euro per share in order to exchange convertible bonds for shares of the Parent. Management of the Parent had the right to offer the above-mentioned number of convertible bonds under several subscription periods. The offers of bonds were carried out so that offers were neither jointly nor separately deemed as public offering of securities under the terms of the directive 2003/71/EC and applicable laws. The issue price of convertible Note in each separate subscription period was determined by management of the Parent not to be less than 4.0 euro per convertible Note. Convertible bonds were offered for subscription in the quantity that was limited to the minimum total sum payable based on the issue price 50 thousand euros. The interest rate of convertible Note was 7% per annum from its issuance price. On 24 April 2009 the conditional increase of the Parent's share capital was registered in the Commercial Register.

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the total of 4 025 758 convertible bonds were subscribed with an issue price of 4.5 euros per bond. All convertible bonds have been registered in the Estonian Central Register of Securities. In 2011 the Group was split and as a result the issue price of the convertible bonds remains 2.8 euros per bond.

According to the terms of the emission convertible bonds of AS Pro Kapital Grupp issued during the period 2009-2011 could be converted to shares of the Parent until 31 December 2012 with the exchange rate one convertible Note per share. On 6 February 2013 AS Pro Kapital Grupp shareholders' general meeting decided to offer the possibility to the holders of convertible bonds to prolong their convertible Note redemption/conversion deadline by two more years and bondholders accepted the offer. The duration of all convertible Note issues has been prolonged respectively except for redeemed bonds: 11 944 convertible bonds in total amount of 33 443.20 euros were redeemed in 2020, 3 200 convertible bonds in total amount of 8 960 euros were redeemed in 2018, 276 163 convertible bonds in total amount of 773 256.40 euros were redeemed in 2017. Since the issue, the total of 3 489 324 convertible bonds in total amount of 9 770 107.20 euros have been redeemed or refinanced. Remaining balance of the bonds is 1.50 million euros on 31 December 2020. The balance sheet value is 1.49 million euros - 15 thousand euros of prolongation fees have been discounted from the value of the convertible bonds.

Registration date of bonds issued	13 Aug 2009	20 Jan 2010	10 Aug 2010	16 Sept 2010	29 Nov 2010	8 March 2011	25 May 2011
Number of bonds	405 768	10 666	6 900	27 999	24 500	24 572	36 029
Issue price per bond	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Issued amount, in euros	1 136 150	29 865	19 320	78 397	68 600	68 802	100 881
Annual return (%) from issue price	7%	7%	7%	7%	7%	7%	7%

Interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Redemption date/ exchange date	13 Aug 2021	20 Jan 2022	10 Aug 2022	16 Sept 2022	29 Nov 2022	8 March 2021	25 May 2021

Interest cost of the period is described in Note 27.

On 17 January 2020 the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date was set to be 20 January 2022.

On 22 May 2020 the Company announced about the intention to issue new non-convertible bonds to refinance its PKG1-PKG7 convertible bonds in the aggregate nominal value up to 10 252 258.80 euros. The bonds are expected to be issued in several tranches. During the first subscription period, which ended on 7 July 2020, 2 925 641 bonds with the total issue value of 8 191 794.80 euros were subscribed. The issue date of the first tranche of the Bonds took place on 3 August 2020. New non-convertible bonds were issued against the same amount of PKG1-PKG7 convertible bonds. The new bonds will carry an interest at 8%, they are non-convertible and not secured. The final redemption date is 31 October 2024.

On 10 August 2020 the Company prolonged the redemption date of 37 423 PKG3 and 50 504 PKG4 convertible bonds by 2 years. New redemption date for convertible bonds PKG3 was set for 10 August 2022 and for PKG4 - 16 September 2022. 1 100 PKG3 convertible bonds were redeemed with the total value of 3 080 euros.

On 27 November 2020 the second tranche of refinance PKG1-PKG7 convertible bonds took place. During the second subscription period, which ended on 13 November 2020, 187 502 bonds with the total issue value of 525 005.60 euros were subscribed.

On 29 November 2020 the Company prolonged the redemption date of 24 500 PKG5 convertible bonds by 2 years. New redemption date for convertible bonds PKG5 is set for 29 November 2022. 10 844 PKG5 convertible bonds were redeemed with the total value of 30 363.20 euros.

On 30 November 2020 the Company announced about the start of the third subscription period for private placement of non-convertible bonds with the aggregate nominal value of 1 502 015.20 euros. The Bonds were to be subscribed for only in exchange for the existing Pro Kapital convertible bonds. The subscription period of the Bonds started on 1 December 2020 and ended on 13 December 2020. During the third subscription period 345 938 bonds with the total issue value of 968 626.40 euros were subscribed. The issue date of the third tranche of the Bonds took place after the reporting period, on 15 January 2021.

On 8 March 2021, after the reporting period, the Company announced about redemption of 24 572 PKG6 convertible bonds in total nominal value of 15 726.08 euros and issue value of 68 801.60 euros.

On 25 May 2021, after the reporting period, the Company announced about redemption of 5 400 PKG7 convertible bonds in total nominal value of 3 456 euros and issue value of 15 120 euros. The rest of PKG7 bonds have been refinanced.

All other conditions for convertible bonds have remained unchanged. No bonds have been converted into shares until 31 December 2020 (Note 21).

Number of bonds	2020	2019
Number of convertible bonds at the beginning of period	3 661 521	3 661 521
Number of redeemed bonds	-11 944	0
Number of refinanced bonds	-3 113 143	0
Number of convertible bonds at the end of period	536 434	3 661 521

in thousands of euros	2020	2019
Value of convertible bonds at the beginning of period	10 252	10 252
Value of redeemed bonds	-33	0
Value of refinanced bonds	-8 717	0
Value of the bonds at the end of the period	1 502	10 252
Current portion of liabilities at the end of the reporting period	1 306	5 875
Non-current portion of liabilities at the end of the reporting period	196	4 377

Unsecured and secured non-convertible bonds

The last portion of unsecured non-convertible bonds that were issued in 2014 with total face value of 600 thousand euros have been redeemed in 2019. The balance of current liabilities as at 31 December 2019 included part of the redeemed bonds in total value of 100 thousand euros, which were transferred to the bondholder in January 2020 with a delay due to the technical issues related to the counterparty.

Due to the refinancing of PKG1-PKG7 convertible bonds as described in the chapter “Convertible bonds” above, new 2 925 641 unsecured and non-convertible bonds with the total face value of 8 191 794.80 euros were issued on 3 August 2020. During the second subscription period, 187 502 bonds with the total issue value of 525 005.60 euros were issued. The total value of the unsecured non-convertible bonds is 8.7 million euros on 31 December 2020. The balance sheet value on the reporting date is 8.3 million euros - nominal value minus 0.4 million euros of refinancing costs. During the third subscription period, 345 938 bonds with the total issue value of 968 626.40 euros were issued. The third tranche subscription results were notified on 14 December 2020 and bonds were issued after the reporting period, on 15 January 2021. New unsecured non-convertible bonds have been listed on Nasdaq Tallinn bond list since 27 January 2021.

Registration date of bonds issued	*27 May 2015*	*28 July 2015*	*March 2016*	*May 2016*	Feb 2020	Aug-Nov 2020 (unsecured)
Number of bonds	*70*	*64*	*9*	*150*	285	3 113 143
Issue price per bond	*100 000 EUR*	*100 000 EUR*	*100 000 EUR*	*100 000 EUR*	100 000 EUR	2.80 EUR
Total nominal value, in euros	*7 000 000*	*6 400 000*	*900 000*	*15 000 000*	28 500 000	8 716 800
Annual return (%) from issue price	*8%*	*8%*	*8%*	*8%*	8%	8%
Interest payment	*Twice a year*	*Twice a year*	*Twice a year*	*Twice a year*	Twice a year	Twice a year
Redemption date	*Redeemed 2020*	*Redeemed 2020*	*Redeemed 2020*	*Redeemed 2020*	20 Apr 2024	31 Oct 2024

In February 2020 the Company secured refinancing of the senior secured bonds 2015/2020 (the “Old Bonds”) in full by issuing new senior secured, called, fixed rate bonds 2020/2024 (the “New Bonds”) in total amount of 28.5 million euros. The New bonds are similar to the Old Bonds with minor differences. All shares of Pro Kapital subsidiaries with and exception of AS Tallinna Moekombinaat have been pledged. 285 bonds (value of 100 000 euros each) carry a fixed rate coupon 8% and mature in February 2024. The Existing Bonds were redeemed on 17 March 2020. The New Bonds were approved for trading on Nasdaq Stockholm bonds list on 9 July 2020. Due to not meeting financial covenants and the breach of secured non-convertible bonds terms , the Group has reclassified the bonds as a short-term liability as at the end 2020. According to terms and conditions of the bonds, the Group has to meet maintenance test, which requires equity to assets ratio to be higher than 35% (excluding TMK). The parent company has written-off investment into and receivables from TMK and the equity ratio fell from 50% to 32.4%. Non-compliance to the covenants is according to management’s assessment temporary and the Company foresees meeting financial covenants in the second half of the year. The Company has started negotiations with the bondholders to temporarily waive the breach and has received a standtill letter form the majority of the bondholders representing 75.44% of the total nominal value of the bonds where the bondholders undertake to vote for providing a temporary waiver until 31 December 2021 (Note 34).

