# AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2018

PROKAPITAL

| | |
|---|---|
| Beginning of the financial year | 1 January 2018 |
| End of the financial year | 31 December 2018 |
| | |
| Company name | AS Pro Kapital Grupp |
| Registration number | 10278802 |
| | |
| Address | Sõjakooli 11<br>11316 Tallinn, Estonia |
| Phone | +372 614 4920 |
| Fax | +372 614 4929 |
| E-mail | prokapital@prokapital.ee |
| Web site | www.prokapital.com |
| | |
| Fields of business activity | Activities of holding companies<br>Purchase and sales of real estate<br>Rent and operation of real estate<br>Management of real estate<br>Hotel operations |
| | |
| Auditor | AS Deloitte Audit Eesti |

# Table of contents


About the Company ..... 5

Our vision and mission ..... 7

Our values ..... 7

Results for 2018 ..... 8

Key financials ..... 8

Main events ..... 10

Chairman's summary ..... 12

Management and sustainability report for 2018 ..... 15

Management ..... 15

Our impact and responsibility in society ..... 18

Responsible real estate development ..... 20

Team ..... 26

Customer experience ..... 28

Contribution to society ..... 31

Risk management ..... 33

Strategy and objectives for 2019 ..... 35

Development projects ..... 36

Segments ..... 40

Financing sources and policies ..... 46

Shares and shareholders ..... 47

Group structure ..... 53

Corporate governance report ..... 54

Management declaration ..... 86

Consolidated financial statements ..... 87

Consolidated statement of financial position ..... 87

Consolidated statement of comprehensive income ..... 88

Consolidated statement of cash flows ..... 89

Consolidated statement of changes in equity ..... 90

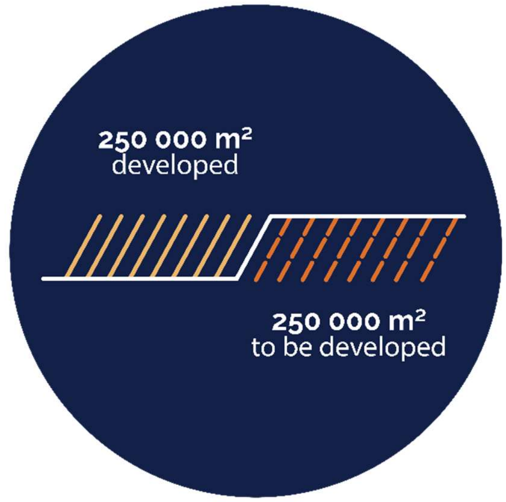
Notes to the consolidated financial statements ..... 91

Note 1. General information ..... 91

Note 2. Application of new and revised International Financial Reporting Standards (IFRSs) ....92
Note 3. Significant accounting policies....95
Note 4. Critical accounting judgements and key sources of estimation uncertainty ....116
Note 5. Entities belonging to the Group ....119
Note 6. Segment reporting ....121
Note 7. Changes in ownership in subsidiaries ....122
Note 8. Cash and cash equivalents....123
Note 9. Current receivables ....123
Note 10. Inventories....124
Note 11. Property, plant and equipment ....125
Note 12. Investment property ....128
Note 13. Current debt ....134
Note 14. Current payables ....134
Note 15. Non-current debt ....135
Note 16. Bank loans and overdrafts ....135
Note 17. Convertible and non-convertible bonds ....136
Note 18. Collaterals and pledged assets ....141
Note 19. Share capital and reserves....142
Note 20. Non-controlling interest ....143
Note 21. Revenue ....144
Note 22. Cost of sales....145
Note 23. Marketing and administration expenses ....145
Note 24. Other operating income and expenses....146
Note 25. Finance income and cost ....147
Note 26. Income tax....147
Note 27. Earnings per share....150
Note 28. Transactions and balances with related parties....150
Note 29. Subsequent events....152
Note 30. Risk management....153
Note 31. Lawsuits ....158
Note 32. Supplementary disclosures on the parent....159

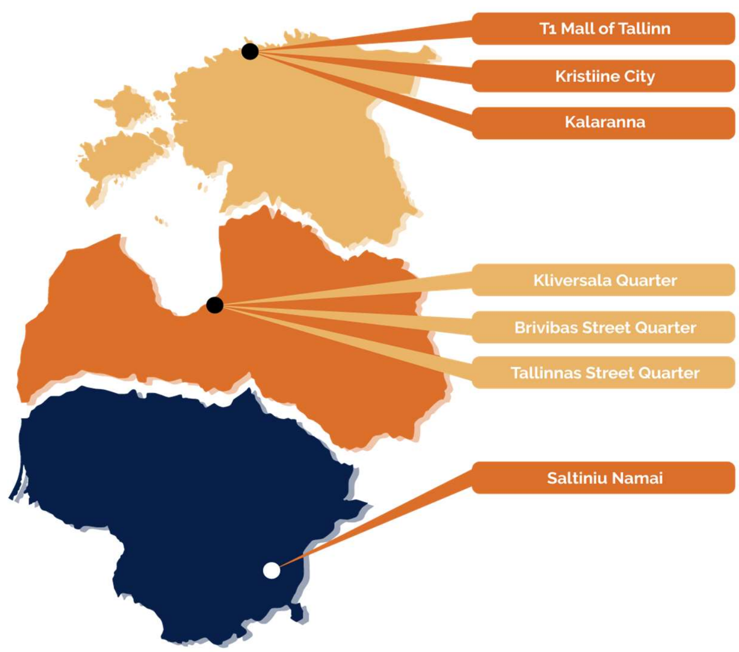
Signatures of the Management Board and Supervisory Council to the consolidated annual report 2018 ........................................................................................162
Independent certified auditor's report ........................................................................164
Profit allocation proposal ........................................................................................168

# 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 the 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 real estate development company in the Baltic States which has simultaneously under management, development or projecting 7 long-term and large-scale projects in the best locations in Tallinn, Riga and Vilnius.



In Tallinn:

- The 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.
- The Kristiine City residential area which is under development and will considerable increase the value of the entire region.
- The soon to start development of the Kalaranna residential and commercial district, which is located at the border of the sea and the old town, really turns 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.

In Riga:

- The Kliversala Quarter in the heart of Riga, 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 Brivibas and a residential district Tallinas which 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 is in the final construction stage at the border of the historic Old Town. The historic area which was known to people as a factory area has been turned into an exclusive residential area, which first development phase Šaltinių Namai has been completed and which second part Šaltinių Namai Attico is under construction. 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 the small German 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. On 8 July 2015 the secured, callable, fixed rate bonds of the AS Pro Kapital Grupp have been listed on Nasdaq Stockholm. 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 2018

## Key financials

*Consolidated Statement of Income*

| | Continuing operations | | | | Continuing and discontinued operations | | |
|---|---|---|---|---|---|---|---|
| in thousands of euros | 2018 | 2017 | *Change* | 2016 | 2017 | *Change* | 2016 |
| Revenue | 27 991 | 12 077 | *132%* | 17 610 | 14 098 | *99%* | 20 652 |
| Gross profit | 9 576 | 4 561 | *110%* | 4 922 | 5 380 | *78%* | 6 054 |
| EBITDA | 21 697 | 2 034 | *967%* | -843 | 2840 | *664%* | 386 |
| Operating result | 21 483 | 1 797 | *1 095%* | -1 168 | 2385 | *801%* | -309 |
| EBT | 18 014 | -1 549 | *1 263%* | -4 482 | -1 075 | *1 776%* | -3 808 |
| Net result | 18 056 | -953 | *1 995%* | -4 645 | -518 | *3 586%* | -4 025 |
| Net result for shareholders | 16 827 | -854 | *2 070%* | -4 533 | -419 | *4 116%* | -3 913 |
| | | | | | | | |
| Gross profit margin | 34.2% | 37.8% | | 28.0% | 38.2% | | 29.3% |
| EBITDA margin | 77.5% | 16.8% | | -4.8% | 20.1% | | 1.9% |
| Operating margin | 76.7% | 14.9% | | -6.6% | 16.9% | | -1.5% |
| EBT margin | 64.4% | -12.8% | | -25.5% | -7.6% | | -18.4% |
| Net margin | 64.5% | -7.9% | | -26.4% | -3.7% | | -19.5% |
| Net margin to shareholders | 60.1% | -7.1% | | -25.7% | -3.0% | | -18.9% |
| Earnings per share (EPS) | 0.30 | -0.02 | | -0.09 | -0.01 | | -0.07 |
| Share closing price (Nasdaq Tallinn) | 1.63 | 1.82 | | 1.96 | 1.82 | | 1.96 |
| P/E ratio | 5.49 | -108.26 | | -22.90 | -199.17 | | -26.43 |

The total revenue increased by 99% in 2018 comparing to previous period. The main reason is increase in sale of residential real estate. EBITDA increased significantly due to 18 million euros impact from revaluation of investment properties.

Operating expenses decreased by 4%, totalling to 6.1 million euros in 2018 (2017: 6.3 million euros). Gain from fair value adjustments for 18 million euros is mostly related to the opening of T1 Mall of Tallinn. The Group received extraordinary profit of 3.0 million euros from the sale of hotel properties in Tallinn and Riga and 530 thousand euros gain from fair value adjustments from investment properties in 2017. Marketing expenses increased by 63% due to active development and administration expenses increased by 3% comparing to 2017.

*Consolidated Statement of Financial Position*

| in thousands of euros | 31.12.2018 | 31.12.2017 | 31.12.2018 vs 31.12.2017 | 31.12.2016 |
|---|---|---|---|---|
| Total Assets | 245 112 | 175 158 | 40% | 142 314 |
| Current Assets | 69 299 | 53 229 | 30% | 24 001 |
| Non-Current Assets | 175 813 | 121 929 | 44% | 118 313 |
| Total Liabilities | 144 374 | 92 476 | 56% | 62 110 |
| Current Liabilities | 29 183 | 24 355 | 20% | 19 541 |
| Non-Current Liabilities | 115 191 | 68 121 | 69% | 42 569 |
| Equity | 100 738 | 82 682 | 22% | 80 204 |

Assets have increased due to active development and most of the effect is coming from construction of T1 Mall of Tallinn shopping centre in Tallinn. Active development has influenced also increase in liabilities due to financing developments.

*Consolidated Statement of cash flows*

| in thousands of euros | 2018 | 2017 | 2018 vs 2017 | 2016 |
|---|---|---|---|---|
| Cash flows from operating activities | -1 048 | -5 281 | 80% | 648 |
| Cash flows from investing activities | -46 676 | -12 199 | -283% | -9 740 |
| Cash flows from financing activities | 44 447 | 22 415 | 98% | 8 082 |
| Net change in cash and cash equivalents | -3 277 | 4 935 | -166% | -1 010 |

In 2018, the Company's net cash outflow was 3.3 million euros (2017: net inflow of 4.9 million euros). Cash flow used in operations was 1 million euros (2017: used by operations 5.3 million euros). Cash flow used in investing activities was 46.7 million euros (2017: 12.2 million euros) including investments made into development of investment property in total amount of 47.8 million euros (most of it into T1 Mall of Tallinn). Financing activities generated positive cash flow in amount of 44.4 million euros (2017: 22.4 million euros). During the year, the Company paid dividend for 0.8 million euros. The Company redeemed non-convertible bonds in amount of 0.6 million euros. Bank loans were raised in amount of 56.9 million euros, main cash outflow included repayment of bank loans in amount of 7.5 million euros and interest payments for bonds and bank loans of 3.5 million euros.

*Financial Ratios (continuing operations)*

| | 31.12.2018 | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| Equity ratio | 41.1% | 47.2% | 56.4% |
| Debt to equity ratio | 121.2% | 83.9% | 57.69% |
| Net debt to capital | 53.3% | 41.7% | 33.7% |
| Debt to EBITDA ratio | 5.6 | 34.1 | -54.8 |
| Current Ratio | 2.4 | 2.2 | 1.2 |
| Return to assets | 8.6% | -0.6% | -3.4% |
| Return to equity | 18.3% | -1.0% | -5.5% |

*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 Kristiine City, in Tallinn, we are developing integrated and unique living environment in historical barrack area. In the beginning of the year we completed a residential building with special design loft apartments at Marsi 6. The interior design was completed in co-operation with well-known designer Tarmo Luisk and the project received high appreciation from our customers – all 45 apartments have found their owners. Also, Kristina Houses development project of ten new residential buildings with 309 apartments in the same quarter have shown great sales results. We started with construction of the last four residential buildings in 2018, one of them was completed in March 2019 and final three will be completed this autumn. Large number of apartments are pre-booked already before the start of construction works and most of the premises are sold by the time of completion.

River Breeze Residence, an exclusive architectural residential development for customers with high standards was completed in spring 2018 in Riga. It is our first residential building in Kliversala development located on the shore of river Daugava. The area is located within the UNESCO heritage protection area.

In Vilnius, we have continued with construction and presales of Šaltinių Namai Attico development project. Over 110 apartments will be completed soon and 60% of them are already sold. Šaltinių Namai project is located in the heart of Vilnius, on a hillside with beautiful views to the old town.

In November, T1 Mall of Tallinn, a shopping and entertainment centre with a forward-looking concept started operations. In addition to common shopping opportunities it opens to our visitors a diverse world of entertainment. It has one of a kind Super Sky Park, a large area with restaurants, a world-class cinema and newly opened Ferris Wheel on the roof of the centre that is unique in the entire Europe.

We have been taken part in the activities of communities that are carrying our values and concern well-being and health in the areas we are developing. For example, we supported the Niguliste Church in Tallinn to set up a new exposition for the painting „Death Dance“, which has been attributed to Bernt Notke, a master in Lubeck. We contributed into setting up an art gallery of Tallinn Art Space in T1 Mall of Tallinn and into works of young Latvian artists, gave our input into Riga city planning on Mad City event. Also, we have appreciated beautiful Estonian homes in co-operation with the home design magazine „Kodukiri” and have devoted time to young people by introducing our business and engaging them in local community works.

Since 19 November 2018 AS Pro Kapital Grupp is listed in the main list of Nasdaq Tallinn Stock Exchange. With this step we have entered a new phase in involving stakeholders.

# Chairman's summary

The year 2018 was significant for Pro Kapital for reaching important milestones, which in turn are demonstrated by the financial performance. We have shown a stable growth thorough the business and continue our focus on improving the performance in the future.

Pro Kapital aims to strengthen its position as one of the largest and strongest real estate developers in the Baltics, with an increasing emphasis on all aspects of our activities. I am pleased to highlight the opening of one of a kind shopping and entertainment centre, T1 Mall of Tallinn in the fourth quarter of 2018. T1 is located right at the heart of future transportation hub of Tallinn. The concept of T1 foresees changes in the customer behaviour – people are looking for ways of spending quality time. Additionally, to shopping T1 offers a diverse and large restaurant area, a cinema, family entertainment centre Super Sky Park and Ferris Wheel on the rooftop - one of a kind in all Europe.

Mindful of the responsibility that comes with development of the whole areas, we consider important to share our activities with investors as equally as with the public. As of 19 November 2018, our shares are traded on the Nasdaq Tallinn Stock Exchange Main List, which allows us greater visibility amongst the shareholder community.

## Building new communities

Our business is not merely about building houses but establishing entire communities and improving the living environment. The experience of nearly 25 years, allows us to identify upcoming opportunities and thereby add new value to the areas of which we develop.

Our one of the most outstanding developments in Tallinn – Kristiine City, stands as a pioneer for increasing the value of the entire area. We develop Kristiine City in stages and are currently engaged with the development of Kristina Houses, where we have finalized seven residential buildings out of ten. We had sold 212 new homes in seven apartment buildings. In the sixth house, which was finished in December 2018, only 3 apartments are unsold (one of them is sample apartment not for sale) in the seventh building which was completed this spring, only 2 apartments are unsold. Simultaneously to the construction of the following three houses, we are actively carrying out pre-sales and have signed pre-sale agreements for 42 apartments.

Pro Kapital is in progress with projecting works for a prestigious Kalaranna residential and commercial area, right at the border of Tallinn's old town. Kalaranna's unique location just by the bay of Tallinn is making it as one of the most exclusive development projects in town. With an increasing interest towards the project, we started with initial reservations in July 2018. Although we have not yet started the construction nor advertising, we have, to date, made 78 reservations to residential premises in Kalaranna.

In Riga, we are building Kliversala residential area which is a true sight to see in the city centre. The new living area is located right on the bank of the Daugava river and on the shore of Agenskalna bay. We finished the construction works of the prestigious River Breeze Residence in spring 2018. We are currently proceeding with the sales of remaining 36 luxury apartments in the residence. Following the completion and ongoing sale of River Breeze Residence, we are proceeding with the following phase of Kliversala, but also other development projects. Tallinas residential quarter is a modern combination of new and restored historical buildings, for which the projecting works are ongoing. Another new area development Zvaigznes or Brivibas quarter, for which the projecting is ongoing at this point in time, represents a commercial property for an office complex and be built on the site of a former factory.

In Vilnius, Pro Kapital is developing a Šaltinių Namai area, bordering with and offering a stunning view from the top-hill to the historic old town. The first phase of the development is completed and almost sold out. In 2017 the construction works for the second stage of residential buildings, Šaltinių Namai Attico, started and 79 preliminary agreements have been already signed. Four buildings of Šaltinių Namai Attico development are expected to be completed in the middle of 2019. The Company is looking into obtaining new attractive developments in the region, to start new projects after the completion of Šaltinių Namai.