Remaining balance of the secured non-convertible bonds is 28.5 million euros on 31 December 2020. The balance sheet value is 27.6 million euros - nominal value minus 0.9 million euros of refinancing costs which are being discounted over the effective period of the New Bonds.

Number of bonds	2020	2019
Number of unsecured non-convertible bonds at the beginning of period	0	0
Number of unsecured non-convertible bonds issued	3 113 143	0
Number of unsecured non-convertible bonds at the end of period	3 113 143	0

in thousands of euros	2020	2019
Value of unsecured non-convertible bonds at the beginning of period	0	0
Value of unsecured non-convertible bonds issued	8 717	0
Value of the unsecured bonds at the end of the period	8 717	0
Current portion of liabilities at the end of the reporting period	0	0
Non-current portion of liabilities at the end of the reporting period	8 717	0

Number of bonds	2020	2019
Number of secured fixed rate bonds at the beginning of period	293	293
Number of secured fixed rate bonds issued	285	0
Number of secured fixed rate bonds redeemed*	-293	0
Number of secured fixed rate bonds at the end of period	285	293

in thousands of euros	2020	2019
Value of secured fixed rate bonds at the beginning of period	29 300	29 300
Value of secured fixed rate bonds issued	28 500	0
Value of secured fixed rate bonds redeemed*	-29 300	0
Value of secured fixed rate bonds issued at the end of the period	28 500	29 300
Current portion of liabilities at the end of the reporting period	28 500	29 300
Non-current portion of liabilities at the end of the reporting period	0	0

**When redeeming the bonds, the Company held 14 bonds with the value of 1.4 million euros. Therefore, actual redemption amount was 27.9 million euros.*

Note 19. Collaterals and pledged assets

Liabilities disclosed in Notes 17 and 18 of these consolidated financial statements are partially pledged with the following assets in book value:

in thousands of euros

Beneficiary	Collateral description	31.12.2020	31.12.2019 (Restated)	31.12.2019
Bank accounts				
Nordic Trustee & Agency AB (Sweden)	Nordea Bank AB	25	37	37
Lintgen Adjacent Investments S.A.R.L.	Swedbank AS	0	3	3
Inventories (Note 10)				
AS LHV Pank (EE)	Kalaranna St. 8, 22, Tallinn	33 663	16 398	16 398
AS Swedbank (LV)	Trijadibas St. 5, Riga	23 489	23 527	23 527
Coop Pank AS (EE)*	Talli 5, Tallinn	3 310	N/A	N/A
Property, plant and equipment (Note 12)				
Luminor Bank AS (EE)	Sõjakooli 11, Tallinn	730	730	730
Colosseum Finance OÜ (EE)	AS Tallinna Moekombinaat fixed assets and trademark	67	N/A	N/A
Investment property (Note 13)				
Lintgen Adjacent Investments S.A.R.L.	Peterburi tee 2, Tallinn	62 789	108 638	110 900

** Loan has been repaid after the reporting period*

AS Pro Kapital Grupp has pledged in favour of Nordic Trustee & Agency AB the shares of all subsidiaries of the Group except AS Tallinna Moekombinaat. The pledges have been set to guarantee the secured non-convertible bonds issued in February 2020 in total amount of 28.5 million euros. The total value of pledged shares is 56 million euros. In addition to share pledges, the Parent's bank accounts held with Nordea Bank AB in Sweden are pledged. The cash balance in Nordea bank pledged accounts was 25 thousand euros on 31 December 2020.

AS Tallinna Moekombinaat has pledged in favour of Lintgen Adjacent Investments S.A.R.L the General and Deposit bank accounts with Swedbank AS. The total balance on the accounts amounted to 91 euros as at the end of reporting period.

The Company has issued a guarantee to LHV Pank AS to assure a potential loan liability of OÜ Kalaranna Kvartal, an entity belonging to AS Pro Kapital Eesti subsidiary group, in amount of 4 million euros and with termination date of 21 February 2023.

Note 20. Other non-current payables

in thousands of euros	31.12.2020	31.12.2019
Construction guarantees	1 585	147
Other non-current liabilities	710	866
Incl. rent deposits from tenants	*682*	*866*
Total	2 295	1 013

Note 21. Share capital and reserves

Share capital

Owners of AS Pro Kapital Grupp ordinary shares have the right to receive dividends, in case these are announced, and to participate in voting at general shareholders' meetings of the entity with one vote per share. The Entity has not issued any preference shares.

On 31 December 2020 and on 31 December 2019 the share capital in the amount of 11.3 million euros consisted of 56 687 954 ordinary shares at a nominal value of 0.20 euros per share. All shares have been paid for in full. In addition to nominal value of the share capital the Company has collected share premium in amount of 5.7 million euros.

According to the articles of association effective on 31 December 2020, the minimum share capital amounts to 6.0 million euros, whereas maximum share capital amounts to 24.0 million euros.

As described in Note 18 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible bonds. The owners of the convertible bonds have not exercised their option to convert the bonds into shares of the Group.

Reserves

Statutory legal reserve of the Parent is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as at 31 December 2020 amounted to 1.1 million euros (2019: the same).

Revaluation surplus results from adoption of revaluation model to property, plant and equipment (specifically land and buildings) under IAS 16 "Property, Plant and Equipment" (Note 12). According to IAS 8.17 principle, revaluation surplus is recorded prospectively and gains are included into comprehensive income. Revaluation surplus as at 31 December 2020 is 3.0 million euros (2019: 3.3 million euros).

Note 22. Non-controlling interest

in thousands of euros	31.12.2020	31.12.2019 (Restated)	31.12.2019
Arising from AS Pro Kapital Eesti subgroup	-3 515	263	427
Total	-3 515	263	427

At the end of 2020 and in 2019 the Group had one subsidiary with non-controlling interests - AS Tallinna Moekombinaat in Estonia. On 26 April 2021, after reporting date, the Supreme Court decided not to take AS Tallinna Moekombinaat's appeal into proceedings and Harju County Court ruling terminating the reorganisation proceedings came into force. Without the reorganisation proceedings AS Tallinna Moekombinaat is not capable of fulfilling its obligations and has become permanently insolvent. The management of the company continues to carry on daily business in co-operation with an interim bankruptcy trustee. The Company maintained control over the subsidiary until declaration of bankruptcy and appointment of bankruptcy trustee on 2 June 2021. After loss of control the Company stops consolidation of AS Tallinna Moekombinaat financials into the Group. AS Pro Kapital Eesti has written off an investment into subsidiary in amount of 13.4 million euros and also receivables in the total amount of 26 million euros as at 31 December 2020. Discontinuing consolidation will have a positive effect to the Group. Bankruptcy of TMK will not affect liquidity of the Group nor short-term cash flows. Long-term cash flows are influenced by uncollectable receivables to the Group. For detailed information see Notes 17 and 31.

	AS Tallinna Moekombinaat
Principal place of business	Estonia
Non-controlling interest as at 31.12.2018	6.65%
Non-controlling interest as at 31.12.2019	6.65%
Non-controlling interest as at 31.12.2020	6.65%

Summarised financial information	AS Tallinna Moekombinaat*		
in thousands of euros	31.12.2020	31.12.2019 (Restated)	31.12.2019
Current assets	827	606	606
Non-current assets	66 343	111 006	113 267
Current liabilities	94 967	82 731	82 731
Non-current liabilities	24 838	23 980	23 980
Equity attributable to owners	-52 635	5 066	7 163
Incl. non-controlling interest	*-3 515*	*263*	*427*

in thousands of euros	2020	2019 (Restated)	2019
Operating profit/ loss	-45 216	-21 643	-19 382
Incl. investment property revaluation effect	*-46 007*	*-25 307*	*-23 046*
Profit/ loss before tax	-57 538	-32 482	-30 221
Profit/loss for the year	-57 538	-32 482	-30 221
Attributable to:			
Owners of the Company	-53 760	-30 127	-28 030
Non-controlling interest	-3 778	-2 355	-2 191
Total comprehensive income/ loss for the year	-57 538	-32 482	-30 221
Attributable to:			
Owners of the Company	-53 760	-30 127	-28 030
Non-controlling interest	-3 778	-2 355	-2 191

in thousands of euros	2020	2019
Net cash flows used in/ generated by operating activities	-134	1 259
Net cash flows used in investing activities	-167	-4 800
Net cash flows generated by financing activities	375	1 417
Net change in cash and cash equivalents	74	-2 124

** The accounts of AS Tallinna Moekombinaat have not been audited. Please see Note 5 for more detailed information.*

Note 23. Revenue

Segment revenue (Note 6)

in thousands of euros	2020	2019
Revenue from contracts with customers		
Revenue from sale of real estate	11 479	41 419
Hotel operating revenue	1 672	3 944
Revenue from maintenance and other services	394	326
Total revenue from contracts with customers	13 545	45 689
Rental income	5 689	9 587
Total	19 234	55 276

Timing of revenue recognition

in thousands of euros	2020	2019
At a point in time		
Revenue from sale of real estate	11 479	41 419
Hotel operating revenue	1 672	3 944
Revenue from other services	108	106
Total revenue recognised at a point in time	**13 259**	**45 469**
Over time		
Revenue from maintenance fees	286	220
Total revenue recognised over time	**286**	**220**
Rental income	5 689	9 587
Total	**19 234**	**55 276**

Revenue from sale of real estate has decreased 72% year-over-year due to lack of inventories. No apartment buildings were completed in 2020. Sales of available inventory continued in Kliversala in Riga and in Šaltinių Namai | Attico in Vilnius.

Revenue from hotel operations decreased by 58% due to COVID-19 as the hotel was closed from 21 March to 30 June and from 2 November 2020 until further notice (expected reopening shall be 11 June 2021). Rental revenues declined by 41% and are also affected by COVID-19, as most shops were closed in the shopping centres since the end of March until 11 May 2020 in Estonia and there have been further restrictions affecting the tenants in entertainment and restaurant segment. Rental revenue includes provision of future rental revenues as per IFRS rental revenue recording principles.

Customer advances in the balance sheet include prepayments from customers for real estate and are recognised in revenues when the real right agreement is confirmed by the notary, representing the point in time, when the Group is entitled for consideration. The balance of customer advances has increased by 3.9 million euros compared to the last year and amounted to 7.9 million euros at the end of the reporting period. Most of the balance of 7.9 million euros of customer advances at the end of 2020 will be recognized as revenue from sale of real estate during 2021 (Note 11).

Note 24. Cost of sales

Split by activities

in thousands of euros	2020	2019
Cost of real estate sold	7 385	31 857
Cost of providing rental services	3 011	4 522
Cost of hotel operations	1 852	2 937
Cost of maintenance and other services	211	151
Total	**12 459**	**39 467**

Split by type

in thousands of euros	2020	2019
Personnel expenses	985	1 067
Depreciation charge	250	242
Inventory write-off	0	40
Other	11 224	38 118
Incl. cost of real estate sold	*7 118*	*31 355*
Incl. maintenance services purchased	*3 223*	*4 937*
Incl. supplies costs	*641*	*1 421*
Incl. commissions and service fees	*195*	*391*
Incl. other	*47*	*14*
Total	12 459	39 467

Cost of real estate sold has decreased in proportion to the revenues from sale of real estate (Note 24).

Note 25. Marketing and administration expenses

Marketing expenses

in thousands of euros	2020	2019
Personnel expenses	326	334
Other	295	394
Total	621	728

Administration expenses

in thousands of euros	2020	2019
Personnel expenses	2 953	2 869
Depreciation charge	128	137
Allowance for doubtful debt	794	619
Written-off uncollectable debt	204	30
Land and real estate taxes	391	404
Other	1 684	1 954
Total	6 154	6 013

In 2020, average number of employees in the Group was 84 (2019: 89) and total personnel cost (included in direct, marketing and administrative costs) in 2020 were the same as in 2019 - 4.26 million euros. Allowance for doubtful debt with written-off uncollectable debt related to T1 Mall of Tallinn is 1 million euros in 2020.

Note 26. Other operating income and expenses

Other income

in thousands of euros	2020	2019
Fines collected	63	37
Profit from sale of investment property (Note 13)	0	3
Net gain from fair value adjustments	16	15
Incl. from property, plant and equipment (Note 12)	*16*	*15*
Other	399	40
Total	478	95

Other expenses

in thousands of euros	2020	2019 (Restated)	2019
Fines and penalties paid	445	36	36
Loss from write off of non-current assets (Note 12)	9	6	6
Net loss from fair value adjustments	43 128	26 497	24 236
Incl. from investment property (Note 13)	*43 128*	*26 497*	*24 236*
Other	4	63	63
Total	43 586	26 602	24 341

Other income includes non-refundable state aid in the amount of 351 thousand euros received in relation to the restrictions of COVID-19 pandemic in 2020, mainly related to hotel operations in Germany. In 2020 main fair value adjustment came from T1 Mall of Tallinn. Also, Latvian developments in Riga recorded loss from devaluation due to changes in inputs for valuation assumptions.

Note 27. Finance income and cost

Finance income

in thousands of euros	2020	2019
Interest income	4	4
Total	4	4

Finance cost

in thousands of euros	2020	2019 (Restated)	2019
Interest expenses:	15 965	14 003	13 590
Interest expenses of the bonds	*3 804*	*3 169*	*3 169*
Interest expenses of loans and overdrafts	*12 161*	*10 834*	*10 421*
Loss from foreign currency translation	1	0	0
Other financial expenses	32	16	429
Total	15 998	14 019	14 019

Bond interest conditions are described in Note 18, loans in Note 17. Interest expenses and other financial expenses for the year 2019 have been corrected due to commitment fee and loan agreement fee costs reclassification in the amount of 413 thousand euros.

Note 28. Income tax

Rates of statutory corporate income tax	2020	2019
Estonia	20%	20%
Latvia	20%	20%
Lithuania	15%	15%
Germany	15%	15%

According to Income Tax Acts in Estonia and Latvia net profit is not taxed until distribution.

Income tax expense in unconsolidated reports

in thousands of euros 2019	Estonia	Estonia (Restated)	Latvia	Lithuania	Germany	Total
Profit/ loss before taxation (unconsolidated)	-31 401	-33 662	-138	6 489	-31	-27 342
Income tax, statutory rate	0	0	0	973	0	973
Non-deductible expenses	0	0	0	7	0	7
Non-taxable income and tax incentive	0	0	0	-45	0	-45
Tax loss utilised	0	0	0	-330	0	-330
Reversals	0	0	0	0	0	0
Total income tax expense	0	0	0	605	0	605
Effective income tax rate	0%	0%	0%	9%	0%	2%

in thousands of euros 2020	Estonia	Latvia	Lithuania	Germany	Total
Profit/ loss before taxation (unconsolidated)	-61 028	-627	2 896	-341	-59 100
Income tax, statutory rate	0	0	434	0	434
Non-deductible expenses	0	0	25	0	25
Non-taxable income and tax incentive	0	0	-25	0	-25
Tax loss utilised	0	0	-54	0	-54
Reversals	0	0	0	0	0
Total income tax expense	0	0	381	0	381
Effective income tax rate	0%	0%	13%	0%	1%

Income tax expense in consolidated report

in thousands of euros	2020	2019 (Restated)	2019
Loss before income tax	-59 102	-31 454	-29 193
Estimated income tax respective to the tax rates	-178	-656	-656
Adjustments to estimated income tax:			
Income tax, statutory rate	434	973	973
Non-deductible expenses (+)	25	7	7
Non-taxable income and tax incentive	-25	-45	-45
Tax loss utilised	-54	-330	-330
Income tax expense	203	-51	-51
Including tax expense in continuing operations	203	-51	-51
Effective tax rate	N/A	N/A	N/A
Income tax expense	532	635	635
Deferred income tax expense	-178	-656	-656
Total effect on income statement	354	-21	-21
Income tax paid	815	3	3

Deferred income tax asset and liability (net) movements

in thousands of euros	Accelerated tax depreciation	Deferred development cost	Revaluation of assets	Deferred tax losses	Total
01.01.2019	0	1 574	430	0	2 004
Effect on income statement:					
Income tax expenses and reclaims of the reporting period	0	-656	0	0	-656
31.12.2019	0	918	430	0	1 348
Effect on income statement:					
Income tax expenses and reclaims of the reporting period	0	-178	0	0	-178
31.12.2020	0	740	430	0	1 170

Deferred income tax balances

in thousands of euros	31.12.2020	31.12.2019
Deferred income tax liability (+)	1 170	1 348
Total, net	1 170	1 348

Contingent corporate income tax

The Group's retained earnings and maximum possible amount of corporate income tax (CIT) obligation were as follows:

in thousands of euros	31.12.2020	31.12.2019 (Restated)	31.12.2019
Group's retained earnings	-8 031	47 647	49 744
Estonian tax rate applicable	20%	20%	20%
Contingent CIT obligation	0	9 529	9 949
Maximum net dividend	0	38 118	39 795

The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on distribution of dividends cannot exceed total retained earnings as at 31 December 2020 and 31 December 2019.