## Continuous improvement in the financial results

The completion of multiple development phases, that have proven to attract the market's interest, is demonstrated by good financial results for the reporting period. At the end of 2018, the Company recorded net revenue of 28 million euros, an increase of 99% as compared to 14.1 million euros during the same period in 2017. Revenues have increased in real estate segment due to completion of three apartment buildings in Tallinn and one in Riga as the revenues are recorded at the moment notary deed of sale is concluded. The net profit was 18 million euros, which was 18.5 million euros improvement comparing to 0.5 million euros loss during the same period in 2017.

The net result was significantly influenced by increased value of investment property due to completion and opening of T1 Mall of Tallinn. We are continuously focused on improving the efficiency. The Company is exploring opportunities to reduce financial costs by refinancing current debt instruments. We foresee stable growth in revenues and operating results during the upcoming periods.

As at the end of 2018, the Company's overall loans from financial institutions were 83.3 million euros. The loans from the minority shareholders were 0.3 million euros. The Company had 10.2 million euros worth convertible bonds debt and 28.5 million euros worth non-convertible bonds debt.

As at 31 December 2018, there were 89 employees working in the Company, 40 of them were involved in hotel and maintenance business.

Paolo Michelozzi
CEO
AS Pro Kapital Grupp
29 April 2019

# Management and sustainability report for 2018

## 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 of 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 also trade shares on the Frankfurt Stock Exchange. Our operation is 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 10 years ago and to focus on the future.

Our management principles are based on three pillars:

- We bear long-term responsibility to both our customers as well as 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 ensure relevant and timely sharing of information to all our stakeholders in an honest and transparent manner.
- We are the only real estate company that is simultaneously running almost ten 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 the Nasdaq Tallinn Stock Exchange and the Good Corporate Governance (GCG) guidelines. We do not tolerate corrupt behaviour, bribes or unfair competition. We take possible unethical situations very seriously.

In 2018, the Group was not levied any fines or non-pecuniary punishments for violations of essential laws or other regulations. Fines related to maintenance of surroundings of a few buildings remained under the limit of 1 000 euros. As these were developments of large residential areas, not of individual buildings, they rather formed an organic part of the operations.

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. In the opinion of the Management Board, neither AS Pro Kapital Grupp nor any of the subsidiaries thereof had any litigations pending at the end of the accounting period which economic impact would exceed the amount of 100,000 euros.

Our management and operations are independent. The companies and the key personnel of the Group did not support the activities of any political organizations in 2018.

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 the key personnel of the Group has worked for the Company for over 10 years and we highly appreciate their contribution. Our team is not big, therefore our operation is 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 even 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 2018, we vigorously developed the management principles of the Group and paid more attention than earlier to the communication with the public and the investor community. We assessed, reshaped and consciously structured the management systems of the Group and agreed upon additional principles for communication with the stock exchange and the investors, and for disclosure of information. In addition to the communication with the investor community, we are consciously and systematically also introducing the 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.

We believe that one of the most important and concrete steps in the last year was the listing of our shares in the main list of the Tallinn Stock Exchange since 19 November 2018. We believe that joining the main list of the stock exchange will improve our visibility, transparency and help us achieve the role of the strategic leader of the Baltic real estate market. We will continue developing our existing real estate portfolio, and the liquidity and attractiveness at the financial markets will certainly help to support this goal.

One of the most important aims of open and transparent management and active communication is to increase the investors' interest and thereby the Group share transactions activity at the stock exchange. This in turn will support out long-term development and growth.

*In November 2018, we had a Pro Kapital Group investor day at our newly opened T1 Mall of Tallinn. We gave an overview of the Company's current activities in Estonia, Latvia and Lithuania and talked about our future visions and developments.*

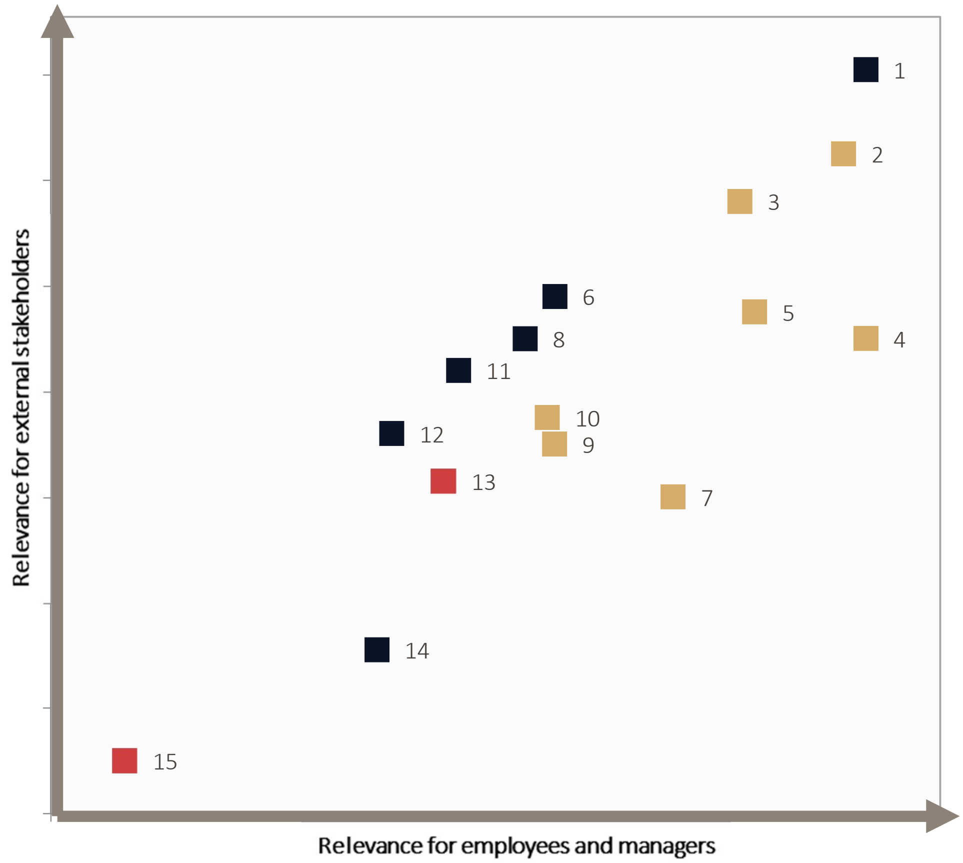
# Our impact and responsibility in society

Our business is not just about the development – we create new regions 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 even 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 law. We have to ensure high quality and safety in our operations but at the same time we have to take the impact of the development activities on the environment into consideration 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 more in a more conscious manner. We spotlighted these topics for us in a more systematic manner even inside the Group. We would like to be more specific in the management of our societal responsibility – to essentially continue to develop the more important aspects, set specific targets and performance indicators which would demonstrate and confirm development besides describing the principles.

The matrix on the next page 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.

This is the first Annual Report in which we outline our view and principles as regards sustainable real estate development, responsible management and our broader societal role. This time we have not included into analysis our German hotel, 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 and we are proud to be based on our future-oriented view in the plans. We stay ahead of the market trends and we focus on creation of comfort and well-being in our developments. We are closely connected to all our developments from their start to finish because this is the only way how we can create extraordinary and elegant buildings. The courage to be ahead of time, assume risks and responsibility for our operations upon implementation of major projects creates such living and business environments, which clearly shape people’s mentality and behavioural patterns.

In 1999, we built the modern and architecturally unique Kristiine Shopping Centre in Tallinn. It was one of the first of its kind at the boundary of the city centre. Thereafter the Domina Shopping Centre in Riga in 2003. These two shopping centres changed the hitherto trade practices and consumer behaviour. We realized already then how great the need was for such living and shopping environments where people would feel good. These principles were the central ones in all our subsequent activities when we started to develop both residential and business buildings in Tallinn, Riga and Vilnius by creating new experience for local communities and thereby increasing people's expectations. The evidence of such world of value is the T1 Mall of Tallinn major project which was completed in 2018 and which integrates entertainment and commerce into a leisure centre, and nothing similar to this has been hitherto created in the Baltic States. 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.

Pro Kapital Group does not develop any individual buildings but new environments (living environments), increasing thereby the value of the districts, supporting the sense of community of the people and their expectations of the quality of life.

In the case of residential real property this means significant increase in the quality of life of their residents and even in the value of the district itself through public spaces and infrastructure, green zones and landscape architecture, convenient transport links and on-site services and recreational opportunities.

Similarly to the development of living environments, we also wanted to create the feeling of connected public space upon development of the T1 Mall of Tallinn. We wanted to create an environment supporting micro-environments which function in synergy and which together create an experience and shopping environment as a comprehensive solution which, for example, Internet commerce is not capable of. We regard 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.

*The Kristiine City is not just a complex of residential houses but it expands the concept of a city centre. This is a unique and independent residential environment, almost as a "city within a city", being at the same time an organic part of the urban space. The Kristiine City will become a unique combination of modern architecture and historical uniqueness*.

We believe that real property is much more than just physical space. Be it residential or commercial real property, it should create emotions. The home is probably one of the most important investments in the life of people. The 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 also bring the sense of joy and satisfaction and well-into the lives of people.

*In Riga, the River Breeze Residence, which is located in the Kliversala development quarter, received the award of the most sustainable development project of 2018. This exclusive apartment building was also nominated for the awards of the Best New Residential Building and the Best Building of the Year.*

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.

In 2018, apartment houses at Marsi 6, Sõjakooli 12 and 12b were completed in the Kristiine City development district in Tallinn, and the River Breeze Residence was completed in Riga in the Kliversala quarter, an area of cultural and environmental value. Our developments give new life to the most distinctive and historically significant areas.

*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 2018 in connection with the constructions works or operation of the buildings.*

*When the T1 Mall of Tallinn was under construction, the cars parking in the neighbouring streets caused the biggest inconvenience for the residents of the area but this was an inevitable result of approximately 1000 builders working at the site during the last months of the construction period.*

*During the construction of the River Breeze Residence in Riga, we reinforced the foundation of a nearby building together with the builders in order to protect it from potential damage arising from vibrations. We believe that when completed, our development projects bring new added value to the areas where they are located. This is undoubtedly a positive factor for the current residents of the region.*

*The major development of the Kalaranna Quarter is quite close to the sea shore in Tallinn, therefore we shall make every effort to ensure the safety of the area during the soon to begin constructions works. Although we surround the construction site with a fence, the access to the seashore will remain open. Local residents have proposed to create convenient conditions for swimming there by installing benches and changing rooms, but we as the land owner believe that this would not be safe if we take the construction works into consideration. Without wishing to favour swimming during the period of the constructions works and thereby create favourable conditions for possible accidents, we decided not to meet the wishes of the residents this time. Although we have no right to prohibit swimming there, we consider it necessary to install safety signs in the area which inform people that they swim at own risk there.*

*All the commercial and residential real estate buildings completed in 2018 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. The T1 Mall of Tallinn* *and 80% of the completed apartment buildings can be accessed by people with disabilities.*

## Quality

Our vision is to develop only 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 the quality is the core of creating long-term values throughout our business. The quality is in particular our responsibility to the clients for whom a real estate investment is an important step 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. The 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 the 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 cooperative 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. Even in the case of specific works, we only cooperate with the best specialists in the field. We only invite reliable and ethical companies to 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 the 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 the actual utilisation needs of people 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 the 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 the durability of our buildings over time and reduces the need for repairs and the need 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 the environment and their expectations of 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, and to allow movement and active lifestyle.

Our operation upon meeting the environmental requirements complies with the regulations but environmentally friendly solutions are not yet at the core of the activities. There are a number of reasons for this, and the most important here is the price and quality ratio of home or commercial spaces. Our operation is 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 our subsequent operation. 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 we operate the 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 opportunities. We ensure that completed buildings comply with the environmental standards and do not endanger the surrounding environment.

*In 2018, no environmental pollution or damage to protected nature occurred in connection with the buildings constructed or commercial real estate operated by us. Among the four apartment houses completed in 2018, three have better than usual energy performance certificates (both the Kristina houses in Tallinn as well as the River Breeze Residence in Riga comply with the energy performance class B).*

*Environmental certificates play an increasingly important role in the global commercial real estate market. This is an important and necessary factor for many*

*international tenants and investors. The T1 Mall of Tallinn strives for the golden rating of the LEED environmental certification as regards the building management and it should be able to comply with these requirements in 2019. The LEED environmental certificate is issued to buildings with lower environmental impact in the case of which the principles of environmental sustainability and sustainable development are followed in the design, construction work and use thereof. In the case of the LEED, the assessment of the buildings is based on their environmentally friendly location and accessibility, their energy and water efficiency, sustainable use of materials, waste treatment solutions, internal climate of the building and their innovation level.*
*In the case of the T1 Mall of Tallinn, the following factors are the most important upon application for the LEED certificate:*

- *Compact design (less cooling roof surface);*
- *Location in an abandoned former industrial area (the nature was left intact);*
- *Excellent access for those using public transport.*

*In the case of the T1 Mall of Tallinn, the good environmental impact also results from the fact that the design is suitable for the surrounding environment, a lot of local building materials is used, the construction waste is reprocessed, ventilation systems include efficient heat-recovery and process large quantities of air, sanitary equipment are such that save energy and water, cooling systems are with environmentally friendly cooling agents, LED lighting is used, surfaces are made of low heat penetration materials, and the number of parking spaces outside the building is small which helps to avoid formation of heat islands.*

## Safety and health

The charm of the property does not lie only in the property itself but it is created for people. Thus, the core value of our operation is the well-being of the people. Just as we want the 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 2018, as far as we know (due to our fault), in the apartment buildings operated or completed by us.

Proper action plans have been agreed upon for any emergencies in the shopping and entertainment centres. To ensure informed and timely operation of the employees of the centres in the 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, the construction company shall ensure safety at the site. We cooperate with respectable main contractors and the general order at the construction sites is good. It is important for us that the people visiting the site during the period of the construction works are aware of the safety requirements and comply with these requirements. We had no work accidents at our construction sites in 2018.

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 audio background in public areas. In the case of 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 in the middle 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.*

## Team

AS Pro Kapital Grupp is a company with more than 20 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 almost half of its lifetime or even more. We believe that this demonstrates our ability to keep our team by offering them the environment that is in constant development, encouraging and supportive. We believe that every company has the face of its people and the people shape it, therefore we highly appreciate our people.

At the end of 2018, the entire Group had 89 employees comparing to 88 at the end of 2017, among them 40 employees were involved in hotel and maintenance business (48 in 2017). 51 employees worked in the Baltic States (31 in Estonia, 10 in Latvia and 10 in Lithuania). 1/3 of the 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 2/3 are female; 4 of the managers of the Group and the Baltic companies are male and 3 of them are female. Our employee turnover was 12%, and in 2018 we recruited 11 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 against 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 the people who have worked for a long time in our team. We listen to them and we support them fully. We always try to find people from 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 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 the 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 the 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 taken out 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 Latvia, 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 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 2018:*

- *We had no work accidents with our employees;*
- *Our employees were absent from work due to medical reasons only 0.7% of the days (an average of less than two days per year);*
- *Over 40% our employees participated in professional training courses or seminars (an average of 18 hours per employee);*
- *We did not receive any official complaints about discrimination or unfair treatment.*

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 because the opening of the T1 Mall of Tallinn took place at the end of 2018 and we do not manage any other commercial properties in Estonia, Latvia or Lithuania at the moment.*
*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, and even families looking for new homes when their families grow bigger, and 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 Estonians people even*

*foreigners (for example Finnish customers in the case of the Kalaranna development), and besides private individuals even companies that invest in rental property.*

Buying a home is usually one of the most important and largest transactions for people. Therefore, we bear 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 be sure of the quality that we offer. 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 decoration but in every detail, well-considered space planning, landscape architecture and infrastructure. This does not only mean compliance with the requirements but also long-lasting construction quality, timeless aesthetic but practical use of materials and design and the environment where it is good to live. We have proven ourselves as a reliable and long-term partner to our buyers. We do find that our customers must be sure what they invest in.

Undoubtedly, buying a home is emotional, and the way how that 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 a big and effective role to play in our work, and every detail in and the overall picture of the product specifications and visual elements must address a specific target group. Our promises correspond to the 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 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 all contact details in a proper manner. When we cooperate with real estate agents, we require that they also adhere to the same principles. In 2018, 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.

*In 2018, we sold every eighth apartment in the River Breeze Residence in Riga during the construction period already. Most of the customers had already purchased apartments earlier in our past projects. 85% of the apartments in the Kristiine City have found their owners already before the houses were completed.*

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 the one had helps us to shape the living environment into such 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 the new 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 the 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 develop 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 units 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.