Note 29. Earnings per share

Earnings per share are calculated by dividing the net profit/ loss for the period with the weighted average number of shares in the period:

Average number of shares:

For the period	01.01.2020-31.12.2020	(56 687 954 x 366/366)	=56 687 954
For the period	01.01.2019-31.12.2019	(56 687 954 x 365/365)	=56 687 954

Indicative earnings per share from continuing operations:

2020	-55 678 thousand euros/ 56 687 954 = -0.98 euros
2019 (Restated)	-29 078 thousand euros/ 56 687 954 = -0.51 euros
2019	-26 981 thousand euros/ 56 687 954 = -0.48 euros

The convertible bonds issued by the Company did not have a dilutive effect on earnings in 2020 and 2019, therefor they have not been included in the calculation of the diluted net loss per share and diluted net loss per share equals the net loss per share indicator.

Note 30. Transactions and balances with related parties

Balances and transactions between the Parent and its subsidiaries have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

Transactions with related parties are considered to be transactions with the higher level of Parent within the Group, shareholders, members of the Supervisory Council and the

Management Board (defined as "key management"), their immediate families and the companies in which they hold control or have significant influence.

Transactions with related parties

in thousands of euros	2020	2019
Significant owners and owner related companies		
Sales of goods/ services	14	194
Purchase of goods/ services	0	1
Loans received	100	0
Interest expenses incurred	4	0
Minority shareholders		
Interest expenses incurred	37	37
Other shareholders/ bondholders		
Interest expenses incurred	754	733
Redemption of non-convertible bonds	100	500
Interest payments	789	755
Members of the Management Board and Council		
Salaries and bonuses paid to management	915	988
Purchase of goods/ services	19	13

The Company is disclosing information about redemption, interest calculations/ payments for convertible bonds as most of the bondholders are shareholders of the Parent as well.

No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Group has provided loans to related parties within consolidation group at rates comparable to the average commercial rate of interest. The loans to related parties have no collaterals.

Payables to related parties

in thousands of euros	31.12.2020	31.12.2019
Short-term payables		
To other shareholders/ bondholders	0	100
Long-term payables		
To significant owner related company	104	0
To minority shareholders	547	510
Total	651	610

The balance on 31 December 2020 consists of 408 thousand euros loan amounts and accumulated interests in amount 243 thousand euros. Long-term payables include loan and interest balances owed to minority shareholders of AS Tallinna Moekombinaat. 100 thousand euros loan will be due at the end of 2022 together with accumulated interests, the rest of the loans and interests will be due in 2029.

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Holdings in the Parent	31.12.2020	31.12.2019
Significant owner and owner related companies *	45.99%	39.69%
Members of the Council and individuals related them	0.08%	0.05%
Members of the Board and individuals related them	0.50%	0.50%

** Significant owner was also a member of the Council until 22 May 2020. For the sake of clarity, the participation is recorded only on one line.*

Note 31. Subsequent events

On 19 January 2021 the Company announced about publishing a listing prospectus in respect of its unsecured, callable, fixed rate non-convertible bonds "EUR 8.00 PRO KAPITAL GRUPP VÕLAKIRI 20-2024" and applying for admission to trading of these bonds on Nasdaq OMX Tallinn bond list. The prospectus was approved by the Estonian Financial Supervisory Authority on January 2021. The first day of trading was on 27 January 2021.

On 3 February 2021 the Company announced about OÜ Marsi Elu, a company belonging to the AS Pro Kapital Grupp group, and Oma Ehitaja AS signing a contract for the construction of three five-storey building complexes (Kindrali Houses) located in Kristiine City, in Tondi, Estonia. The construction will be carried out in two stages with a total cost of 20 million euros including the VAT. In the first construction phase 129 apartments and in the following 66 apartments with parking spaces under the houses and above-ground will be completed. Completion of the first two building complexes is planned for the summer of 2022 at the latest.

On 8 March 2021 the Company announced about redemption of 24 572 PKG6 convertible bonds in total nominal value of 15 726.08 euros and issue value of 68 801.60 euros.

On 25 May 2021 the Company announced about redemption of 5 400 PKG7 convertible bonds in total nominal value of 3 456 euros and issue value of 15 120 euros.

On 2 June 2021 Nasdaq Tallinn decided to suspend trading of Pro Kapital Grupp shares and unsecured non-convertible bonds. According to the stock exchange regulation and requirements the Issuer is required to publish its audited annual report within 4 months after the end of the reporting period. The Company has postponed publishing of its audited annual report.

On 8 June 2021 the Financial Supervision Authority applied a penalty payment for the delay in submitting the audited report for the financial year 2020. The warning penalty payment of 15 000 euros has to be paid.

On 10 June 2021 the Company announced that the bondholders plan to waive the temporary financial covenant failure and they have signed a standstill letter (more details in Note 34).

On 29 January 2021 the Company announced about Tallinn District Court ruling from 29 January 2021, which decided not to satisfy the appeals of AS Tallinna Moekombinaat (TMK) and its three creditors - Elkoral OÜ, OÜ Kristiine KVH and AS Merko Ehitus Eesti - against the ruling in which Harju County Court decided to terminate the reorganization proceedings. On 15 February 2021 the Company announced about TMK contesting the ruling of Tallinn District Court and its decision to file an appeal to the Supreme Court of Estonia. On 26 April 2021 the Company announced about the Supreme Court decision not to take TMK's appeal into proceedings. Without the reorganisation proceedings TMK is not capable of fulfilling its obligations and has become permanently insolvent. On 7 May 2021 the Company announced about Harju County Court's decision to appointed Kristo Teder as an interim bankruptcy trustee of AS Tallinna Moekombinaat. The management of TMK continued to operate T1 Mall of Tallinn in cooperation with the interim trustee in bankruptcy. Interim bankruptcy trustee presented to the court a written report and opinion on 27 May 2021. Harju County Court declared bankruptcy on 2 June 2021. Kristo Teder and Indrek Lepsoo were appointed as bankruptcy trustees.

As a result of the events occurred subsequent to the reporting period, the Group has lost control over the subsidiary. The management considers the moment of loss of control over the subsidiary when bankruptcy of TMK is declared and bankruptcy trustee appointed, i.e 2 June 2021. The reporting period of TMK for the last financial year will be prolonged until the same moment as according to Bankruptcy Act § 128 the new financial year starts with appointment of the bankruptcy trustee.

AS Pro Kapital Eesti (the subsidiary holding the shares of TMK) has written off investment into subsidiary in amount 13.4 million euros and receivables in the total amount of 26 million euros as at 31 December 2020, which has led to the breach of bond covenants (for additional information please see Note 34). Additionally, the Group recorded into 2020 consolidated accounts 382 540 euros penalties as accrued expenses, which had been accounted for off-balance sheet during reorganization proceedings. Although, the fact that TMK is not able to continue as a going concern has negative effect to the consolidated financial results and leads to the presentation of bonds in the statement of financial position as current, the subsequent loss of control will have a positive effect to the Group's financial results due to derecognition of negative equity of the subsidiary. The Group´s consolidated financial statements as at 31 December 2020 include financial information of TMK, which comprise 67 170 thousand euros of assets, 119 806 thousand euros of liabilities and 3 514 thousand euros of non-controlling interest. At the date of losing control, i.e at 2 June 2021, the Company Group derecognises the assets and liabilities of TMK at their carrying amounts (please see the table below which indicates the estimate of the financial effect). Also, the carrying amount of non-controlling interests in the former subsidiary will be derecognised. TMK´s financial results and cash flows occurred from 1 January 2021 until 2 June 2021 will be included in the consolidated financial statements.