*Customer relations have a personal and long-term value, therefore we also want them to have a little sentimental touch. We give gifts to our buyers which show the visage of namely that particular development. For example, our gifts include Nordic design dishes, soft plaids, leather key-holders and books on interior design, house plants and healthy diet. A nice example of our gifts is the unique paintings for buyers of the apartments in the Riga River Breeze Residence which were made by local Latvian artists of the views from their windows.*

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 that 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. I believe that this distinguishes us clearly and supports our growth and movement as a creator of trends towards high-quality and responsible real estate development."*
*Carmen Kukk, Marketing Manager*

*We find that every relationship, thus even 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 namely to the improving of the customer experience. We want the 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 even in the case of commercial real estate customers.*

# Contribution to society

The biggest and the most positive contribution of AS Pro Kapital Grupp to the society is the development of living environments and commercial districts based on an integrated and long-term strategy. Therefore, our business does not only consist 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. That is why we support and participate in the activities and projects which involve the local community, promote youth education, improve the awareness and support the culture. We are pleased to share our experience and knowledge with different stakeholders, be it professional events, investment communities or the public. In 2018, we donated 11 500 euros to sponsorship and support activities. Our goal in 2019 is to establish specific principles for support activities and the priority axis in order to ensure a clear link to our business activities. We believe that the 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 2018:

We mostly address three main subjects in the case we find that it is important to keep and improve them – improvement of the 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 the 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 supported the urban planning hackathon "Mad City Happening" in Riga – this design event was organised to find ideas and solutions in order to revive the territory where our development project is located and the area surrounding it.
- Our largest development district – Kristiine City in Tallinn – is changing this historical area, bringing entire new breathing and life to it. At the beginning of the current year, we organised an event in the Kristiine City to burn Christmas trees and to allow the local people and those living in the surrounding districts to rejoice, and we also organised a concert of the heavy metal band "Metsatöll" and other entertainments there.
- For the second year already, we gave out a living room prize together with the home journal "Kodukiri" which has a long and distinguished history in Estonia. Last year's prize went to Jelena and Alger Räpp, who had created a lovly home with brightness and light. In 2019 the prize went to young home owners Triin and Taago Pikas whose beautiful and cosy home is in Kiili. 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 the home, community and people who shape them.

Art like real property lives a dignified and long life. As it is equally inspiring and increasing its value in time, art has a precious and emotional spirit. Just like real property as a living or working environment, it grows and develops together with people in time and space. Our contribution:

- In cooperation with several good partners, we supported the new display solution of Danse Macabre (the Dance of Death), a painting by the Lübeck master Bernt Notke, at the St. Nicholas Church in Tallinn.
- We supported the founding of the Tallinn Art Space Gallery at the T1 Mall of Tallinn shopping and entertainment centre, a major project of ours. This has become a distinguished centre for promotion of the Estonian art which is also a unique and creative location where various events for different companies, individuals and institutions can be organised.
- Young Latvian artists made paintings on our request of views from the windows of the apartments of our River Breeze Residence completed in Riga which we gave as gifts to the people who bought homes there.

Our work with young people is an organic and necessary trend since sustainable and forward-looking activities shape the living environment in the long run and have a very high impact. Our current work has an impact on the people even after many years, therefore we are happy to involve young people, be with them and think with them in order to learn from them. In summer, we introduced our Company and gave an opportunity to a students' brigade comprising almost 30 young people to engage during a few days in property maintenance works in Tallinn.

# 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. 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, bank 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 the case of any problems, we are open to communication in order to prevent aggravation of disagreements, and we want to quickly find solutions that are suitable for the 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 and 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 2019

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 the oldest professional real estate development company 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 2019 we are operating T1 Mall of Tallinn Shopping & Entertainment Centre in Tallinn and to continue the sales and construction processes in our residential projects in Baltic capitals. Provided the continuation of the positive market sentiment plan to start with construction of the following stages in Kristiine City and Kalaranna residential development In Tallinn. We expect moderate real estate sales activities in 2019 due to completion of new houses in Tallinn and Vilnius. Rental activities increase will be driven by T1 Mall of Tallinn. Hotel segment is expected to continue with moderate increase on revenues and to work on effectiveness and profitability. Maintenance segment will focus on improvement of service standards and effectiveness in serving its customers.

*Goals for 2019:*

- To continue with our already commenced development projects and complete the preparations for launch of new development projects provided that the market sentiment is positive. In 2019 the last four Kristina Houses and another four buildings in Šaltinių Namai Attico project in Vilnius. Upon receipt of the building licence we hope to start with the Kalaranna residential development.
- To reduce financing costs by refinancing debts. As interest rates in Estonian market are growing, we are seeking for possibilities to refinance our existing debts in 2019 and 2020 outside Estonia.
- To increase our investor base. We strive to be more transparent and visible for investors. The Company's maintains long-term strategy in its activities and we wish to communicate the possible potential to be found in long-term investments.

# Development projects

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

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


T1 Mall of Tallinn is located at the centre of the near-future heart of the capital of Estonia. Unlike any shopping or entertainment centre in the Baltics, T1 is bringing communities together and change the behaviour and interpersonal interaction entirely. The Company believes people need more comfort and consolidation from services and experiences, more openness and responsiveness. T1 is thereby one of the key development projects that reflects the mindset of the Company. T1, with total building volume of 130 thousand square metres and gross leasable area 55 thousand square meters, is opened to the visitors from November 2018.

## Ülemiste 5, Tallinn

Ülemiste 5 land plot is closely connected to the T1 Mall of Tallinn property, located on Peterburi road 2. Ülemiste 5 will be developed for commercial premises with gross leasable area 14 thousand square meters. This development project will play a significant role in establishing the new public transportation centre of Tallinn. The Company is currently in the process of establishing new detail plan with regards to the connection with Rail Baltica terminal. The plan will be coordinated and implemented in close co-operation with the City of Tallinn.

## 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 very close to the heart of 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. The 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 outside the very centre or the city.

### *Marsi 6 in Kristiine City*

The reconstruction of historical building with special design loft apartments has been completed at the beginning of 2018. The Company has successfully carried out the sales of the apartments with all of them sold to date.

### *Kristina Houses in Kristiine City*

This is a development of ten new apartment buildings located in Kristiine City with an estimation of 22 thousand square meters of net sellable area in total. The Company has, to date, completed seven apartment buildings. The construction and presale of the final three buildings is ongoing. Seventh building was completed this spring and the last three apartment buildings at Sammu street will be ready in autumn 2019.

Kalaranna in Tallinn

The Kalaranna development is located at the very heart of Tallinn, in the most exclusive and prestigious area, right on the beachfront of central Tallinn. The detail planning of the property includes a beach promenade and a well-connected public space with a building solution, turning the entire region into a truly valuable area at the heart of the city. The total net sellable or rentable area of the development is more than 30 thousand square meters, most of which is residential real estate. The Company has finalised the detail planning and design works are currently in progress. The design is carried out by well-known architects Ott Kadarik and Mihkel Tüür, who were the winners of architectural competition held.

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.

The River Breeze Residence is a newly constructed residential building and a landmark of the city's silhouette, on the left side of the bank of the river. The River Breeze Residence is the first building in the Kliversala quarter, exclusive residential development, located on the shore of river Daugava and Agenskalna bay. Construction works of the building were completed in spring 2018 and the Company has started design works for the following phase.

## Zvaigznes or Brivibas 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 Company started the design works for the renovation in 2017 and is currently in progress with technical design of the premises.

## Tallinas Quarter in Riga

Tallinas street 5/7 is located in the central city of Riga, where a new residential development is planned. The project foresees a series of apartment buildings with commercial premises on the first floor. The building complex will consist of new buildings and restored historical buildings that will create a unique atmosphere in the area. The building permit has been issued and the technical design is currently in progress.

## Šaltinių Namai in Vilnius

Šaltinių Namai Attico is a prestigious new quarter surrounded by the nature in the most peaceful part of the Old Town of Vilnius. All four apartment buildings, currently under construction, will be built ensuring the highest standards of energy efficiency. The first stage of Project Šaltinių Namai has been completed, with altogether six five-floor buildings with attics and eleven private cottages. Residents of Šaltinių Namai quarter are already enjoying the private courtyard, beautiful landscape and fully equipped children's playground.

# Segments

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

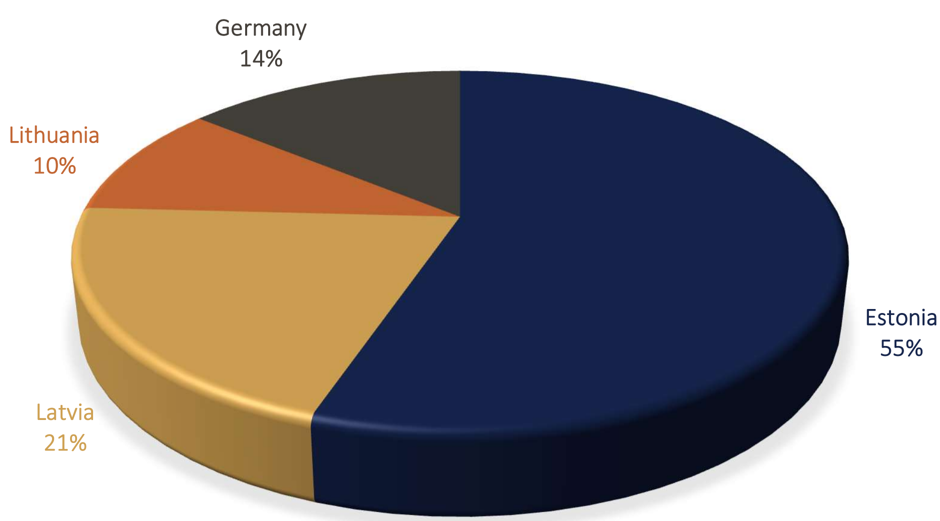
*Key financial data of the segments, in thousands of euros*

| | Revenue | | | Gross result | | | Net result | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | Change | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Estonia | 15 463 | 7 589 | 104% | 5 339 | 3 372 | 58% | 16 720 | -1 124 | 1 588% |
| Latvia | 5 765 | 1 187 | 386% | 2574 | 364 | 607% | -213 | 550 | 139% |
| Lithuania | 2 828 | 1 784 | 59% | 617 | 631 | -2% | 38 | -330 | 112% |
| Germany | 3 935 | 3 538 | 11% | 1 046 | 1 013 | 3% | 282 | -171 | 265% |

| | Gross margin | | Net margin | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Estonia | 34.5% | 44.4% | 108.1% | -14.8% |
| Latvia | 44.6% | 30.7% | -3.7% | 46.3% |
| Lithuania | 21.8% | 35.4% | 1.3% | -18.5% |
| Germany | 26.6% | 28.6% | 7.2% | -4.8% |

Financial data here includes discontinued operations of 2017. Internal transactions are eliminated. Estonian segment includes the financial data of the Parent. Net results are recorded before taxes and include non-controlling interests.

*2018 revenue by geographical segments, %*



The general market situation in Baltic capitals remained positive with moderate but stable upward trend that creates a solid base of request for new products in both residential and retail segment. 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 its strategy to focus on large-scale premium development projects with less competition. Though market in Tallinn and in Vilnius feels currently more favourable for development activity than in Riga.

## 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.

Pro Kapital has paid careful attention to the development of retail market in Europe during last years for evaluating the effect of e-commerce. The notable trends of consumer behaviour show both: the growing readiness to purchase any goods through internet and to use modern "brick-and-mortar" shopping centres as emotional meeting points and platforms for spending free time. Therefor Pro Kapital has put strong efforts to develop T1 Mall of Tallinn in line with the latest trends of worldwide retail real estate industry by focusing to the synergy between classical retail offer, variety of entertainment activities and broad segment of food and beverages. During the year close to 50 million euros were invested into the project and the works are continuing in the current year. The City of Tallinn continued the detail plan process on the neighbouring land plots to enable the development of Tallinn Joint Passenger Terminal as part of the Rail Baltica project. Such development of public infrastructure, including already established tramline which will connect Tallinn Airport and the shopping centre with the city centre in the future, increases significantly the attractiveness of the whole district that has all potential to become one of the most active business centres of Tallinn in coming years.

In Estonia real estate market kept stable moderately upward trend in 2018, with price levels, average transaction amount and transaction volume increasing at a steady pace.

The Company has completed seven new apartment buildings out of ten in Kristina Houses project, in Kristiine City, two of them in 2018 and the last one this spring. 212 apartments out of 217 have been handed over to the clients at the moment of issuing this report. The presales for the next three building are ongoing with 42 presale agreements signed out of 92 apartments. Renovation of Marsi 6 historical building has been completed in January 2018 and all 45 *loft*-style apartments have been sold.

Projecting works of the Kalaranna residential area are ongoing and after receipt of the building permit construction works will start. Although no public sales have been initiated, there is very strong interest towards the project. To date 78 reservation agreements have been signed.

Maintenance segment in Tallinn is focusing on maintenance of residential properties. In 2018 the management of the Company decided to reorganise its maintenance business and reduce the clients' base. The purpose is to concentrate on providing maintenance services only to the properties developed by the Company in the recent years and to be developed in the future. Although the revenues of the Company reduce significantly, the profitability of the Company does not have material effect.

In 2019 the Company is focusing on T1 Mall of Tallinn activities and signing of new rental agreements, also construction of new residential buildings in Kristiine City. Projecting works of the Kalaranna residential complex are continuing and the Company expects to start construction works.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted to 55% compared to 54% of the comparable period last year.

*Revenue from Estonia*

| in thousands of euros | 2018 | 2017 | Change |
|---|---|---|---|
| Real Estate | 13 284 | 5 067 | 162% |
| Rent | 1 271 | 19 | 6 589% |
| Hotels (exited in 2017) | 0 | 1 020 | -100% |
| Other | 908 | 1 483 | -39% |
| **Total** | **15 463** | **7 589** | **104%** |

Revenues in real estate segment increased by 162%. Sales revenues are recorded upon signing final notarised sales agreement. During 2018 the total of 112 apartments, 1 business premises, 111 parking lots and 54 storage rooms (2017: 18 apartments, 24 parking lots and 17 storage rooms) were sold and stock consisting of 13 apartments and 1 business premises, also several parking spaces and storage rooms were available for sale in Tallinn on 31 December 2018.

Revenue in rent segment has increased significantly due to opening of the new entertainment and shopping centre T1 Mall of Tallinn in November 2018.

In July 2017 the Company sold hotel real estate property and the hotel operating company in Tallinn. Therefore, there were no revenue from hotel operating segment in 2018.

Other revenues consist mainly of maintenance services provided. Maintenance services revenue have decreased due to the Company's decision to reduce the clients' base. The Company has handed over maintenance of the objects, which are not related to its development activities, with the aim to focus on the Company's main activities.

## 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. The projecting works of the rest of Kliversala area as well as of the Tallinas residential quarter and Brivibas office complex were continued.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period was 21% compared to 8% in the comparable period last year.

*Revenue from Latvia*

| in thousands of euros | 2018 | 2017 | Change |
|---|---|---|---|
| Real Estate | 5 616 | 0 | 5 616% |
| Rent | 68 | 69 | -1% |
| Hotels (exited in 2017) | 0 | 996 | -100% |
| Other | 81 | 122 | -34% |
| **Total** | **5 765** | **1 187** | **386%** |

By the moment of issuing current report 11 apartments have been handed over to the buyers in River Breeze Residence and 36 luxury apartments are available for sale.

The rental revenue in Latvia decreased by 1% in 2018.

In August 2017 the Company sold hotel real estate and hotel operating subsidiaries in Riga. Therefore, there were no revenue from hotel operating segment in 2018.

Other revenue makes a minor contribution to overall segment's revenue. The Company provides maintenance services mainly to its tenants and therefor maintenance revenue is correlated to the rental area.

## Lithuania

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

The Company has successfully completed the first stage of Šaltinių Namai residential complex and most of the premises are sold. In 2017 construction works of the second stage called Šaltinių Namai Attico began. Four new residential buildings should be completed in the middle of 2019. At the moment of issuing current report 79 preliminary agreements have been signed for the second stage. In 2018 the company purchased 12 flats and 7 parking lots at a competitive price for further resale. 11 of the flats and 5 parking lots have been already sold by this date.

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 10% compared to 13% last year.

*Revenue from Lithuania*

| in thousands of euros | 2018 | 2017 | Change |
|---|---|---|---|
| Real Estate | 2 553 | 1 554 | 64% |
| Rent | 118 | 87 | 36% |
| Other | 157 | 143 | 10% |
| Total | 2 828 | 1 784 | 59% |

Real estate sales increased by 64% in 2018 comparing to last year. Total of 10 apartments, 1 business premises, 1 cottage, 6 parking lots (4 apartments, 3 business premises, 8 parking spaces and 2 storage rooms in 2017) were sold in 2018. As at 31 December 2018, there were 6 apartments, 3 cottages, 3 business premises, several storage rooms and parking lots in stock in Vilnius.

The Company temporarily rents out some of the properties available for sale. In 2018 rental revenues increased by 36%.

The Company provides maintenance and other services to its sold and rented out apartments. In 2018 the revenue from maintenance activities has increased by 10%.

## 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 14% compared to 25% of the comparable period last year.

*Revenue from Germany*

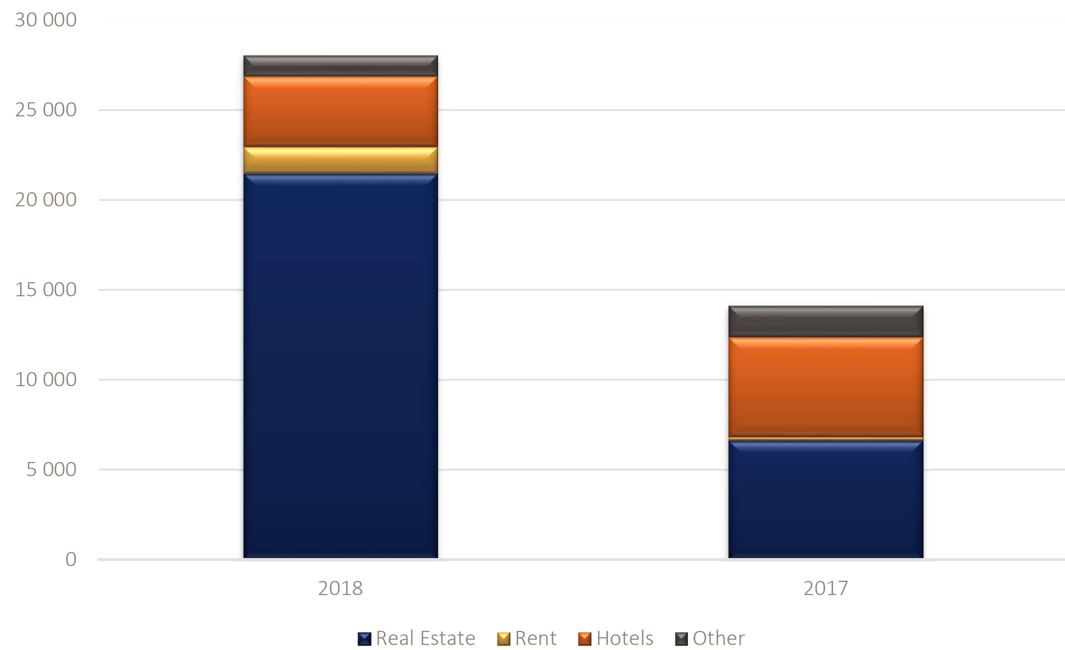
| in thousands of euros | 2018 | 2017 | Change |
|---|---|---|---|
| Hotels | 3 935 | 3 538 | 11% |

The occupancy rate of PK Parkhotel Kurhaus hotel has increased by 3.6% in 2018 and constituted 66.0% for the year (63.7% in 2017). In German segment, the Company is focusing on its cost structure, targets to increase sales revenue and to work out most effective solutions for serving its customers.