As at 31 May, the subsidiary's equity was negative in the amount of 57 million euros including also intra-group payables which are excluded from the estimated financial effect calculation. Considering the non-controlling interest, the management estimates total financial effect on the Company's Group's consolidated financial statements an increase of approximate 35 million euros in equity of the group. The estimation is based on standalone figures of TMK presented below. The exact effect will be known after closing month of June 2021, when the financial result for June 2021 can be determined.

Impact of derecognition of the subsidiary:

The estimated financial effect of deconsolidation of TMK (unaudited)

in thousands of euros	31.05.2021
Fair value of consideration received	0
Less: assets	67 382
Less: liabilities*	-98 124
Less: NCI	-3 810
Gain	**34 552**

**Liabilities exclude intra-group payable to AS Pro Kapital Eesti in amount 26 542 thousand euros.*

Update on other operations of AS Pro Kapital Grupp in relation to COVID-19 outbreak

In March 2020 the worldwide spread of SARS-CoV-2 virus and COVID-19 became pandemic. Different restrictions and during several periods of time have been applied to the businesses and has affected mainly our hotel and rental operations. Although there was a short slowdown in real-estate sales last spring, we are seeing great interest for the new real-estate projects.

In Tallinn we are currently developing sea-side residential area of Kalaranna District in the City centre and also Kristiine City close to the heart of Tallinn. The bank financing of the ongoing developments is secured and relevant presales agreements with the clients have been signed to guarantee the necessary proceeds to complete the works. New apartments are being completed in 2021 and presales for the following projects are ongoing. Construction works of Kalaranna District and Ratsuri Houses in Kristiine City have been ongoing according to the plan and Ratsuri Houses were completed and fully sold this spring. We have started also with the new project of Kindrali Houses in Kristiine City, where more than half of the apartments were booked before start of construction already.

In Riga there is currently no ongoing construction and preparations are being made to start the new stage of development in Kliversala Quarter and projecting is ongoing for the other two developments: in Tallinas and Brivibas streets. There is unsold inventory available in the River Breeze Residence, which is one of the high-end projects in the city. As the prices are in accordance with the luxury quality of the product, the sale of this project has been slower than in Tallinn, already before the start of the pandemic. Though, there has been some interest towards the apartment sale in spite of the economic situation in the world. The remaining loan balance related to the unsold inventory in River Breeze Residence is 0.5 million euros.

In Vilnius construction of five new residential buildings was completed in 2019. More than 90% of the apartments have been sold and there have been customers interested in buying apartments even during last weeks. The development loan has been repaid in full.

Last year had a significant impact on PK Parkhotel Kurhaus in Bad Kreuznach, Germany. Due to the COVID-19 restrictions, the hotel was closed from March until the end of June 2020 and due to new restrictions hotel is not operating since November and is expected to reopen from 11 June 2021. The impact of COVID-19 has been 2.2 million euros in less hotel revenues and ca 0.6 million lower net result in 2020 comparing to last year. PK Parkhotel Kurhaus operating company received a long-term government support loan in amount of 500 000 euros on favourable conditions and non-refundable grants in total amount of 134 thousand euros. These funds have helped to support the period of uncertainty. Hotel has not laid off any employees and hotel operator has received state support also for salary payments. We are adjusting plans according to the changes in the situation and restrictions imposed by the German Government.

Considering the start of new residential developments, AS Pro Kapital Grupp will monitor the economic situation in all Baltic countries and in the world in general and if necessary, might postpone its development plans until the situation will stabilize. To secure health and wellbeing of our employees, clients and partners, the employees in our offices are working remotely if needed, however being available by e-mails and on the phone. We have reviewed and reduced our fixed and variable costs and plan to make adjustments to spending where appropriate in the future. Although the economies of the world have been severely hit by the current situation, the business model of AS Pro Kapital Grupp is having a long- term view. We are constantly reviewing our risks and we strive to minimize any external impact to enable AS Pro Kapital Grupp reach its targets.

Note 32. Risk management

The business of the Group involves business risk and several financial risks: market risk (interest and currency risk), credit risk and liquidity risk. It is aimed to minimize the negative impact of these risks to the Group’s financial results with the risk management. The main purpose of the risk management is to assure the retention of Group's equity and to carry Group activities as a going concern.

Financial risks

Financial assets

in thousands of euros	31.12.2020	31.12.2019
Cash and bank balances	9 393	10 616
Current receivables	1 797	1 475
Non-current receivables	3 517	2 297
Total	14 707	14 388

Financial assets include cash and bank balances and short-term and long-term receivables.

Financial liabilities

in thousands of euros	31.12.2020	31.12.2019
Current debt	107 581	111 759
Current payables	22 211	8 741
Non-current debt	27 255	10 871
Non-current payables	2 295	1 013
Total	159 342	132 384

Financial liabilities include loans, convertible and non-convertible bonds, payables to suppliers, loans from minority shareholders. Financial liabilities of the Group belong to category 'other financial liabilities at amortised cost'.

Interest risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Main interest risk rises from loans of the Group. In general, the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin. Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. Minimum of financial instruments is used to diversify the interest risk. According to Group's management estimate the expenses related to interest diversification (fixed interest rate) are exceeding the possible losses from the change of interest rate. The estimate is based on the Group's financing strategy in the short-term.

The breakdown of interest-bearing financial debt is as follows:

in thousands of euros	31.12.2020	31.12.2019
Fixed rate liabilities	114 346	114 574
Variable rate liabilities (1-12 months)	3 102	2 369
Variable rate liabilities (12+ months)	17 388	5 687

The management does not expect significant changes in base interest rates as those have shown stability and interest rates remain low. Assuming 100 bp rise in Euribor, there would be no change in position of liabilities and interest expense would increase by 96 thousand euros (81 thousand euros in 2019) and net loss would increase by 96 thousand euros (81 thousand euros in 2019).

Cash in banks also bear interest risk, especially due to negative rates and possible flooring. As at 31 December 2019 the Group had 9.4 million euros on bank accounts (31 December 2019: 10.6 million euros).

Currency risk

Entities belonging to the Group perform transactions in currency applicable in the resident country, currency risk arises in case of exchange currency transactions, which are performed with currencies not related to euro. To ground the currency risk, all the relevant contracts in the Group are signed in Euro or in currencies related to euro. Thus, the main currency risk is related with devaluation of currencies related to euro, against which the Group is not protected.

Due to the fact that Group's liabilities are all in euro and majority of Group's income comes from euro-based contracts, the Group's management estimates the currency risk to be insignificant.

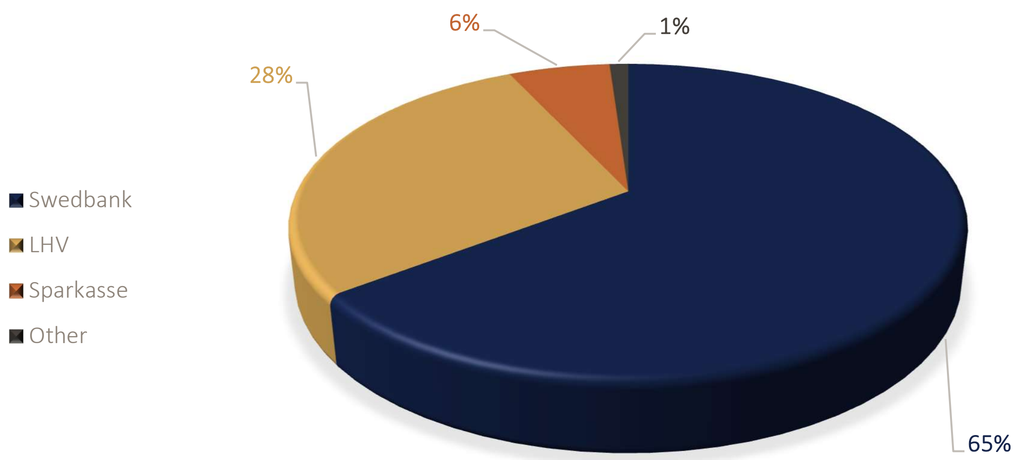
Credit risk

The Credit risk expresses potential loss that occurs, when counterparty does not fulfil their contractual obligations to the Group resulting in financial loss.

In general, the sales of real estate are secured with clients' prepayments. In case of sales of the real estate under the instalment, the creditworthiness of each client is analysed separately. The ownership of the sales object belongs to the Group entities until the client has settled all debt. In extremely rare cases it may happen that the ownership is transferred to the buyer prior to final settlement. In this case a mortgage is set in favour of the Group entity to secure the debt. There were no such cases in 2020.