## 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 | 2018 | 2017 | Change |
|---|---|---|---|
| Real Estate | 21 453 | 6 621 | 224% |
| Rent | 1 457 | 175 | 733% |
| Hotels | 3 935 | 5 554 | -29% |
| Other | 1 146 | 1 748 | -34% |

Revenue in real estate business line has increased by 224% due to several completed residential buildings and active sale during the period. Average price per $m^2$ sold in 2018 was 2 199 euros/ $m^2$ (2017: 1 826 euros/ $m^2$), prices are given without VAT. Average price has risen in Estonia and Lithuania and the completion of River Breeze Residence in Kliversala had extra influence on the price because of higher average price (3 470 euros/ $m^2$). In 2018 the total of 9 140 $m^2$ were sold (2017: 3 326 $m^2$).

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2019 the Company will actively continue with sales of current stock and presales of Kristina Houses in Tallinn, Šaltinių Namai Residential Complex in Vilnius and Kliversala first building in Riga.

Rental revenues increased in 2018 and it reflects rental income from T1 Mall of Tallinn for the last two months of 2018, as the shopping and entertainment centre was opened in November.

In 2018 the Company operated only one hotel, PK Parkhotel Kurhaus in Bad Kreuznach, in Germany. Revenues from hotel business line have decreased by 29% in 2018 compared to 2017 due to exit from hotel market in Tallinn and in Riga, but the performance of German hotel exceeded the level of the last year.

*Occupancy rates, %*

| | 2018 | 2017 | Change |
|---|---|---|---|
| PK Parkhotel Kurhaus, Bad Kreuznach | 66.0% | 63.7% | 3.6% |

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance in 2018 has decreased and was 36 506 $m^2$ as at 31 December 2018 (31 December 2017: 94 453 $m^2$). Overall profitability of maintenance services remained on the same level as last year.

On 9 March 2018 the Company announced about intention to reorganise its subsidiary Pro Halduse OÜ and reduce maintenance service business in Estonia. The goal of the maintenance services has been and also will be in the future, to provide good quality maintenance service to the buyers of the apartments and to get feedback of any maintenance issues, to be able to use such information for improvements in future developments. Providing maintenance services to other properties under maintenance has not been the part of the core strategy of the group nor has it provided any significant profit for the group. Therefor it has been decided that the Company will concentrate on providing maintenance services only to the properties developed by Pro Kapital in recent years and to be developed in the future.

# Financing sources and policies

Pro Kapital Grupp pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to industry standards. Company’s goal is to use external financing in order 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. Bank loans for specific projects are predominantly of middle-term duration, maturing within one to three years. Bank loans repayment schedule is of mixed nature, consisting mainly of fixed payments and to some extent floating payments in dependence on sales volumes.

The Company pays special attention to monitoring the level of its working capital and liquidity level.

During 2018 the Company has repaid 7.5 million euros of its bank loans and has raised additional 56.9 million euros of bank loans. The Company has 5.4 million euros of bank loans to be repaid in 2019 and 1.6 million euros of bank loans are repayable in 2020.

The Company has issued the total of 29.3 million euros of secured fixed rate bonds with maturity date 1 June 2020 and effective annual interest rate of 8%.

As at 31 December 2018 the Company had 10.1 million euros convertible bonds (current portion: 4.3 million euros; long-term portion: 5.8 million euros) and 0.6 million of non-convertible non-secured bonds (current portion: 0.6 million euros).

# Shares and shareholders

As at 31 December 2018 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

| | 31.12.2018 | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| Number of shares (pcs) | 56 687 954 | 56 687 954 | 54 271 722 |
| Nominal value (euros) | 0.20 | 0.20 | 0.20 |
| Share capital (euros) | 11 337 590.80 | 11 337 590.80 | 10 854 344.40 |

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 2018 the shares were trading at the price range 1.54 – 1.99 euros, with the closing price of 1.63 euros per share on 28 December 2018. During the period 415 thousand of the Company's shares were traded with their turnover amounting to 0.71 million euros.

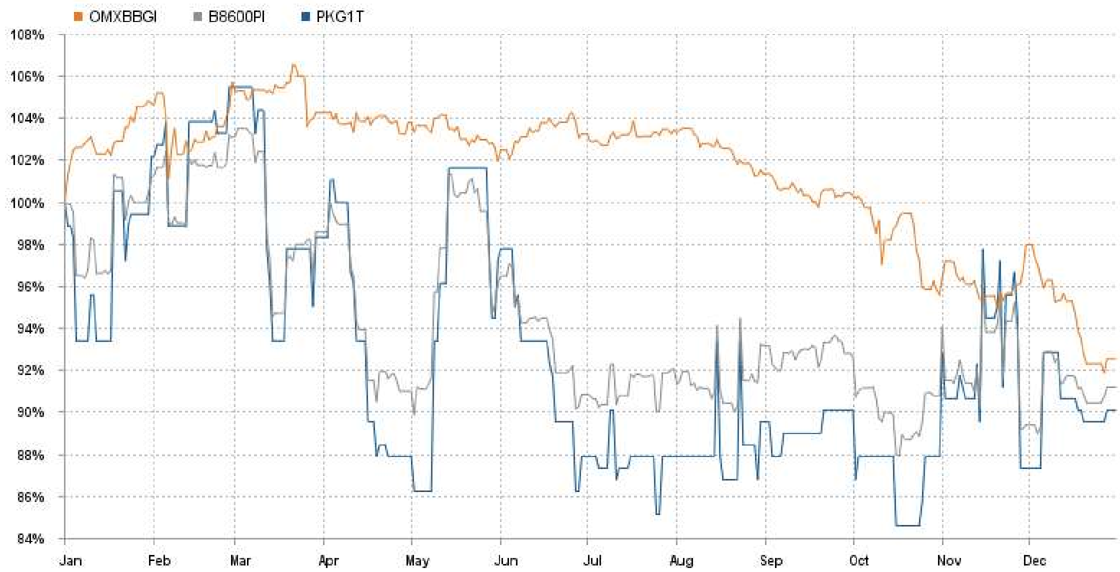
Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January 2016 - 31 December 2018, NASDAQ Baltic Main List*


*Source: www.nasdaqbaltic.com*

| Trade statistics in euros | 31.12.2018 | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| High price | 1.99 | 2.75 | 2.65 |
| Low price | 1.54 | 1.81 | 1.75 |
| Last price | 1.63 | 1.82 | 1.96 |
| Average price | 1.71 | 2.00 | 2.11 |
| Traded volume (pcs) | 414 910 | 219 219 | 331 150 |
| Turnover (million) | 0.71 | 0.46 | 0.70 |
| Capitalisation (million) | 92.40 | 103.17 | 106.37 |

*Source: www.nasdaqbaltic.com*

## Baltic market indexes 1 January - 31 December 2018*




| Index/ Equity | 31.12.2018 | 31.12.2017 | Change |
|---|---|---|---|
| OMX Baltic Benchmark GI | 873.81 | 944.09 | -7.44% |
| B8600PI Real Estate | 385.66 | 422.86 | -8.80% |
| PKG1T (euros) | 1.64 | 1.82 | -9.89% |

**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 2018 the shares were trading at the price range of 1.45- 1.97 euros, with the closing price 1.61 euros per share on 28 December 2018. During the period 214 thousand of the Company's shares were traded with their turnover amounting to 0.36 million euros.

## Shareholders

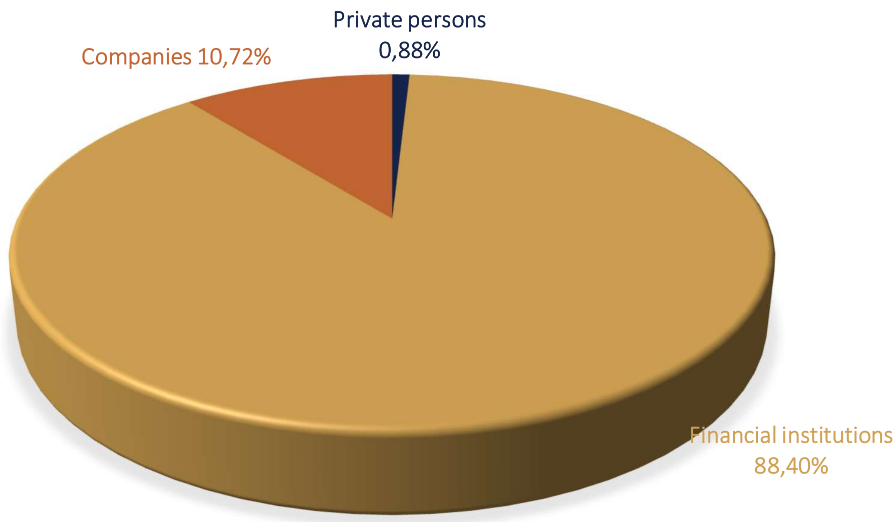
As at 31 December 2018 there were 143 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

*Shareholders holding over 5% of the shares as at 31 December 2018:*

| Shareholders | Number of shares | Participation in % |
|---|---|---|
| Raiffeisen Bank International AG | 28 028 013 | 49.44% |
| Clearstream Banking Luxembourg S.A. Clients | 10 442 952 | 18.42% |
| Nordea Bank Finland Plc Clients | 6 159 496 | 10.87% |
| Svalbork Invest OÜ | 4 051 238 | 7.15% |

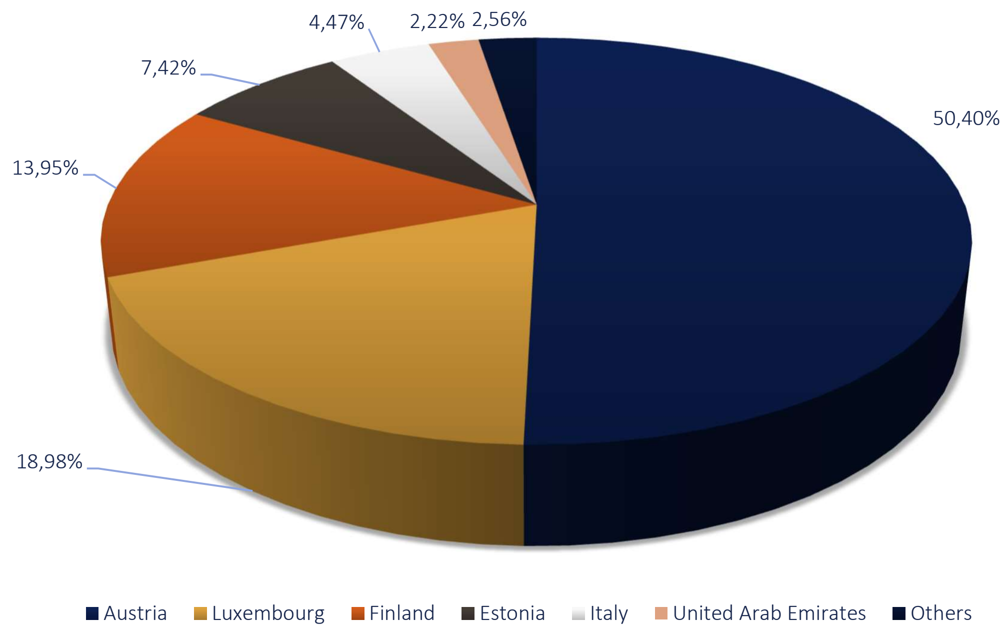
## *Shareholders split by holders as at 31 December 2018:*

| Shareholders | Number of shares | Participation in % |
|---|---|---|
| Financial institutions | 50 114 664 | 88.40% |
| Companies | 6 074 336 | 10.72% |
| Private persons | 498 954 | 0.88% |




## *Shareholders geographical split by residence as at 31 December 2018:*

| Shareholders | Number of shares | Participation in % |
|---|---|---|
| Austria | 28 570 234 | 50.40% |
| Luxembourg | 10 758 759 | 18.98% |
| Finland | 7 909 024 | 13.95% |
| Estonia | 4 206 990 | 7.42% |
| Italy | 2 531 573 | 4.47% |
| United Arab Emirates | 1 260 212 | 2.22% |
| Others | 1 451 162 | 2.56% |




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 31.12.2018 Ernesto Preatoni and his affiliates control 37.97% 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 such persons:

- OÜ Svalbork Invest, Estonian company controlled by Ernesto Preatoni which holds 4 051 238 shares representing 7.15% of the total shares of the Company.
- 12 165 491 shares representing 21.46% of the total shares of the Company held through a nominee account opened by Raiffeisen Bank International AG.
- 5 310 985 shares representing 9.36% of the total shares of the Company held through a nominee account opened by Nordea Bank.

*Participation of Member of the Management Board and the Council Members as at 31 December 2018:*

| Name | Position | Number of shares | Participation in % |
|---|---|---|---|
| Paolo Vittorio Michelozzi | CEO | 281 647 | 0.50% |
| Allan Remmelkoor | COO | 0 | 0.00% |
| Edoardo Axel Preatoni | Board member | 0 | 0.00% |
| Emanuele Bozzone | Chairman of the Council | 0 | 0.00% |
| Petri Olkinuora | Council Member | 30 000 | 0.05% |
| Pertti Huuskonen | Council Member | 26 000 | 0.05% |

Paolo Vittorio Michelozzi is holding 3 secured, callable, fixed rate bonds of the Company with the nominal value of 300 000 euros.

Edoardo Axel Preatoni is holding 10 secured, callable, fixed rate bonds of the Company with the nominal value of 1 000 000 euros.

Emanuele Bozzone, with his affiliates, is holding 5 secured, callable, fixed rate bonds of the Company with the nominal value of 500 000 euros.

### Earnings per share (EPS), P/E ratio

Earnings per share for year 2018 were 0.30 euro/share (2017: -0.01 euro per share including discontinuing operations). P/E ratio for year 2018 was 5.49 (2017: -199.17).

# Group structure

As at 31 December 2018

# 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.

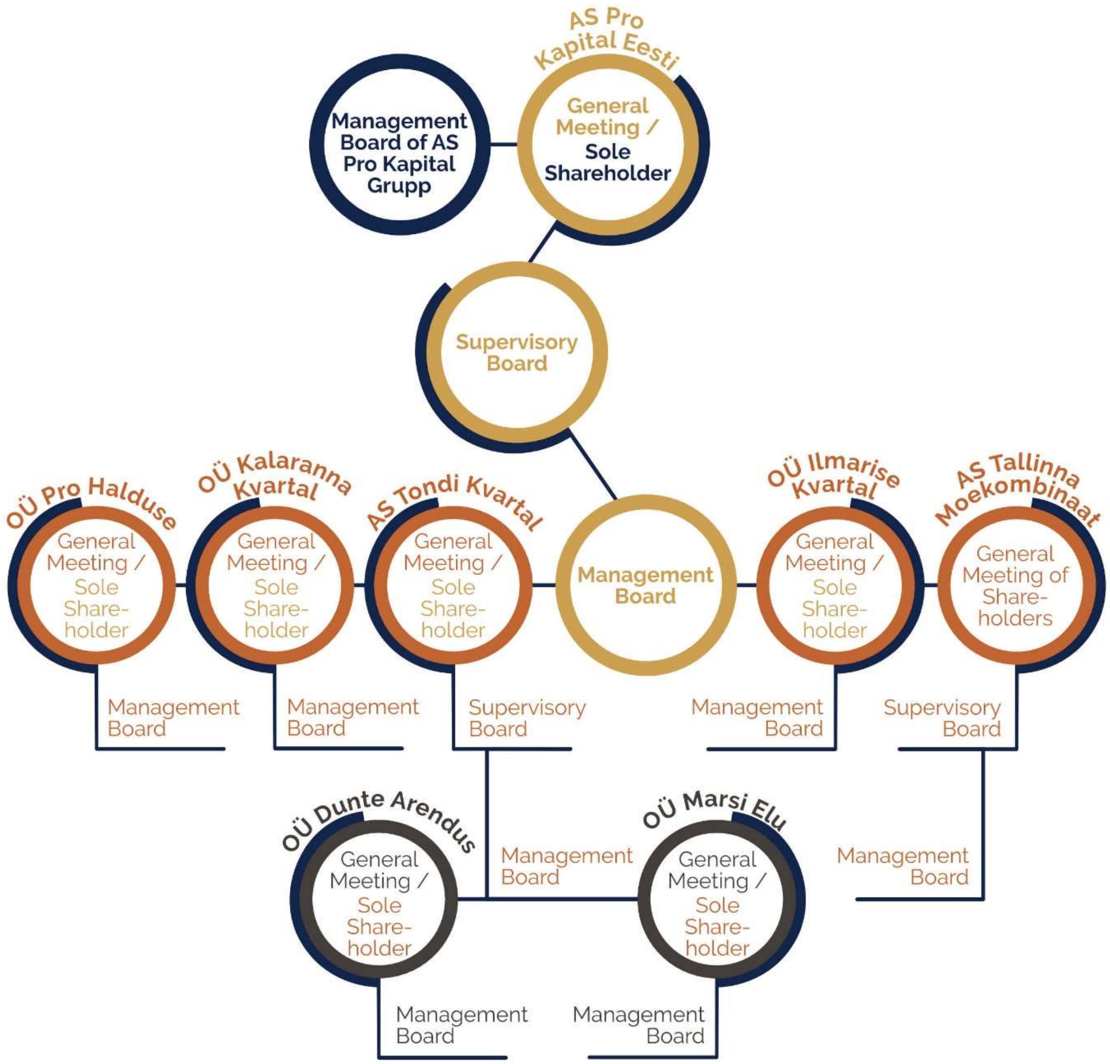
The Management Board of the Company gives the following overview of the management practices of the Company and confirms the compliance with the CGR except to the extent of non-compliance as described and explained below.