For rental, hotel and maintenance businesses the payment discipline of the customers is consistently followed and dealt with for mitigating the credit risk. Credit evaluations are performed and prepayments are requested for, where appropriate. The highest risk of credit losses is related to rental activities since the opening of T1 Mall of Tallinn shopping centre at the end of 2018. The balance of trade receivables related to operating leases as at 31 December 2020 was 1.0 million euros of which 0.5 million euros have been recorded as allowance for doubtful debts (Note 9). Tenants have to provide deposit amounts and/or bank guarantees to reduce the possible credit risk. The balance of provided deposit amounts was 0.7 million euros at the end of the year, recorded as other non-current payables.

Also, cash accounts with the banks are subjects to the credit risk. The Group has narrowed the risk by having its assets in different high ratings assigned banks. Currently the Group is holding assets in the following banks: LHV, Coop, Swedbank, Luminor, Nordea, Kölner Banken and Sparkasse. Cash on accounts in the banks as at 31 December 2020 was distributed as follows:



Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by constantly monitoring cash flow forecasts and actual cash balances, and by matching the maturity profiles of financial assets and liabilities. As at 31 December 2020 the working capital of the Group's is negative and the current assets portion of short-term liabilities is 0.6 (as at 31 December 2019: 1.1). The current liabilities described below include the loan of AS Tallinna Moekombinaat, which became permanently insolvent after the reporting date, in amount of 75.4 million euros and interests until the due date in amount of 22.5 million euros.

Financial liabilities of the Group by due dates:

in thousands of euros	31.12.2020	Repayment of liabilities Within 1 year	Within 2-5 years	After 5 years	31.12.2019	Repayment of liabilities Within 1 year	Within 2-5 years	After 5 years
Loans	121 882	101 915	19 399	568	94 795	88 746	6 049	0
Lease liabilities	417	185	232	0	658	212	446	0
Other loans	977	0	114	863	1 066	0	0	1 066
Convertible bonds	1 606	1 394	212	0	10 952	6 469	4 483	0
Non-convertibles	11 627	697	10 929	0	0	0	0	0
Secured bonds	30 780	30 780	0	0	28 934	28 934	0	0
Trade payables	7 069	7 069	0	0	5 262	5 262	0	0
Other debt	12 432	8 785	3 647	0	9 005	6 517	2 488	0
Total	186 789	150 826	34 533	1 430	150 672	136 140	13 466	1 066

Financial liabilities carrying interests include accumulated interest amounts until repayment. Due to the secured bonds classified as short-term liability (Note 18), the interest rate until the maturity of the bonds in February 2024 has been excluded in the amount of 5.2 million euros.

Short-term liabilities of the Group (loans and bonds) by due dates:

in thousands of euros	31.12.2020	Repayment of liabilities Within 1 month	2-3 months	4-12 months	31.12.2019	Repayment of liabilities Within 1 month	2-3 months	4-12 months
Loans	101 915	0	0	101 915	88 746	937	1 812	85 997
Lease liabilities	185	15	31	139	212	18	35	159
Convertible bonds	1 394	44	69	1 281	6 469	1 063	0	5 406
Non-convertibles	697	349	0	349	0	0	0	0
Secured bonds	30 780	28 500	1 140	1 140	28 934	100	0	28 834
Total	134 971	28 908	1 240	104 824	124 361	2 118	1 847	120 396

Financial liabilities carrying interests include accumulated interest amounts until repayment. The current liabilities include the loan of AS Tallinna Moekombinaat, which became permanently insolvent after the reporting date, in amount of 75.4 million euros and interests until the due date in amount of 22.5 million euros – total liability of 97.9 million euros.

Fair value

Based on the estimates of the Group’s management, book value of the financial assets and liabilities does not differ significantly from their fair value, due to accounting policies used in Group.

Fair value of interest-bearing receivables and liabilities is not considered to be significantly different from their book value, because the interest rates fixed by the contracts underlying the corresponding receivables and liabilities do not significantly differ from the effective market interest rates.

Business risk

The business risk of the Group depends on the development of the real estate markets in the Baltic States and hotel market in Germany.

Before the world pandemic health crisis, the economy was growing in spite of occasional pessimistic sentiment and the Group strives to take advantage of the positive trends. The large and versatile real estate asset portfolio enables the Group to act flexibly to the market trends and accelerate or slow down the development activities according to the market needs.

Significant risk occurs with any crisis resulting in the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which decrease the demand for real estate and hotel services and have a negative impact to the Group operating activities, decreasing the sales and rent income as well as the gain from development activities, property management services and operating hotels. Changes in financial markets reduce the Group's business opportunities to involve local and foreign capital to finance business and to refinance existing financial liabilities.

Following instruments are exposed to market risk as at 31 December 2020:

		Allocation by due dates		
in thousands of euros	Carrying amount	Within 1 year	2-5 years	More than 5 years
Investment property (Note 13)	98 512	0	0	98 512
Property, plant and equipment (Note 12)	7 102	0	0	7 102
Inventories (assets held for sale) (Note 10)	58 352	11 534	46 818	0
Current debt (Note 14)	107 581	107 581	0	0
Non-current debt (Note 16)	27 255	0	25 825	1 430

In 2020 the net result from revaluation of investment property was -43.1 million euros (2019: -24.2 thousand euros and in the restated amount -26.5 million euros). Interest expense on financial debt accounted for in profit and loss statement was 16.0 million euros (2019: 14.0 million euros).

The Group's Management believes that all necessary measurements have been adopted to provide a sustainable development.

Capital risk management

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital. The Group uses debt and equity instruments for financing business activities and it monitors percentage of equity to total assets in designing its financial structure and in assessment of risk.

	31.12.2020	31.12.209 (Restated)	31.12.2019
Equity to total assets	5.3%	33.2%	33.9%
Debt to total assets	94.7%	66.8%	66.1%
Long-term debt level	17.3%	6.4%	6.3%

The Group strives to pursue conservative financing policy. The goal is to use external financing so as to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. The Group seeks to maintain such long-term debt levels that are in reasonable proportion to growth in operations and which preserve the Group's credit standing.

Long-term financing is planned and obtained on project-by-project basis. Prior to application for external finance a company constructs budget for the project in question, performs sensitivity analysis. When applying for external financing, company carefully considers the effect such additional financing may have on its debt/equity ratio, gearing ratio and NPV of the project. Additional borrowing conditions in face of loan/financial covenants, as well as interest rate risks are taken into consideration. If any special conditions are set in external financing agreement (rental income, ratio of rented/vacant space, etc.), company seeks to meet them yet before the agreement is signed. Generally, the Group's policy is to finance its assets and operating requirements in the currency of the country/currency zone concerned, in order to create a natural hedge and avoid any currency risk.

Long-term partners are preferred for external financing, given their offers are most favourable. Long-term loans are to be approved by the Company's Council prior to the assumption of loan obligations. Short term overdrafts may be used to smooth out the seasonality of company's business and to maintain cash balances that are adequate for operating levels. Short term financing partners are usually those through whom everyday banking operations of a company are carried out.

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the adjusted unconsolidated equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 35 to these consolidated financial statements, the Parent has been in compliance with such an equity restriction as at 31 December 2020 and 31 December 2019.

Note 33. Lawsuits

To bring out better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Group has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

As at 31 December 2020, AS Pro Kapital Eesti had two interlinked administrative court cases in progress. In the first court case, the company is requesting nullification of a decision of the Land Board whereby a cadastral unit located at Kalasadama 3, Tallinn, with 100% purpose of land under water bodies was not registered. On 27 March 2020, the Tallinn District Court decided in favour of AS Pro Kapital Eesti and ruled that the Land Board should make a new decision or, then, should invalidate its original 30 April 1999 decision from the privatisation era. On 27 April 2020 the Land Board appealed the District Court's decision to the Supreme Court, which has accepted the appeal and granted AS Pro Kapital Eesti the right of response. The company has responded on time on 6 October 2020. On 24 March 2021, the Supreme Court issued its judgment, upholding Land Board's view and denying AS Pro Kapital Eesti's claim. The Supreme Court concluded that AS Pro Kapital Eesti has never been the owner of the water cadastral unit. This case is now terminated and AS Pro Kapital Eesti can only pursue compensation from the state for illegal allocation of water land that should never have been owned by the company.