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).

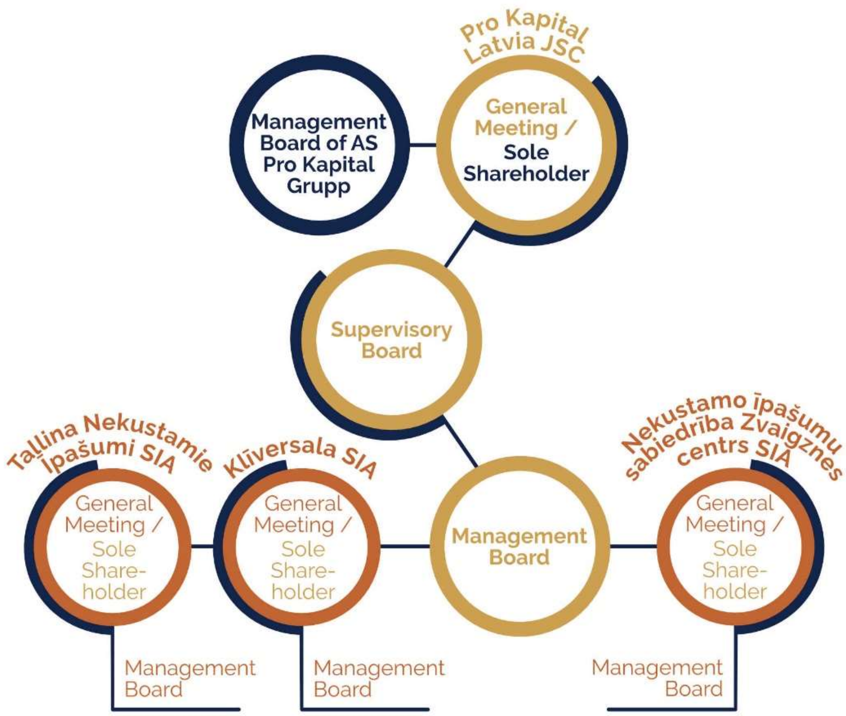
The Company's decision-making and governance structure is as follows:

Holding company

## Governance structure of the Estonian group

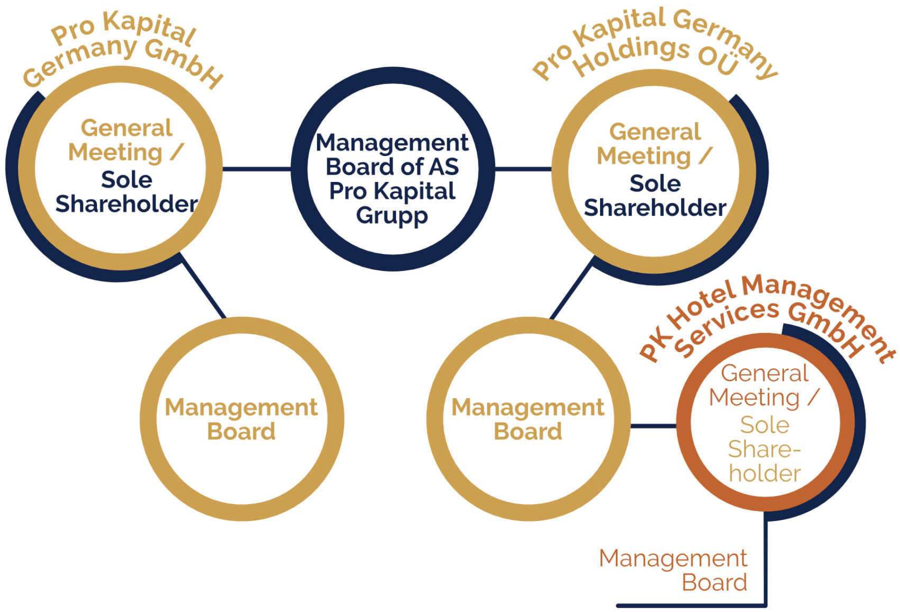


Governance structure of the Latvian group




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 2018, 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 either before or during the general meeting. 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 2018.

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 2018, before the general meeting shareholder representatives asked clarifying questions related to documentation needed to participate at the meeting (powers of attorney), which information was already covered in the meeting notice. As no questions connected to the agenda topics were asked during 2018, the Company has not published any questions of the shareholders or replies to the shareholders on the website. 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 are also up on the Company's website, on the same aforementioned sub-page.

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.

Company is following the recommendation. In 2018, 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 2018 the Company held 1 (one) shareholders' meeting. The Annual General Meeting of the shareholders took place on 26 June 2018.

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 2018 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 2018.

The Annual General Meeting of the shareholders took place on 26 June, 2018. Chairman of the Supervisory Council Emanuele Bozzone, Supervisory Council members Petri Olkinuora and Pertti Huuskonen, the CEO and Chairman of the Management Board Paolo Vittorio Michelozzi, the CFO of the Company Angelika Annus and the auditor of the Company Erki Usin from AS Deloitte Audit Eesti participated at the meeting. Member of the Management Board Allan Remmelkoor did not participate at this meeting due to other work-related commitments.

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 26 June, 2018 Annual General Meeting the shareholders decided to cover the loss for the year 2017 (agenda item no 3) and also discussed the payment of dividend (agenda item no 4) decided not to distribute profit, i.e. not to pay dividends at this point in time when the Company's capital need is at its highest sensitivity due to finishing the construction of T1 Mall of Tallinn.

# 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 31st December 2018, 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 Vittorio Michelozzi | Italian | 1961 | 22.11.2001 | Chairman | 31.12.2021 | 281 647 |
| Allan Remmelkoor | Estonian | 1971 | 30.05.2008 | Member | 16.05.2020 | 0 |
| Edoardo Axel Preatoni | Italian | 1987 | 01.03.2016 | Member | 28.02.2019 | 0 |

**Mr. Paolo Vittorio 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 Michelozzi also holds 3 (three) secured, callable, fixed rate bonds of the Company with the nominal value of 100 000 euros each, totalling to 300 000 euros.

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). In addition, Mr. Remmelkoor is a member of the management board of a non-profit association MTÜ Spordiklubi SCHNELLI. Mr Remmelkoor does not own any Company shares or bonds.

Mr. Edoardo Axel 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. Mr E.A. Preatoni does not own any Company shares. Mr E.A. Preatoni holds 10 (ten) secured, callable, fixed rate bonds of the Company with the nominal value of 100 000 euros each, totalling to 1 000 000 euros.

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). Member of the Management Board Edoardo Preatoni has not concluded a service contract with the Company or any of its subsidiaries since the Company believes the regulation in the Commercial Code is sufficient outlining the rights and duties of a management board member.

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.

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

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

Other management board members do not hold Chairman of Supervisory Council positions in other 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 set in Mr Remmelkoor's contracts, which is approved by the Supervisory Councils of the group's relevant subsidiary with whom Mr Remmelkoor has service contracts. There is no remuneration determined for the Management Board Member Edoardo Preatoni while he is still finishing up a previous time-consuming project overseas, i.e. while his participation in the management of the Company is limited.

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 Management Board Members Paolo Michelozzi and Allan Remmelkoor are agreed, they are performance-related and based on explicit and pre-determined targets being achieved. There is no bonus system agreed with Management Board Member Edoardo Preatoni.

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 Nasdaq 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 either in cash or in shares.

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.

Paolo Michelozzi and Allan Remmelkoor 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. There is no severance package agreed with Edoardo Preatoni.

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 CGR 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. The Company is of the opinion that disclosing the remuneration on individual basis of the Management Board members would harm the interests of the Company, by allowing this sensitive information to be disclosed to the competitors of the Company. Same practice of non-disclosure is used by most of the NASDAQ OMX Tallinn Stock Exchange listed companies. 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, 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 CGR, 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 is 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 CGR, the Supervisory Council approves and conducts related-party transactions in a manner that ensures proper management of conflict of interest and protects the interests of the Company.

During 2018 on 23.04.2018 the Supervisory Council approved the extension of the powers (re-appointment) of and the signing of a respective service contract with the CEO and member of the Management Board Paolo Michelozzi. Also, a valid lease agreement with PB11 SIA, a company controlled by the CEO was amended and the sale of one parking space to PB11 SIA was approved by the Supervisory Council.

During 2018 there were no new transactions with member of the Management Board Allan Remmelkoor.

During 2018 there were no 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. Management Board Member Edoardo Preatoni is engaged in activities outside three Baltic countries. 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 Vittorio 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 Vittorio Michelozzi as the Chairman of the Management Board is compensated for the accommodation costs of living in Riga. As of 31 December 2018, 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 Axel 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.

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 Nasdaq Tallinn Stock Exchange system. In addition to the quarterly and annual report announcements, the Company made 21 announcements in 2018 regarding dividend payment ex date, positive profit warning, about prolongation of CEO's term of office until 31.12.2021, about moving to the main list of the NASDAQ OMX Tallinn Stock Exchange from 19.11.2018, about the grand opening of T1 Mall of Tallinn on 08.11.2018 and also regarding 9 months net result increasing by 218%, about holding an investor day, about establishing two new subsidiaries (OÜ Kalaranna Kvartal and OÜ Dunte Arendus), regarding start of construction works of the 7$^{th}$ building as well as start of construction of third phase of Kristina houses, about reorganising the Company's maintenance services business in Estonia and about electing a new Management Board member in a group subsidiary (Kati Rõuk in Pro Halduse OÜ), also about several notices of prolongation of redemption dates of convertible bonds PKG2, PKG3, PKG4 and

PKG5 convertible bonds and redemption of non-convertible bonds 08.2018, , also regarding notification of calling the AGM and relevant resulting decisions and regarding the 2019 financial calendar, .

The Supervisory Council has established an Audit committee comprising of Emanuele Bozzone and Pertti Huuskonen, both 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 2018, the Audit Committee met one time (since there were no auditor’s findings to follow up):

- to discuss the auditor’s report and main findings and the approve the audited 2017 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 comprising of Emanuele Bozzone and Petri Olkinuora, both Supervisory Council Members. 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 2018, the Remuneration Committee met one time

- to discuss the assessment of CEO achieving his 2017 targets, setting the CEO’s targets for 2018 and to discuss to prolong the powers of the CEO.

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 17 June 2016 prolonged the powers of members of the Supervisory Council until 5 July 2019. There are three Supervisory Council members.

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 | 05.07.2019 | 0 |
| Pertti Huuskonen | Finnish | 1956 | 13.04.2012 | Member | 05.07.2019 | 26 000 |
| Petri Olkinuora | Finnish | 1957 | 13.04.2012 | Member | 05.07.2019 | 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 Sagl in Chiasso, Switzerland. Mr Bozzone with his affiliates holds 5 secured, callable, fixed rate bonds of the Company with the nominal value of 100 000 euros each, i.e. 500 000 euros in total.

Mr. Pertti Huuskonen holds M.Sc. (Eng.) and eMBA degrees. Mr. Huuskonen has a vast experience in planning and preparation of mergers and acquisitions. Mr. Huuskonen has *inter alia* considerable experience in developing modern service concepts in the field of real estate and executing business, in planning and leasing of commercial premises, land consolidation, property transaction and property development. Mr. Huuskonen has been a member of the Board of Directors of Technopolis Plc. since 2008-2012 (whereas he was the full-time Chairman of the Board of Directors of Technopolis Plc. during 2008-2011), from 2013-2018 he was the Chairman of the board of Lehto Group OY (mid-size construction company operational in Finland, listed in Nasdaq Helsinki) and from 2011-2018 he was a member of the Board of Kaleva Oy (largest media Company in North Finland). Since 2011 he is holding several positions (including the Chief Executive Officer) in the investment and consulting company Lunacon Oy (investments and consulting), which is a Company owned by Mr. Huuskonen. He is also the Chairman of the Board of Suomen Hoivatilat Oyj (day care & senior living facilities, listed in Nasdaq Helsinki) and a Vice Chairman of the board of A. Ahlstrom Real Estate OY. Previously, Mr. Huuskonen has *inter alia* been the President and CEO of Technopolis Plc. (1985-2008), the chairman of the supervisory council of Technopolis Ülemiste AS (2010-2011), a member of the Board of Detection Technology Oy (2002-2007) and also a Chairman of the Board of Partnera Oy (180 million euros investment company operational in Finland). Mr. Huuskonen is also an Academic Executive Advisor and Lecturer in Oulu Business School (since 2011) and the Honorary Consul of Sweden in Oulu Province, Finland (1997-2011).

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), Protem Oy (recruitment company, since 2018), Salo IoT Park Oy (office campus, since 2018), Tampereen Tilapalvelut Oy (municipal property service provider, since 2018) and Zsar Oy (first outlet village in Finland, since 2012). 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), Tamturbo Oyj (oil-free industrial compressor maker, since 2018) and TPI-Control Oy (service provider for heating and cooling systems, since 2018). 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).

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 has 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 CGR. 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. Pertti Huuskonen and Mr Petri Olikunuora are considered independent Council members, having been elected on 13.04.2012 and the Annex of the NASDAQ OMX CGR allowing 10 years of tenure until 12.04.2022. 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 3 other companies, none of them listed companies. Mr. Huuskonen holds 2 Supervisory Council positions, 1 of them as Chairman in listed companies and a CEO position in a non-listed company that he owns. In addition to serving on the Company's Supervisory Council, Mr. Olkinuora holds 14 Supervisory Council appointments, 5 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 CGR Report.

During 2018 in total 9 meetings of the Supervisory Council were held and one resolution was made in writing without convening a meeting. All Supervisory

Council Members attended 8 meetings of the Supervisory Council and the Chairman did not participate in one of the meetings due to a prior other commitment.

As per the OECD 2015 CGR 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) and that the Company has performed a detailed risk assessment in 2018.

## 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 2017.

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 2017 and no Supervisory Council Member resigned.

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.

Mr. Emanuele Bozzone does not have any interests in companies which are Company's business partners, suppliers, clients and other related companies.

Mr. Pertti Huuskonen is the sole owner of company Lunacon OY which as of 31 December 2018 holds 26 000 shares (0,05%) of the Company as a beneficiary holder through Pohjola Bank Plc.

Mr. Petri Olkinuora is a sole owner of company Forbia OY, which as of 31 December 2018 holds 30 000 shares (0,05%) of the Company as a beneficiary holder 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. 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.

On 19 September 2017, the Supervisory Council adopted six resolutions regarding the increase of share capital by 1 200 000 euros by issuing 6 000 000 shares with six different nominal values. The Company relayed this resolution in a Stock Exchange announcement also on 19 September 2017 regarding the public offering of shares and increase of share capital of AS Pro Kapital Grupp. In total, 2 416 232 new shares were allocated to the investors with the issue price of 1.80 euros (0.20 euros as the nominal value and 1.60 euros as share premium) for each share. The management board of AS Pro Kapital Grupp decided to cancel 3 583 768 shares, which were not subscribed for. Among other investors, member of the management board Paolo Michelozzi, member of the supervisory council Petri Olkinuora, and member of the supervisory council Pertti Huuskonen (through a company Lunacon OY owned by him) also participated in the subscription of the shares, each subscribing respectively 29 000, 30 000 and 13 447 shares. As a result of the subscription of new shares the share capital of AS Pro Kapital Grupp was increased by 483 246.40 euros, i.e. in total, AS Pro Kapital Grupp received gross proceeds of 4 349 217.60 euros for the subscribed shares. As of 19 October 2017, the amount of share capital of AS Pro Kapital Grupp is 11 337 590.80 euros, which is represented by 56 687 954 shares.

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 CGR;
-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 CGR.

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 and 2018 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. In 2018, when organising the November roadshows, the Company was unable to time them after publishing the Q3'18 report, but refrained from discussing results ahead of time or giving out any forward-looking information.

As per the OECD 2015 CGR 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 CGR 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 19.11.2018. The prerequisites for the main listing, which the Company fulfilled were: (i) at least 25% free float; (ii) 4MEUR market capitalisation (the Company's market capitalisation is 92,97MEUR as at 31.12.2018) 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 30.10.2018, 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 30.09.218 (as well as at 31.12.2018) 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 6 weeks after period end and the annual report within the legal allotted 6 months from fiscal year-end. In 2019, the Company has notified via the financial calendar that it plans to considerably bring forward its reporting and publish its interim reports within 1 month from period end and its annual report in April 2019.

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 2016, 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 3 (three) years, i.e. from 2016-2018). 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 2016-2017 and for 2018 this was reconfirmed at the Company's AGM of 26 June 2018. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2018 is in amount of 45 700 euros (net of VAT).
In 2018, besides provision of audit services AS Deloitte Audit Eesti rendered also translation and tax advisory services to the Company in the total amount of

1070 euros (net of VAT). As per the OECD 2015 CGR 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 CGR 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 CGR Report.

The Company is following this recommendation. The lead auditor was present at the Company's 2018 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 out in January 2018. 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.

# Management declaration

The Management Board declares and confirms that according to their best knowledge, the year 2018 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
29 April 2019

Allan Remmelkoor
Chief Operating Officer
Member of the Management Board
29 April 2019

Edoardo Preatoni
Member of the Management Board
29 April 2019

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

# Consolidated financial statements

## Consolidated statement of financial position

| in thousands of euros | Notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 7 040 | 10 317 |
| Current receivables | 9 | 2 928 | 4 888 |
| Inventories | 10 | 59 331 | 38 024 |
| Total current assets | | 69 299 | 53 229 |
| Non-current assets | | | |
| Non-current receivables | | 216 | 37 |
| Property, plant and equipment | 11 | 7 128 | 7 435 |
| Investment property | 12 | 168 145 | 114 140 |
| Intangible assets | | 324 | 317 |
| Total non-current assets | | 175 813 | 121 929 |
| TOTAL ASSETS | | 245 112 | 175 158 |
| | | | |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Current debt | 13 | 10 328 | 6 738 |
| Customer advances | 21 | 5 707 | 7 224 |
| Current payables | 14 | 11 939 | 10 091 |
| Tax liabilities | | 357 | 132 |
| Short-term provisions | | 852 | 170 |
| Total current liabilities | | 29 183 | 24 355 |
| Non-current liabilities | | | |
| Non-current debt | 15 | 112 009 | 62 527 |
| Other non-current payables | | 1 039 | 3 437 |
| Deferred income tax liabilities | 26 | 2 004 | 2 058 |
| Long-term provisions | | 139 | 99 |
| Total non-current liabilities | | 115 191 | 68 121 |
| TOTAL LIABILITIES | | 144 374 | 92 476 |
| | | | |
| Equity attributable to owners of the Company | | | |
| Share capital in nominal value | 19 | 11 338 | 11 338 |
| Share premium | 19 | 5 661 | 5 661 |
| Statutory reserve | 19 | 1 082 | 1 082 |
| Revaluation surplus | 19 | 3 262 | 3 256 |
| Retained earnings | | 59 944 | 60 369 |
| Profit/ loss for the financial year | | 16 827 | -419 |
| Total equity attributable to owners of the Company | | 98 114 | 81 287 |
| Non-controlling interest | 20 | 2 624 | 1 395 |
| TOTAL EQUITY | | 100 738 | 82 682 |
| | | | |
| TOTAL LIABILITIES AND EQUITY | | 245 112 | 175 158 |

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

# Consolidated statement of comprehensive income

| in thousands of euros | Notes | 2018 | 2017 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| Operating income | | | |
| Revenue | 21 | 27 991 | 12 077 |
| Cost of sales | 22 | -18 415 | -7 516 |
| Gross profit | | 9 576 | 4 561 |
| Marketing expenses | 23 | -1 336 | -822 |
| Administration expenses | 23 | -5 427 | -5 256 |
| Other operating income | 24 | 18 839 | 4 114 |
| *Including net result from fair value adjustments of investment properties* | 12 | *17 995* | *530* |
| Other operating expenses | 24 | -169 | -800 |
| Operating profit | | 21 483 | 1 797 |
| Finance income | 25 | 4 | 6 |
| Finance cost | 25 | -3 473 | -3 352 |
| Profit/ loss before income tax | | 18 014 | -1 549 |
| Income tax | 26 | 42 | 596 |
| Profit/ loss from continuing operations | | 18 056 | -953 |
| DISONTINUED OPERATIONS | | | |
| Profit from discontinued operations | | 0 | 435 |
| Profit/ loss from continuing and discontinuing operations | | 18 056 | -518 |
| Attributable to: | | | |
| Owners of the Company | | 16 827 | -419 |
| Non-controlling interests | | 1 229 | -99 |
| Other comprehensive income, net of income tax | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Net change in properties revaluation reserve | | 0 | -4 |
| Total comprehensive profit/ loss for the year | | 18 056 | -522 |
| Attributable to: | | | |
| Owners of the Company | | 16 827 | -423 |
| Non-controlling interests | 20 | 1 229 | -99 |
| Earnings per share | | | |
| For continuing and discontinuing reporting period | | | |
| Basic (euros per share) | 27 | 0.30 | -0.01 |
| Diluted (euros per share) | 27 | 0.30 | -0.01 |
| From continuing operations | | | |
| Basic (euros per share) | 27 | 0.30 | -0.02 |
| Diluted (euros per share) | 27 | 0.30 | -0.02 |

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

# Consolidated statement of cash flows

| in thousands of euros | Note | 2018 | 2017 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Profit/ loss for the year | | 18 056 | -518 |
| Adjustments for: | | | |
| Depreciation and amortisation of non-current assets | | 214 | 455 |
| Gain from disposal of property, plant and equipment | | -4 | -3 045 |
| Gain from disposal of investment property | 12 | -418 | 0 |
| Change in fair value of property, plant and equipment | | -13 | -26 |
| Change in fair value of investment property | 12 | -17 995 | -530 |
| Loss from disposal of shares of subsidiaries | 24 | 0 | 346 |
| Finance income and costs | 25 | 3 469 | 3 460 |
| Change in deferred tax assets and liabilities | 26 | -54 | -557 |
| Other non-monetary changes (net amounts) | | 15 458 | 12 967 |
| Movements in working capital: | | | |
| Change in receivables and prepayments | | 1 781 | -408 |
| Change in inventories | 10 | -21 307 | -23 880 |
| Change in liabilities and prepayments | | -128 | 6 556 |
| Change in provisions | | -107 | -101 |
| Net cash used in operating activities | | -1 048 | -5 281 |
| | | | |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | -206 | -281 |
| Payments for intangible assets | | -24 | -52 |
| Proceeds from disposal of property, plant and equipment | 11 | 336 | 6 651 |
| Payments for investment property | 12 | -47 786 | -24 772 |
| Proceeds from disposal of investment property | 12 | 1 000 | 6 357 |
| Less cash balances of disposed subsidiaries | | 0 | -108 |
| Interests received | | 4 | 6 |
| Net cash used in investing activities | | -46 676 | -12 199 |
| | | | |
| Cash flows from financing activities | | | |
| Proceeds from increase of share capital | | 0 | 4 328 |
| Dividend payments | | -850 | 0 |
| Net changes related to non-controlling interests | 7 | 0 | -480 |
| Proceeds from bonds | | 0 | 1 446 |
| Redemption of convertible bonds | 13,17 | -9 | -773 |
| Redemption of non-convertible bonds | 13,17 | -640 | 0 |
| Proceeds from borrowings | | 56 923 | 28 260 |
| Repayment of borrowings | | -7 496 | -7 048 |
| Interests paid | | -3 481 | -3 318 |
| Net cash generated by financing activities | | 44 447 | 22 415 |
| | | | |
| Net change in cash and cash equivalents | | -3 277 | 4 935 |
| | | | |
| Cash and cash equivalents at the beginning of the period | 8 | 10 317 | 5 382 |
| Cash and cash equivalents at the end of the period | 8 | 7 040 | 10 317 |

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

# 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 |
|---|---|---|---|---|---|---|---|---|
| 01.01.2017 | 10 854 | 1 816 | 1 082 | 9 462 | 55 191 | 78 405 | 1 799 | 80 204 |
| Increase of share capital | 484 | 3 845 | 0 | 0 | 0 | 4 329 | 0 | 4 329 |
| Distribution of dividends | 0 | 0 | 0 | 0 | -850 | -850 | 0 | -850 |
| Changes in non-controlling interests | 0 | 0 | 0 | 0 | -174 | -174 | -305 | -479 |
| Changes in revaluation reserve | 0 | 0 | 0 | -6 202 | 6 202 | 0 | 0 | 0 |
| Comprehensive loss for the period | 0 | 0 | 0 | -4 | -419 | -423 | -99 | -522 |
| 31.12.2017 | 11 338 | 5 661 | 1 082 | 3 256 | 59 950 | 81 287 | 1 395 | 82 682 |
| Changes in revaluation reserve | 0 | 0 | 0 | 6 | -6 | 0 | 0 | 0 |
| Comprehensive profit for the period | 0 | 0 | 0 | 0 | 16 827 | 16 827 | 1 229 | 18 056 |
| 31.12.2018 | 11 338 | 5 661 | 1 082 | 3 262 | 76 771 | 98 114 | 2 624 | 100 738 |

Changes in non-controlling interests are described in Note 7 and Note 20. Changes in revaluation reserve are described in Note 19.

*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 Company) for the financial year ended 31 December 2018 were signed by the Management Board at 29 April 2019.

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 8 July 2015 the secured callable fixed rate 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 31.12.2018 | Ownership 31.12.2017 |
|---|---|---:|---:|
| Raiffeisen Bank International AG | Austria | 49.44% | 0.00% |
| Clearstream Banking Luxembourg S.A. Clients | Luxembourg | 18.42% | 10.07% |
| Nordea Bank Finland Plc Clients | Finland | 10.87% | 46.99% |
| OÜ Svalbork Invest | Estonia | 7.15% | 11.07% |
| Eurofiduciaria S.R.L. | Italy | 0.00% | 12.24% |

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 (the Group) 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 2018 are consistent with those followed in the preparation of the Group`s annual financial statements for the year ended 31 December 2017, 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:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time);
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 "Investment Property" – Transfer of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);
- IFRIC 22 "Foreign Currency Transactions and Advanced Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018.

The Group has adopted IFRS 15 from 1 January 2018, applying the modified retrospective method with the cumulative effect of initially applying this standard recognised at the date of initial application. There was no material impact of the adoption of IFRS 15 to the retained earnings as at 1 January 2018 and no adjustment to the equity have been made.
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:

- IFRS 16 "Leases" – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

  IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 becomes effective for accounting periods beginning on or after 1 January 2019 and will supersede the current lease guidance including IAS 17 "Leases" and related interpretations: IFRIC 4 "Determining Whether an Arrangement Contains a Lease", SIC 15 "Operating Leases – Incentives" and SIC 27 "Evaluating the Substance of Transactions in the Legal Form of a Lease".
  The purpose of the new standard is to ease the comparability of the financial statements, presenting both financial and operating leases in the statement of financial position of the lessees, and providing corresponding information to the users of the financial statements about the risks associated with the agreements. In contrast to a lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.
  The Group has decided to apply IFRS 16 on its effective date and not earlier. Modified retrospective approach (with adjustment on initial application and with no restatement of 2018) is considered to be applied and the Group will apply practical expedient not to reassess whether a contract is, or contains, a lease at the date of initial application. The Group as a lessee will recognise all leases as right-of-use assets and lease liabilities at their present value of the future payments in the statement of financial position. The Group has decided to apply the practical expedient, which allows leases not longer than twelve months and leases of low value assets to recognise as an expense. The Group considers the same depreciation principles as are used for the similar assets in the Group. The lease agreements comprise of car and office leases mostly. The Group has estimated the impact of IFRS 16 from 1 January 2019: the assets and liabilities of the Group will increase in the statement of financial position for 674 thousand

euros and 673 thousand euros respectively, applying incremental borrowing rate of 2.62%-5% depending on the class of asset.

- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 19 “Employee Benefits” - Plan Amendment, Curtailment or Settlement – adopted by the EU on 13 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures – adopted by the EU on 8 February 2019 (effective for annual periods beginning on or after 1 January 2019);
- Amendments to various standards due to “Improvements to IFRSs (cycle 2015 - 2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 14 March 2019 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019).

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” (effective for annual periods beginning on or after 1 January 2021);

- 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);
- 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" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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.

# 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 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. 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. All intra-group transactions, income and expenses are eliminated in full on consolidation.

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.

*Changes in the Group's ownership interests in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and 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), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). 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 IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

### *3.4 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.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:
- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent* Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

### *3.5 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 3.4 above) less accumulated impairment losses, if any.

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.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. 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.

### *3.6 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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:
- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those

assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified form equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into euros using exchange rates prevailing at the end of each reporting period, of European Central Bank of the country of incorporation of the consolidating company. Income and expense items are retranslated at the average exchange rates for the period, unless exchange rate fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Also, when the country, where foreign operations are running is adopting the euro as functional currency, the accumulated proportionate foreign exchange differences associated with the location are reclassified to profit and loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

### *3.7 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.

### *3.8 Inventories*

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.

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.

### *3.9 Property, plant and equipment*

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.

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.

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.

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.

### *3.10 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.

### *3.11 Intangible assets (excluding goodwill)*

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

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. The amortisation rate for intangible assets is 20% per annum, excluded the usage rights and intangible assets with indefinite useful lives. Usage rights are amortised on a straight-line basis and the maximum length of the amortisation period is the period where the asset is being used. Intangible assets with indefinite useful lives that are acquired separately are carried at costs less accumulated impairment losses.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

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.

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.

*3.12 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 3.9 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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see Note 3.9 above).

*3.13 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.

*3.14 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.

*3.15 Financial assets*

Financial assets are classified into the following specified categories:
- measured at amortized cost,
- measured at fair value through other comprehensive income,
- measured at fair value through profit or loss

The Group classifies debt financial assets to the appropriate category depending on the business model of financial assets management and on the characteristics of contractual cash flows for a given financial asset.

At the moment of initial recognition, the Group classifies equity instruments, i.e. shares in other entities, to the category of financial instruments measured at fair value through other comprehensive income.

*Effective interest method*

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 receipts (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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 amortized cost*

The Group applies the effective interest rate method to measure financial assets at amortized cost.

Trade receivables after initial recognition are measured at amortized cost using the effective interest rate method, including impairment allowances, while trade receivables with a maturity of less than 12 months from the date of recognition (i.e. not including the financing component) and not appointed to factoring, are not discounted and are measured at nominal value.

*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.

*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.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. The Company uses the following models for determining impairment allowances:

- general model (basic);
- simplified model.

The general model is used by the Group for financial assets measured at amortized cost - other than trade receivables.

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.

Depending on the classification to particular stages, the impairment allowance is estimated in the 12-month horizon (stage 1) or in the life horizon of the instrument (stage 2 and stage 3).

On each day ending the reporting period, the Group considers the indications resulting in the classification of financial assets to particular stages of determining impairment allowances. Indications may include changes in the debtor's rating, serious financial problems of the debtor, a significant unfavourable change in its economic, legal or market environment.

For the purposes of estimating the expected credit loss, the Group uses default probability levels based on market credit quotes of derivatives for entities with a given rating and from a given sector.

The Group includes information on the future in the parameters of the expected loss estimation model by calculating the probability parameters of insolvency based on current market quotes.

The simplified model is used by the Group for trade receivables.

In the simplified model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument.

In particular, for the insolvency event, the Group recognizes when the contractor has not satisfied the obligation after 90 days from the due receivables date.

For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries from receivables from contractors.

The Group includes information about the future in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices during the last year and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last year (due to short period of operations and lack of further comparable information).

The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated on each subsequent day ending the reporting period, depending on the number of days for which the receivable is due.

*Loss/ reversal of loss due to impairment of financial instruments*

The losses/ reversals of losses due to impairment of financial instruments include, in particular, losses/ reversals of losses due to impairment of trade receivables.

*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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss.

### *3.16 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 are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. All the Company's financial liabilities belong to the category 'other financial liabilities'.

*Other financial liabilities*

Other 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 amortised cost of current financial liabilities normally equals their nominal value; therefore, current financial liabilities are stated in the statement of financial position at their redemption value.

The effective interest method is 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 and discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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 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.

### *3.17 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.

### *3.18 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.

### *3.19 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.

### *3.20 Revenue recognition*

*Accounting policy until 31 December 2017*

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer return, rebates and other similar allowances.

Revenue from sales is recorded on the accrual basis, when significant risks have been transferred to the buyer, and the sales income and costs incurred in respect of the transaction can be measured reliably.

*Accounting policy from 01 January 2018*

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.

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. 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.

*Revenue from hotel operating revenue*

The Group operates a hotel in Bad Kreuznach, Germany. Revenue from the sale of goods and sale of services is recognised when the Company 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 due immediately when the customer purchases a product or the service has been provided. The hotel recognises accommodation revenue on daily basis even for the clients who stay for a longer period. Therefore, the Group recognises revenue from hotel operations at point in time.

*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. 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. Revenue is recognised over time.

*Revenue from other services*

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

Other Income, which is not related to the core operations of the Group entities, is recorded as other income at point in time.

*Rental income*

The Group's policy for recognition of revenue from operating leases is described in Note 3.22 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 receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

*3.21 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, and depreciation and amortization charges.

*Other expenses*

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

*Finance cost*

Direct interest costs of acquiring properties constructed over long periods of time are capitalized until the property is taken into use. Other interest and financing costs are recorded on the accrual basis as financial expenses of the reporting period.

### 3.22 Leasing

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.

*The Group as lessee*

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group’s general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

*The Group as lessor*

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group’s net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group’s net investment outstanding in respect of the 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 leased asset and recognised on a straight-line basis over the lease term.