The second court case is a claim of compensation against the state in relation to the same cadastral unit – court proceedings were halted until 23 March 2021 when a final court decision took effect in the first court case. Since the Supreme Court in the preceding case has decided in favour of the Land Board, then AS Pro Kapital Eesti has unjustly paid a portion of the purchase price and land tax from this cadastral unit. Following the Supreme Court decision in the previous case, the Administrative court ordered AS Pro Kapital Eesti to submit a revised complaint by 15 April 2021. For purposes of gathering additional evidence, AS Pro Kapital Eesti applied for and was granted the extension of the deadline until 30 April 2021 and submitted required documents on time. The company is claiming from the state compensation of 192 338 euros of land tax paid in excess during 01.01.2004-31.12.2018 as well as that the state compensate 681 816 euros of the purchase price overpaid by the company for that portion of land (including notary and state fees paid in excess = 675 546 + 2 034 + 4 236), the claim for compensation amounting to 874 152 euros in total in the principal sum plus 1 176 261.55 euros of interest in arrears. The court has ordered Land Board to reply to the company's revised complaint by 3 June 2021. On 3 June 2021, the Land Board has replied to the company's revised complaint, denying any liability in the company's compensation claim. Now the court will have to decide whether the compensation claim has been brought in a timely manner or whether there are reasons to reinstate the claim submission deadline.

Note 34. Going concern

The reorganisation proceedings of the subsidiary of the group, AS Tallinna Moekombinaat, were terminated on 26 April 2021 and bankruptcy proceedings have started (Notes 17, 22, 31). Thus, the subsidiary is not a going concern and is derecognised from the moment of loss of control on 2 June 2021. However, this event will influence the results of the Group positively (Note 31).

The management of the Company considers some uncertainty in relation to not meeting financial covenants and the breach of secured non-convertible bonds terms described in Note 18. According to the terms and conditions of secured bonds, the Company has to meet Maintenance Test, which requires equity to assets ratio to be higher than 35% (excluding TMK). The parent company AS Pro Kapital Eesti has written-off investment into and receivables from TMK and the equity ratio fell from 50% to 32.4%. This situation is temporary due to peculiarity of the Group's business - high value of the assets during construction, especially right before completion, and no effect to equity before the start of final sales. We foresee that the ratio will meet requirements after starting final sales of Kalaranna project when first two buildings are completed and we conclude notary sales in August-September. The total sales revenue from apartments of first two buildings is estimated to be over 14 million euros. In addition, we have sold all business premises and will record profit from sales in the course of completion and handover. Cash from sales will be used to repay the bank loan, assets will decrease significantly and profit from sales will be recorded in equity providing a necessary effect to reach the required ratio.

The Company has started negotiations with the bondholders to waive the breach temporarily. The majority of bondholders representing 75.44% of the total nominal amount of the Bonds have signed a standstill letter, where they undertake to vote in favor of the waiver. Standstill means that bondholders will not instruct the Agent or vote themselves for acceleration of the bonds until 31 August 2021 or until the voting has taken place in written procedure. The bondholders have taken up an obligation to vote in favour of the waiver request in the written procedure, which will be initiated not later than 10 July 2021. Provided that the waiver request, effective until 31 December 2021, is approved by a requisite majority (i.e 2/3) of the bondholders, the interest payable shall be increased by one hundred (100.00) basis points per annum during the period commencing on 1 January 2021 and ending when the financial covenant default has been cured according to a compliance certificate duly issued by the Company according to the terms and conditions. Additionial approval by the auditor is required to the compliance certificate.

The management of the Company considers high probability to receive a waiver from the bondholders and expects positive outcome from this process, as the standstill letter provided by the bondholders cannot be recalled. However, there is a possibility of not reaching the necessary votes and the bonds may be recalled, which might lead to the temporary liquidity shortfalls during the summer months. The Management has analysed the possible consequences of the covenant breach and is prepared for such case by considering different remedies to solve the situation:

- The Company is in negotiations with the bank on additional financing and has received indicative proposal from the bank to receive additional financing in the amount up to 17.5 million euros;
- The Company has liquid real estate object accounted in inventories available. If to consider existing loan commitments and distress sale haircut, there is still sufficient amount of inventory available to cover short-term liquidity shortfalls.
- Also, there are investment properties, which considering current real estate market situation is a liquid asset. If to consider distress sale haircut, there is sufficient amount of investment property available to cover short-term liquidity shortfalls.

All remedies mentioned above can be used to solve the problem solely or in combination.

Taking into consideration bankruptcy of the subsidiary and possible recall of the bonds, the management assesses that the Group is able to continue as a going concern. The Group continues development of its properties and has sufficient amount of assets to cover its short and long-term liabilities.

Note 35. Supplementary disclosures on the parent

The financial information of the Parent comprises separate primary statements of the Parent (statement of financial position, statement of income, statement of cash flows and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the Parent have been prepared using the same accounting methods and measurement bases as those used for the preparation of the consolidated financial statements, except for subsidiaries which are reported at cost in the separate primary financial statements of the Parent.

Statement of financial position

in thousands of euros	31.12.2020	31.12.2019
ASSETS		
Current assets		
Cash and cash equivalents	182	392
Current receivables	5 972	6 202
Total current assets	**6 154**	**6 594**
Non-current assets		
Investments in subsidiaries	29 165	29 165
Non-current receivables	16 128	20 186
Intangible assets	10	16
Total non-current assets	**45 303**	**49 367**
TOTAL ASSETS	**51 457**	**55 961**
LIABILITIES AND EQUITY		
Current liabilities		
Current debt	62 452	64 716
Current payables	1 711	920
Tax liabilities	52	50
Total current liabilities	**64 215**	**65 686**
Non-current liabilities		
Long-term debt	8 484	4 250
Non-current payables	51 489	51 508
Other non-current payables	48	10
Total non-current liabilities	**60 021**	**55 768**
Total liabilities	**124 236**	**121 454**
Equity		
Share capital in nominal value	11 338	11 338
Share premium	5 661	5 661
Statutory reserve	1 134	1 134
Accumulated losses	-90 912	-83 626
Total equity	**-72 779**	**-65 493**
TOTAL LIABILITIES AND EQUITY	**51 457**	**55 961**

Signed for identification purposes:
AS Deloitte Audit Eesti

Statement of income

in thousands of euros	2020	2019
Operating income		
Revenue	736	760
Gross profit	736	760
Marketing expenses	-8	-7
Administration expenses	-2 120	-2 105
Other operating income	22	0
Other operating expenses	0	-3
Operating loss	-1 370	-1 355
Finance income and cost		
Interest income	559	695
Interest expense	-6 445	-5 723
Other finance income and cost	-30	-13
Loss for the year	-7 286	-6 396

Statement of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Retained earnings	Loss for the year	Total equity
01.01.2019	11 338	5 661	1 082	-73 845	-3 333	-59 097
Allocation of net loss	0	0	0	-3 333	3 333	0
Changes in statutory reserve	0	0	52	-52	0	0
Result of the financial year	0	0	0	0	-6 396	-6 396
31.12.2019	11 338	5 661	1 134	-77 230	-6 396	-65 493
Cost of subsidiaries' shares	X	X	X	X	X	-29 165
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	166 224
Adjusted unconsolidated equity 31.12.2019	X	X	X	X	X	71 566
Allocation of net loss	0	0	0	-6 396	6 396	0
Result of the financial year	0	0	0	0	-7 286	-7 286
31.12.2020	11 338	5 661	1 134	-83 626	-7 286	-72 779
Cost of subsidiaries' shares	X	X	X	X	X	-29 165
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	111 515
Adjusted unconsolidated equity 31.12.2020	X	X	X	X	X	9 571

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

Statement of cash flows

in thousands of euros	2020	2019
Cash flows from operating activities		
Loss for the year	-7 286	-6 396
Adjustments for:		
Amortisation of intangible assets	5	5
Finance income and costs	5 916	5 042
Change in foreign currency translation	1	0
Change in receivables and prepayments	371	-486
Change in liabilities and prepayments	196	31
Change in provisions	38	-59
Cash flow used in operating activities	-759	-1 863
Cash flows from investing activities		
Payments for intangible assets	0	-1
Loans granted	-654	-803
Repayments of loans granted	1 658	3 300
Interest received	3 473	103
Cash flows used in/ generated by investing activities	4 477	2 599
Cash flows from financing activities		
Bonds issued	28 500	0
Convertible bonds redeemed	-33	0
Non-convertible bonds redeemed	-28 000	-500
Proceeds from borrowings	481	3 037
Repayments of borrowings	-501	-462
Interests paid	-4 375	-3 109
Cash flows generated by financing activities	-3 928	-1 034
Net change in cash and cash equivalents	-210	-298
Cash and cash equivalents at the beginning of the year	392	690
Cash and cash equivalents at the end of the year	182	392

Signatures of the Management Board and Supervisory Council to the consolidated annual report 2020

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2020.