### 3.23 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.

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.

*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.

### 3.24 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.

### 3.25 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, apart from those involving estimation (see Note 4.2 below), 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.

*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; 11 and 12). 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 overdue receivables are estimated using a provision matrix based on the Group's historical credit loss experience.

The Group may have overdue receivables that are not provided for. Such receivables have been assessed by the management of the Group on individual basis and have found them to be collectable.

### *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 9, 10, 11, 12 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 have 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.

*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 31.12.2018 | 31.12.2017 | Principal activity |
|---|---|---|---|---|
| AS Pro Kapital Grupp | Estonia | See Note 1 | | 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% | 93.95% | Shopping centre |
| OÜ Kalaranna Kvartal | Estonia | 100.00% | 0.00% | 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% | 0.00% | 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 PK Invest UAB: | | | | |
| Pro Kapital Bonum UAB | Lithuania | 100.00% | 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 |

Below are presented the financial figures of the Group companies:

| in thousands of euros | Cost 31.12.2018 | Cost 31.12.2017 | Revenue for 2018 | Profit/loss for 2018 | Net Assets 31.12.2018 | Net Assets 31.12.2017 |
|---|---|---|---|---|---|---|
| AS Pro Kapital Eesti | 17 981 | 17 981 | 738 | 4 452 | 120 528 | 116 075 |
| OÜ Ilmarise Kvartal | 286 | 286 | 144 | 117 | 3 254 | 3 137 |
| AS Tondi Kvartal | 4 364 | 4 364 | 3 836 | 1 454 | 24 480 | 23 026 |
| OÜ Marsi Elu | 458 | 458 | 9 380 | 1 620 | 2 515 | 895 |
| OÜ Dunte Arendus | 3 | N/A | 0 | 0 | 3 | N/A |
| OÜ Pro Halduse | 27 | 27 | 654 | -52 | 593 | 645 |
| AS Tallinna Moekombinaat | 13 375 | 13 375 | 1 516 | 16 958 | 37 384 | 20 426 |
| OÜ Kalaranna Kvartal | 3 | N/A | 2 | -358 | -355 | N/A |
| Pro Kapital Vilnius Real Estate UAB | 2 375 | 2 375 | 2 007 | 122 | 1 845 | 1 930 |
| PK Invest UAB | 6 679 | 6 679 | 754 | 229 | 3 617 | 3 388 |
| Pro Kapital Bonum UAB | 800 | 800 | 0 | 31 | 998 | 1 429 |
| In Vitam UAB | 43 | 43 | 148 | 14 | 106 | 92 |
| Pro Kapital Latvia PJSC | 10 188 | 10 188 | 88 | -486 | 9 474 | 12 985 |
| Klīversala SIA | 9 819 | 9 819 | 5 743 | 1 183 | 18 477 | 17 234 |
| Tallina Nekustamie Īpašumi SIA | 6 589 | 6 589 | 0 | -999 | -23 | 976 |
| Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA | 2 500 | 2 500 | 15 | -397 | 224 | 621 |
| OÜ Pro Kapital Germany Holding | 971 | 971 | 0 | 0 | 968 | 968 |
| Pro Kapital Germany GmbH | 25 | 25 | 487 | -16 | 2 820 | 2 836 |
| PK Hotel Management Services GmbH | 966 | 966 | 3 970 | 90 | 159 | 69 |

On 29 June 2018 the Company announced establishment of a new subsidiary in Estonia. OÜ Dunte Arendus is owned 100% by AS Tondi Kvartal, a subsidiary of AS Pro Kapital Eesti. The purpose of establishment of the subsidiary is to transfer Dunte premises located near Kristiine City in Tallinn to the subsidiary and commence the development of the project.

On 17 July 2018 the Company announced establishment of a new subsidiary in Estonia. OÜ Kalaranna Kvartal is owned 100% by AS Pro Kapital Eesti. The purpose of establishment of the subsidiary is to transfer assets related to the Kalaranna Kvartal project located near the city centre of Tallinn to the subsidiary and to commence the development of the project.

# 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.

The business activity of the Group is exercised in Estonia (sale of real estate, rent 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 | Total |
|---|---|---|---|---|---|---|
| 2018 | | | | | | |
| Revenue (Note 21) | 0 | 15 463 | 5 765 | 2 828 | 3 935 | 27 991 |
| *Incl sales of real estate* | *0* | *13 284* | *5 616* | *2 553* | *0* | *21 453* |
| *Incl rental income* | *0* | *1 271* | *69* | *118* | *0* | *1 458* |
| *Incl hotel operating* | *0* | *0* | *0* | *0* | *3 935* | *3 935* |
| *Incl maintenance services* | *0* | *643* | *10* | *141* | *0* | *794* |
| *Incl other services* | *0* | *265* | *70* | *16* | *0* | *351* |
| Other operating income & expenses (net) | -1 | 20 599 | -1 934 | 0 | 6 | 18 670 |
| *Incl fair value adjustments* | *0* | *20 020* | *-2 025* | *0* | *0* | 17 995 |
| Segment operating profit/ loss | -2 296 | 23 635 | -166 | 23 | 287 | 21 483 |
| Finance income and cost (net) | -3 143 | -246 | -44 | -34 | -2 | -3 469 |
| Profit/ loss before income tax | -5 439 | 23 389 | -210 | -11 | 285 | 18 014 |
| Income tax | 0 | 0 | -3 | 48 | -3 | 42 |
| Non-controlling interest | 0 | 1 229 | 0 | 0 | 0 | 1 229 |
| Net profit/ loss for the financial year attributable to owners of the Company | -5 439 | 22 160 | -213 | 37 | 282 | 16 827 |
| | | | | | | |
| 31.12.2018 | | | | | | |
| Assets | 32 251 | 160 094 | 22 221 | 24 781 | 5 765 | 245 112 |
| Liabilities | 39 531 | 86 244 | 6 403 | 11 198 | 998 | 144 374 |
| Acquisition of non-current assets (excluding investment properties) | 0 | 56 | 40 | 2 | 132 | 230 |
| Disposal of non-current assets | 0 | 0 | 0 | -358 | 0 | -358 |
| Depreciation and amortisation | -5 | -39 | -7 | -11 | -152 | -214 |

| in thousands of euros | PKG Holding | Estonia | Latvia | Lithuania | Germany | Total |
|---|---|---|---|---|---|---|
| 2017 | | | | | | |
| Revenue from continuing operations (Note 21) | 0 | 6 566 | 189 | 1 784 | 3 538 | 12 077 |
| *Incl sales of real estate* | *0* | *5 067* | *0* | *1 554* | *0* | *6 621* |
| *Incl rental income* | *0* | *19* | *69* | *87* | *0* | *175* |
| *Incl hotel operating* | *0* | *0* | *0* | *0* | *3 533* | *3 533* |
| *Incl maintenance services* | *0* | *1 480* | *98* | *137* | *0* | *1 715* |
| *Incl other services* | *0* | *0* | *22* | *6* | *5* | *33* |
| Other operating income & expenses (net) | 0 | 1 570 | 1 600 | -16 | 160 | 3 314 |
| *Incl fair value adjustments* | *0* | *519* | *11* | *0* | *0* | *530* |
| Segment operating profit/ loss | -1 471 | 2 552 | 815 | -90 | -9 | 1 797 |
| Finance income and cost (net)) | -4 634 | 2 125 | -434 | -239 | -164 | -3 346 |
| Profit/ loss before income tax | -6 105 | 4 677 | 381 | -329 | -173 | -1 549 |
| Income tax | 0 | 0 | 617 | -21 | 0 | 596 |
| Profit from discontinuing operations | 0 | 304 | 131 | 0 | 0 | 435 |
| Non-controlling interest | 0 | -99 | 0 | 0 | 0 | -99 |
| Net profit/ loss for the financial year attributable to owners of the Company | -6 105 | 5 080 | 1 129 | -350 | -173 | -419 |
| 31.12.2017 | | | | | | |
| Assets | 2 768 | 108 640 | 37 551 | 19 171 | 7 028 | 175 158 |
| Liabilities | 40 849 | 35 770 | 9 628 | 4 912 | 1 317 | 92 476 |
| Acquisition of non-current assets (excluding investment properties) | 25 | 46 | 12 | 11 | 239 | 333 |
| Disposal of non-current assets | 0 | -6 267 | -7 562 | 0 | 0 | -13 829 |
| Depreciation and amortisation | -1 | -114 | -139 | -28 | -173 | -455 |

# Note 7. Changes in ownership in subsidiaries

| Changes in minority shareholding | AS Tallinna Moekombinaat |
|---|---|
| Minority (%) as at 31.12.2016 | 8.05% |
| Purchase of minority shares | -1.40% |
| Minority (%) as at 31.12.2017 | 6.65% |
| Minority (%) as at 31.12.2018 | 6.65% |

Value of minority shareholding

| in thousands of euros | |
|---|---|
| Non-controlling interest as at 31.12.2016 | 1 799 |
| Effect of repurchase of non-controlling interest | -305 |
| Loss for the reporting period | -99 |
| Non-controlling interest as at 31.12.2017 | 1 395 |
| Profit for the reporting period | 1 229 |
| Non-controlling interest as at 31.12.2018 | 2 624 |

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 thousand euros, which represents 1.40% of all AS Tallinna Moekombinaat shares. After acquisition AS Pro Kapital Eesti holds 93.35% of AS Tallinna Moekombinaat shares.

# Note 8. Cash and cash equivalents

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Cash at hand | 31 | 34 |
| Bank accounts | 7 009 | 10 283 |
| Total | 7 040 | 10 317 |

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 euro at the European Central Bank currency exchange rates prevailing on the reporting date.

# Note 9. Current receivables

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Trade receivables from contracts with customers | 791 | 1 315 |
| Trade receivables from operating leases | 192 | 0 |
| Allowance for doubtful debts | -14 | 0 |
| Receivables from related parties (Note 28) | 2 | 2 |
| Other receivables | 38 | 52 |
| Accrued income | 130 | 35 |
| Prepaid expenses | 1 789 | 3 484 |
| Total | 2 928 | 4 888 |

Trade receivables have decreased by 346 thousand euros compared to the previous period. The change is mainly affected by payments received in the beginning of 2018 from sold apartments at the end of 2017. Prepaid expenses have decreased by 1.7 million euros in 2018 and consist mainly of prepaid value added tax. Allowance for doubtful debts in amount of 14 thousand euros have been estimated and recognised by using provision matrix based on Group’s historical credit loss experience (IFRS 9).

Due to opening the T1 Mall in Tallinn and start of collecting rental revenues, the Company has analysed the maturity of signed rental agreements as at the end of the year and estimated receivable payments to be as follows:

Maturity analysis of operating lease payments

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Year 1 | 6 379 | 0 |
| Year 2 | 7 185 | 0 |
| Year 3 | 7 714 | 0 |
| Year 4 | 7 785 | 0 |
| Year 5 and onward | 7 011 | 0 |
| Total | 36 074 | 0 |

# Note 10. Inventories

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Property held for resale | 16 604 | 4 894 |
| Works in progress | 42 665 | 33 062 |
| Goods bought for resale | 58 | 59 |
| Prepayments for inventories | 4 | 9 |
| Total | 59 331 | 38 024 |

Property held for resale include completed real estate stock in Tallinn, Riga, Vilnius and has significantly increased due to completion of exclusive residential building, River Breeze Residence, in Riga in spring 2018.

Works in progress include properties in all three Baltic states being under development or waiting for development in the nearest future.

In Kristiine City, in Tallinn, development of 9 842 square meters of net residential premises is included in inventories: Sõjakooli 12 (property held for resale), Marsi 5 and property in Sammu street (works in progress). The Company expects to receive the average income of 2 262 €/m² including parking and storages and considering estimated annual price increase. Total average cost of net areas is estimated to be 1 221 €/m².

Kalaranna and Sammu street properties in Tallinn were reclassified from investment property into inventories in the total amount of 17.7 million euros (Note 12). Changes into the group structure have been made accordingly: for Kalaranna project a subsidiary has been established; Sammu street property for the following three apartment buildings in Kristina Houses project has been transferred into the relevant development company. Sammu street development has started in autumn 2018 and Kalaranna project will start in 2019. Before reclassification the fair value of Kalaranna increased due to more detailed information concerning development and the property was revalued. The Company considers the fair value of Kalaranna has not decreased at the end of the reporting period.

In Kliversala, in Riga, the construction of River Breeze project in Kugu iela 28 is completed. The Company expects to receive the average income of 6 418 €/m² from saleable 4 509 square meters including parking and storages and considering estimated annual price increase.

In Šaltinių Namai project, in Vilnius, construction of 12 603 square meters of residential and net sellable area of commercial area of 1 293 square meters is in progress. The construction works of the currently built stage should be completed in the middle of 2019. Expected total average cost of net areas 1 379 €/m². The Company expects to receive average income of 4 121 €/m² on residential and commercial area, both including storage and parking areas and considering estimated annual price increase. Disposal costs of inventories (costs of property maintenance until sales and direct sales costs including commissions) are expected to be 4.5% from total sales and rental revenue as an average.

The cost of inventories recognised as an expense during the year was 13.7 million euros (2017: 3.1 million euros). In 2018 and 2017 no inventories were written down. 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. All inventories except works in progress in total amount of 16.6 million euros are expected to be sold within one to two years year and works in progress on amount of 42.7 million euros within two to five years.

# Note 11. 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 based on the valuation of an independent expert. 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) in the amount of 11.3 million euros was formed as at 31 December 2011 to account for revaluation differences (see Note 19). Impairment loss of Bad Kreuznach hotel property was accounted through decrease of revaluation reserve in 2014. Revaluation reserve totals to 3.3 million euros as at 31 December 2018 and 31 December 2017. Significant decrease of revaluation reserve results from the sales of the two hotels in 2017. Remaining amount consists of Bad

Kreuznach hotel revaluation reserve. There are no restrictions on distribution of revaluation reserve.

Offices premises include only office in Tallinn as at the end of the reporting period. Office in Vilnius was sold for 336 thousand euros in January 2018.

| Hotel property and office premises | Cost value | | Revaluation value | |
|---|---|---|---|---|
| in thousands of euros | 31.12.2018 | 31.12.2018 | 31.12.2018 | 31.12.2017 |
| Kurhausstrasse 28, Bad Kreuznach | 3 142 | 3 189 | 6 244 | 6 281 |
| Office premises | 715 | 898 | 730 | 1 052 |
| Total | 3 857 | 4 087 | 6 974 | 7 333 |

| Property, plant and equipment at cost in thousands of euros | Land and buildings revaluation value | Machinery and equipment | Other property, plant and equipment | Assets under reconst-ruction | Total |
|---|---|---|---|---|---|
| 01.01.2017 | 20 066 | 1 686 | 1 216 | 1 118 | 24 086 |
| Additions: | | | | | |
| Acquired | 1 351 | 7 | 27 | -1 104 | 281 |
| Change in fair value | 26 | 0 | 0 | 0 | 26 |
| Disposals and write offs: | | | | | |
| Sold | -6 100 | 0 | -9 | 0 | -6 109 |
| Sold through disposal of subsidiary | -6 076 | -804 | -835 | -5 | -7 720 |
| Written off | 0 | -9 | -55 | 0 | -64 |
| 31.12.2017 | 9 267 | 880 | 344 | 9 | 10 500 |
| Additions: | | | | | |
| Acquired | 94 | 38 | 74 | -9 | 197 |
| Change in fair value | -2 | 0 | 0 | 0 | -2 |
| Reclassification | -45 | 0 | -123 | 0 | -168 |
| Disposals and write offs: | | | | | |
| Sold | -358 | 0 | 0 | 0 | -358 |
| Written off | 0 | 0 | -15 | 0 | -15 |
| 31.12.2018 | 8 956 | 918 | 280 | 0 | 10 154 |

| Accumulated depreciation<br>in thousands of euros | Land and buildings | Machinery and equipment | Other property, plant and equipment | Assets under reconst-ruction | Total |
|---|---|---|---|---|---|
| 01.01.2017 | 3 103 | 1 560 | 1 087 | 0 | 5 750 |
| Additions: | | | | | |
| Charge for the period | 327 | 83 | 35 | 0 | 445 |
| Disposals and write offs: | | | | | |
| Sold | -696 | 0 | -8 | 0 | -704 |
| Sold through disposal of subsidiary | -800 | -791 | -771 | 0 | -2 362 |
| Written off | 0 | -9 | -55 | 0 | -64 |
| 31.12.2017 | 1 934 | 843 | 288 | 0 | 3 065 |
| Additions: | | | | | |
| Charge for the period | 147 | 21 | 30 | 0 | 198 |
| Change in fair value | -15 | 0 | 0 | 0 | -15 |
| Reclassification | -44 | 0 | -123 | 0 | -167 |
| Disposals and write offs: | | | | | |
| Sold | -40 | 0 | 0 | 0 | -40 |
| Written off | 0 | 0 | -15 | 0 | -15 |
| 31.12.2018 | 1 982 | 864 | 180 | 0 | 3 026 |

| Residual value<br>in thousands of euros | Land and buildings | Machinery and equipment | Other property, plant and equipment | Assets under reconst-ruction | Total |
|---|---|---|---|---|---|
| 31.12.2017 | 7 333 | 37 | 56 | 9 | 7 435 |
| 31.12.2018 | 6 974 | 54 | 100 | 0 | 7 128 |

## Valuation of properties

According to IFRS 13 classification, land and buildings measured at revalued amounts 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 using mainly 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. The Group provides valuators historical data and expected projections of hotel performance, which include such inputs as occupancy, average rate, departmental revenues and costs, administrative and marketing costs. This information is derived from management reporting prepared by hotel managers and reviewed by Financial Controller. Valuators also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. 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.