Paolo Michelozzi
Chairman of the Management Board

11 June 2021

Allan Remmelkoor
Member of the Management Board

11 June 2021

Edoardo Preatoni
Member of the Management Board

11 June 2021

The Supervisory Council has reviewed the consolidated annual report which consists of the management report and the consolidated financial statements prepared by the Management Board, and which also includes the auditor's report and the profit allocation proposal and approved it for presentation at the General Meeting of Shareholders.

Emanuele Bozzone
Chairman of the Supervisory Council
11 June 2021

Petri Olkinuora
Member of the Supervisory Council
11 June 2021

Oscar Crameri
Member of the Supervisory Council
11 June 2021

Deloitte.

AS Deloitte Audit Eesti
Tornimäe tn 5
10145 Tallinn
Estonia

Tel: +372 640 6500
www.deloitte.ee

Reg.no. 10687819

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of AS Pro Kapital Grupp and its subsidiaries (hereafter "the Group"), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Commission.

Basis for Qualified Opinion

As described in Note 31 *Subsequent events* to the consolidated financial statements, the Group lost control over the subsidiary Tallinna Moekombinaat AS on 2 June 2021. As a result, the Group is required to derecognise the carrying amounts of the assets, liabilities and non-controlling interest of Tallinna Moekombinaat AS as at 2 June 2021 and disclose the estimate of its financial effect, if such estimate can be made. Due to the timing of the event, we have not been provided with sufficient supporting documentation relating to the carrying amounts of assets (incl. valuation of investment property), liabilities and non-controlling interest of Tallinna Moekombinaat as at 2 June 2021. Therefore, we were unable to satisfy ourselves as to the adequacy of the estimated financial effect of the above event disclosed in Note 31.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (Estonia). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code (Estonia). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed the key audit matter
Evaluation of the subsequent events related with investments into AS Tallinna Moekombinaat	
As described in Note 31 *Subsequent events* to the consolidated financial statements, the Group's consolidated financial statements as at 31 December 2020 include financial information of the subsidiary AS Tallinna Moekombinaat (hereafter TMK), which comprise 67,170 thousand euros of assets, 119,806 thousand euros of liabilities and 3,514 thousand euros of non-controlling interest. In August 2020, the Harju County Court resolved to terminate the reorganisation proceedings of TMK. As disclosed in Note 31 *Subsequent events*, the Supreme Court decided not to take TMK's appeal into proceedings, which confirmed the conditions existing in August 2020, i.e without the reorganisation proceedings TMK is not capable of fulfilling its obligations and has become permanently insolvent. As of 2 June 2021, the Harju County Court declared bankruptcy of TMK. As TMK is a material subsidiary for the Group, the assessment of the subsequent events required complex judgments be made by the management in relation to (1) recognition, measurement, presentation and disclosures of the effect of TMK's ability not to continue as going concern and (2) assessment of the timing of loss of control of TMK and respective disclosures about the estimate of its financial effect on the Group's consolidated financial statements. Accordingly, the valuation of the assets, completeness of the liabilities and disclosure of the subsequent events, related with TMK is considered to be a key audit matter due to the significance of this event to the Group's consolidated financial statements, combined with the complex judgments associated therein.	Our audit procedures included, among others: - We obtained legal analysis prepared by the management and legal advisors and read court rulings and discussed the conclusions therein with the management and legal advisors of the Group. - We analysed, with the support of our legal and IFRS experts, the reassessment made by the management regarding the effect of the legal process to any of the three elements of control, i.e (1) power over the investee, (2) exposure, or rights, to variable returns from involvement with the investee, and (3) the ability to use power over the investee to affect the amount of the investor's returns, as at 31 December 2020, and subsequently until our report date. - We analysed, with the support of our IFRS experts, the potential effect of the subsequent event to the consolidated financial statements of the Group as at 31 December 2020.
Going concern	
As described in Note 34 *Going concern* to the consolidated financial statements, the Group is not meeting the financial covenants and has breached secured non-convertible bonds terms. The breach of covenant together with the bankruptcy of TMK and subsequent loss of control, as described in the previous key audit matter paragraph, raises the question whether there is material uncertainty related to the Group's ability to continue as a going concern or not. As described in Note 34, the Management of the Group believes, that there is no material uncertainty regarding the Group's ability to continue as a going concern.	Our audit procedures included, among others: - We discussed the matter with the Group's legal advisors and consulted with our legal experts. - We evaluated the standstill letter received by the Group from a majority of the bondholders representing 75.44% of the total nominal amount of the bonds. - We obtained the Group's liquidity forecast for the period covering next 12 months, taking into account subsequent loss of control over TMK and deconsolidation effect. - We have analysed the cash flow forecasts and management's action plan.

Evaluation of appropriateness of using going concern basis in preparation of the consolidated financial statements and the potential existence of a material uncertainty is deemed to be a key audit matter as it required significant judgments by the Management of the Group. The significant judgments include consideration on expected actions by the bondholders, remedies to be taken in order to solve the situation, and assessment of the probability of successful outcome of these actions, which depend on different factors.	- We have performed an assessment of the reasonableness of management plans and appropriateness of the inputs and key assumptions used in the cash flow forecasts. - We evaluated the sufficiency of the disclosures of the consolidated financial statements.
Valuation of investment property	
As at 31 December 2020 the carrying value of investment properties amounted to 98,512 thousand euros and the fair value change recorded in profit and loss and other comprehensive income for the year in respect of investment properties was 43,128 thousand euros loss. Significant judgment is required by management in determining the fair value of investment property. The Group's investment properties comprise of investment property held for increase in value (incl. land plots for future developments) and properties held for operating lease (T1 Mall of Tallinn). The Group uses an independent appraiser to determine the fair values for investment property held for increase in value. For T1 Mall of Tallinn the management has performed the valuation. The estimation uncertainty can be considered high for fair value accounting estimates for which there are no observable inputs. The inputs and assumptions with the most significant impact on these valuations are disclosed in Note 13, and include timing and costs of the developments, future rental and sales prices, timing of the revenue as well as the management's ability to realize those assumptions in the Group's operations. Accordingly, the valuation of investment properties is considered to be a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant judgment associated with determining the fair value.	Our audit procedures included, among others: - We obtained valuation reports, which were prepared by the independent appraisers or by the management. For the items, which were evaluated by the independent appraisers we assessed the competence, capabilities and objectivity of management's independent appraiser. - With the support of our valuation specialists, we evaluated the reasonableness of the (1) valuation methodology, (2) available market data, and (3) assumptions used in the discounted cash flow forecasts, including testing the mathematical accuracy of the calculation, and developing a range of independent estimates and comparing our estimates to those used by management and independent appraisers. - For property held for operating lease, we assessed the reasonableness of management's projections of rental revenue by comparing the assumptions used in the projections to external market sources, in-place lease agreements, historical data, and results from other areas of the audit. - We performed a sensitivity analysis on the significant assumptions to evaluate the extent of impact on the fair values and assessed the appropriateness of the Group's disclosures relating to these sensitivities. - We also assessed the appropriateness of the consolidated financial statements disclosures concerning those key management assumptions and pertaining to the investment property as such. - We analysed, whether in determining the carrying amount of investment property under the fair value model, the Group has not double counted assets that are recognised as separate assets, i.e whether investment property excludes accrued operating lease income, because the entity recognises it as a separate asset.

Other Information

Management is responsible for the other information. The other information comprises the Corporate profile, Results for 2020, Chairman´s summary and the Management and sustainability report for 2020 but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the IFRSs as adopted by the European Commission and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated

financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

Appointment of the Auditor
We were appointed as the statutory auditor by the Group's Shareholder's General Meeting on 23 May 2019. The length of our total uninterrupted engagement to the Group as a public interest entity, including previous renewals of the engagement and our reappointments as the statutory auditors is 9 years.

Consistency with the Additional Report to the Audit Committee
Our audit opinion expressed herein is consistent with the additional report prepared for the Audit Committee, which we issued on 11 June 2021.

Independence
We declare that during the audit we have remained independent of the Group in accordance with the provisions of Regulation No 537/2014 of the European Parliament and of the Council and the ethical requirements set out in Auditing Act.

We declare that, to the best of our knowledge and belief, no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided on specific requirements regarding the statutory audit of public-interest entities. Other than statutory audit services and services disclosed in the management report or consolidated financial statements, we provided no other services to the Group.

11 June 2021

Mariel Akkermann
Certified Auditor No. 574
AS Deloitte Audit Eesti
License No. 27

Profit allocation proposal

The Management Board of AS Pro Kapital Grupp proposes to cover the losses of the year ended at 31 December 2020 in amount of 55 678 million euros to retained earnings, revaluation surplus, statutory reserve and partially to share premium.