The company did not revalue the hotel property in the end of 2018. After the renovation works in 2017, operating results continued to improve in 2018. Compared to 2017, the occupancy rate was 3.6% higher, the average room rate increased by 11% leading to 15% higher room revenues and gross operating profit increased by 55.9%.

# Note 12. Investment property

The fair value of the Group's investment property at 31 December 2018 and 31 December 2017 has been derived on the basis of valuations carried out by Colliers International independent valuators not related to the Group. 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.

| in thousands of euros | Investment property held for increase in value | Investment properties held for operating lease | Total |
|---|---|---|---|
| **Balance at 01.01.2017** | **99 660** | **0** | **99 660** |
| Additions: | | | |
| Acquired | 25 893 | 0 | 25 893 |
| Capitalised interests (Note 16) | 947 | 0 | 947 |
| Changes in fair value: | | | |
| Gain from change in fair value | 530 | 0 | 530 |
| Reclassified into inventories | -12 890 | 0 | -12 890 |
| **Balance at 31.12.2017** | **114 140** | **0** | **114 140** |
| Additions: | | | |
| Acquired | 50 200 | 0 | 50 200 |
| Capitalised interests (Note 16) | 4 070 | 0 | 4 070 |
| Disposals: | | | |
| Sold | -582 | 0 | -582 |
| Changes in fair value: | | | |
| Gain from change in fair value (Note 24) | 17 995 | 0 | 17 995 |
| Start of operating lease | -129 200 | 129 200 | 0 |
| Reclassified into inventories (Note 10) | -17 678 | 0 | -17 678 |
| **Balance at 31.12.2018** | **38 945** | **129 200** | **168 145** |

During 2018 the Company has paid for investments 47.8 million euros (2017: 24.8). Acquisition amount 50.2 million euros includes prepaid financial expenses, that have been capitalised into investment property proportionally with the loan amounts received for development. Investments into property during reporting period include mainly construction costs of AS Tallinna Moekombinaat ca 46 million euros. Interest costs related to this project are capitalised until the end of 2018. The last portion of development financing amount was provided at the end of the year and the project was almost completed. The Company has capitalised 55% of total interest costs in 2018 (2017: 22%). AS Tallinna Moekombinaat sold an electrical substation for 1 million euros during the reporting period, generating profit of 418 thousand euros (Note 24).

## 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 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 are reviewed and accepted by the Management of the Company.

*T1 Mall of Tallinn - Peterburi road 2, Tallinn*

In November 2018 T1 Mall of Tallinn was opened with 54 973 square meters 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. While the 7-year discounted cash flow method has been used by the valuator with a discount rate of 14.50% during the development period of the project, after starting operations in 2018, 5-year discounted cash flow method was used with a discount rate 8.5% and exit yield 7%. The valuator has considered the following inputs in valuation: the construction works of the property are mostly completed, 2 million euros to be yet invested in the beginning of 2019; average rent is supposed to be 15.42 €/m² on 1st year, 15.41 €/m² on 2nd year, 15.95 €/m² on 3rd year, 16.23 on 4th year and 16.54 on the 5th year of operations (2017: 14.02 €/m² on 1st year, 14.02 €/m² on 2nd year, 15.93 €/m² on 3rd year of operations), total average rent including annual increase and vacancy loss 14.48 €/m² (2017: 15.25 €/m²), exit yield after 5 year rental period 7% (2017: the same) with exit price after vacancy, operating expenses and brokerage fee 15.52 €/m² (2017: 16.45 €/m²). The increase in fair value comparing to last valuation was 69.8 million euros, the subsidiary company has invested 52.1 million euros into the project in 2018, total net effect of revaluation is 17.7 million euros.

*Ülemiste 5, Tallinn*

Ülemiste property is situated next to above mentioned Peterburi road 2 land plot and is expected to be used partly as an extension for the T1 Mall of Tallinn shopping centre completed. It is planned to develop office and retail spaces with total leasable area of 7 000 square meters (2017: 6 061 square meters). The valuator has considered the following inputs in valuation: construction period of 1 year, starting after 2 year of waiting period (2017: construction period of 1 years, starting after 1 year of waiting period), construction cost 537 €/m² (2017: 533 €/m²), total average cost of net leasable area 1 685 €/m² (2017: 1 597 €/m²), average rent 15.55 €/m² for retail spaces (2017: 15.00 €/m²), total average rent including annual increase and vacancy loss 14.60 €/m² (2017: 15.28 €/m²), exit yield after 3 year rental period 7% (2017: the same) with exit price after vacancy, operating expenses and brokerage fee 16.07 €/m² (2017: 15.94 €/m²). 6-year discounted cash flow method has been used by the valuator with a discount rate of 14.50% (2017: the same). The decrease in fair value comparing to last valuation was 40 thousand euros, the subsidiary company has invested 38 thousand euros into the project in 2018, total net effect of revaluation is -78 thousand euros.

*Kristiine City, Tallinn*

Kristiine City is one of the largest residential blocks in the Baltics, located close to the city centre. It has been planned to develop the property in 5 phases. The first phase – renovation of a red brick barrack - is completed and all of the apartments are sold. The second phase includes a set of 10 new buildings being built on Marsi, Sõjakooli and Sammu Streets, also Marsi 5 and Marsi 6. Construction works of three Marsi street buildings, Sõjakooli 12, 12a and 12b are completed. Sõjakooli 12c building was completed in March 2019 and works for the three buildings at Sammu 6 are ongoing. Renovation of Marsi 6 was successfully completed and apartments sold. All properties of the second stage of development are recorded as inventories in the Company's statement of financial position. According to management decision the properties to be developed in the next three phases have been reclassified from inventories to investment property in 2014 as long-term investments. The valuator has considered the following inputs in valuation of investment for last fourth phases: net sellable residential area of 50 699 square meters and rentable commercial area of 24 644 square meters (2017: 52 842 square meters and 25 838 square meters respectively including Sammu property, which was reclassified into inventory during 2018), construction period for first phase up to 2 years, second phase up to 2 years starting from 2021, third phase up to 2 years starting from 2025 and last phase up to 2 years starting 2028 (2017: construction period for second phase 2-5 years, third phase 2-3 years and last phase 2 years starting 2027), construction cost 626-768 €/m² (2017: 551-

681 €/m²), total average cost of net areas 1 419 €/m² (2017: 1 321 €/m²), starting average apartment sale price 1 900 €/m² (2017: 1 850 €/m²), total average apartment sale price with annual increase including storage and parking areas 2 271 €/m² (2017: 2 270 €/m²), starting average rent 10 €/m² (2017: 10 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 8.30 €/m² (2017: 10.32 €/m²), exit yield after 2 year rental period 7.25-7.75% (2017: 7.25%) with exit price after vacancy, operating expenses and brokerage fee 11.78 €/m² (2017: 10.33 €/m²). For valuation 14-years (2017: 13-years) discounted cash flow method has been used by the valuator with discount rate 13.50% (2017: 14.50%). The increase in fair value comparing to last valuation was 1.1 million euros, the subsidiary company has invested 512 thousand euros into the project in 2018, total net effect of revaluation is 543 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 4 phases. The first phase was completed in spring 2018 and is recorded as saleable inventories. Remaining three phases are classified as investment property. The valuator has considered the following inputs in valuation of the three phases: net sellable residential area of 38 311 square meters (41 108 square meters in 2017) and rentable commercial area of 3 550 square meters (6 715 square meters in 2017), construction period of 2 years for each phase, construction cost 894 €/m² (2017: 845 €/m²), total average cost of net areas 2 227 €/m² (2017: 2 055 €/m²), starting average apartment sale price 3 150 €/m² (2017: 2 700 €/m²), total average apartment sale price with annual increase including storage and parking areas 3 672 €/m² (2017: 3 303 €/m²), starting average rent 13 €/m² (2017: starting average rent 12 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 21.25 €/m² (2017: 19.65 €/m²), exit yield after 2 year rental period 7.50% (2017: 8.50%) with exit price after vacancy, operating expenses and brokerage fee 22.00 €/m² (2017: 23.27 €/m²). 10-year discounted cash flow method has been used by the valuator with a discount rate of 11.10% and starting without delay (2017: 12-year discounted cash flow method with a discount rate of 11.30%, starting without delay). The decrease in fair value comparing to last valuation was 780 thousand euros, the subsidiary company has invested 157 thousand euros into the project in 2018, total net effect of revaluation is -937 thousand euros.

*Tallinas Street residential complex, Riga*

Tallinas is a residential development project located in 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 20 950 square meters and 370 square meters respectively (2017: 22 960 square meters residential and 974 square meters commercial premises). It has been planned to develop the property in one phase (2017: three phases). The valuator has considered the following inputs in valuation: construction period of two years, construction cost 835 €/m² (2017: 719 €/m²), total average cost of net areas 1 720 €/m² (2017: 1 784 €/m²), starting average apartment sale price 2 500 €/m² (2017: 2 350 €/m²), total average apartment sale price with annual increase including storage and parking areas 2 786 €/m² (2017: 2 617 €/m²), starting average rent 13 €/m² (2017: 11 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 12.55 €/m² (2017: 9.83 €/m²), exit yield after 2 year rental period 7.25% (2017: exit yield after 2 year rental period 7,25%) with exit price after vacancy, operating expenses and brokerage fee 7.21 €/m² (2017: 9.83 €/m²). 7-year discounted cash flow method has been used by the valuator with a discount rate of 11.10% (2017: 11.10%) and with the assumption of immediate start. The decrease in fair value comparing to last valuation was 530 thousand euros, the subsidiary company has invested 279 thousand euros into the project in 2018, total net effect of revaluation is -809 thousand euros.

*Zvaigznes or Brivibas Centrs, 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 (17 520 square meters in 2017). 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, 3 years in total without a waiting period (2017: 2 years of each phase, 3 years in total without a waiting period), construction cost 859 €/m² (2017: 707 €/m²), total average cost of net areas 1 720 €/m² (2017: 1 609 €/m²), starting rent 11.5-13.0 €/m² (2017: 12.5-13.0 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 7.42 €/m² (2017: 11.61 €/m²), exit yield after 3-5 year rental period 7.5% (2017: exit yield after 3-5 year rental period 7.7%) with exit price after vacancy, operating expenses and brokerage fee 13.32 €/m² (2017: 14.04 €/m²). For valuation 6 -year discounted cash flow method has been used by the valuator with a discount rate of 11.00% (2017: 6-year discounted cash flow with discount rate 11.10%). The decrease in fair value comparing to last valuation was 128 thousand euros, the subsidiary company has invested 152 thousand euros into the project in 2018, total net effect of revaluation is -280 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 | |
|---|---|---|---|---|---|---|---|---|---|
| 31.12.2017 | Fair value | 5% | -5% | 5% | -5% | 5% | -5% | 5% | -5% |
| Peterburi | 59 450 | -1 820 | 1 820 | N/A | N/A | 0 | 0 | -3 340 | 3 600 |
| Ülemiste | 2 440 | -310 | 300 | N/A | N/A | 470 | -470 | -360 | 380 |
| Kalaranna* | 12 960 | 0 | 0 | 1 850 | -1 800 | N/A | N/A | N/A | N/A |
| Tondi | 18 300 | 0 | 0 | 2 120 | -2 060 | N/A | N/A | N/A | N/A |
| Kliversala | 14 230 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Tallinas | 4 190 | -1 610 | 1 600 | 1 530 | -1 530 | 40 | -50 | N/A | N/A |
| Zvaigznes | 2 570 | -1 130 | 1 130 | N/A | N/A | 1 390 | -1 390 | N/A | N/A |

| | | Construction costs/m2 | | Sale price/ m2 | | Rent price/ m2 | | Exit yield | |
|---|---|---|---|---|---|---|---|---|---|
| 31.12.2018 | Fair value | 5% | -5% | 5% | -5% | 5% | -5% | 5% | -5% |
| T1/Peterb | 129 200 | N/A | N/A | N/A | N/A | N/A | N/A | -4 600 | 4 700 |
| Ülemiste | 2 400 | -400 | 400 | N/A | N/A | 600 | -500 | -400 | 400 |
| Tondi | 17 000 | 0 | 0 | 2 100 | -2 200 | N/A | N/A | N/A | N/A |
| Kliversala | 13 443 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Tallinas | 3 660 | -1 490 | 1 490 | 1 360 | -1 360 | 30 | -30 | N/A | N/A |
| Zvaigz/Briv | 2 442 | -920 | 910 | N/A | N/A | 1 140 | -1 150 | N/A | N/A |

**Kalaranna property was reclassified into inventories in June 2018.*

Kliversala sensitivity analyses were not provided in 2018 valuation report.

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 18 to these consolidated financial statements.

# Note 13. Current debt

| in thousands of euros | Bank loans and overdrafts (Note 16) | Convertible bonds (Note 17) | Non-convertible bonds (Note 17) | Current portion of financial lease | Total |
|---|---|---|---|---|---|
| 01.01.2017 | 3 141 | 5 104 | 0 | 16 | 8 261 |
| Changes from financing cash flows | -3 134 | -773 | 0 | -16 | -3 923 |
| Changes from losing control of subsidiaries | 0 | 0 | 0 | -3 | -3 |
| Other changes | 161 | 1 599 | 640 | 3 | 2 403 |
| 31.12.2017 | 168 | 5 930 | 640 | 0 | 6 738 |
| Changes from financing cash flows | 201 | -9 | -640 | 0 | -1 886 |
| Other changes | 5 028 | -1 590 | 600 | 0 | 5 476 |
| 31.12.2018 | 5 397 | 4 331 | 600 | 0 | 10 328 |

The balance of current debt has changed significantly due to reclassifications. Repayment date of Kliversala loan from Swedbank is within 2019 and therefor 4.5 million euros have been reclassified from non-current debt. Due to several prolongation of convertible bonds, 1.6 million euros have been reclassified to non-current debt in 2018.

# Note 14. Current payables

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Trade payables | 10 315 | 7 371 |
| Accrued expenses | 1 623 | 1 818 |
| Dividends payable to shareholders | 0 | 851 |
| Other | 1 | 51 |
| Total | 11 939 | 10 091 |

Trade payables have increased significantly due to reclassification of non-current guarantee payable to construction company of T1 Mall of Tallinn to current payables.

# Note 15. Non-current debt

| in thousands of euros | Bank loans and overdrafts (Note 16) | Convertible bonds (Note 17) | Non-convertible bonds (Note 17) | Payables to minority share-holders | Non-current portion of financial lease | Total |
|---|---|---|---|---|---|---|
| 01.01.2017 | 4 365 | 5 930 | 27 337 | 400 | 8 | 38 040 |
| Changes from financing cash flows | 24 347 | 0 | 1 456 | 0 | 0 | 25 803 |
| Changes from losing control of subsidiaries | 0 | 0 | 0 | 0 | -5 | -5 |
| Changes in fair values | 0 | 0 | 108 | 0 | 0 | 108 |
| Other changes | 786 | -1 599 | -640 | 37 | -3 | -1 419 |
| 31.12.2017 | 29 498 | 4 331 | 28 261 | 437 | 0 | 62 527 |
| Changes from financing cash flows | 49 226 | -26 | 0 | 0 | 0 | 49 200 |
| Other changes | -754 | 1 497 | -498 | 37 | 0 | 282 |
| 31.12.2018 | 77 970 | 5 802 | 27 763 | 474 | 0 | 112 009 |

# Note 16. Bank loans and overdrafts

| | | Loan balance in thousands of euros | | |
|---|---|---|---|---|
| Borrower | Creditor | 31.12.2018 | 31.12.2017 | Maturity |
| AS Pro Kapital Grupp | Swedbank AS (overdraft) | 4 | 0 | Monthly |
| AS Tondi Kvartal | Luminor Bank AS (Nordea Bank AB) | 0 | 1 524 | Repaid |
| OÜ Marsi Elu | Luminor Bank AS (Nordea Bank AB) | 0 | 139 | Repaid |
| AS Tondi Kvartal | Luminor Bank AS (Nordea Bank AB) | 445 | 474 | 02.09.2021 |
| OÜ Marsi Elu | LHV Pank AS | 870 | 0 | 26.07.2020 |
| OÜ Marsi Elu | LHV Pank AS | 285 | 0 | 28.03.2021 |
| OÜ Marsi Elu | LHV Pank AS | 2 700 | 0 | 21.11.2021 |
| AS Tallinna Moekombinaat | Lintgen Adjacent Investments S.A.R.L. | 70 222 | 22 530 | 18.11.2021 |
| Kliversala SIA | AS Swedbanka (Latvia) | 4 494 | 4 999 | 14.11.2019 |
| PK Invest UAB | AB Luminor Bankas (Lithuania) | 4 347 | 0 | 21.03.2020 |
| Total | | 83 367 | 29 666 | |

All debts are related to development activities with an exception of AS Tondi Kvartal loan from Luminor Bank AS with the balance of 445 thousand euros. The loan was taken to renovate Sõjakooli 11 building in Tallinn and it is used as the Company's head-office.

All agreements and liabilities are fixed in euros. Loan amounts to be repaid within 12 months total to 5.4 million euros, remaining 78 million euros should be repaid within three years. Current bank loans are described also in Note 13, non-current bank loans in Note 15, collaterals of the loans in Note 18 and finance costs in Note 25.

The total interest cost on bank loans for the reporting period was 130 thousand euros (2017: 185 thousand euros). Interests on financing from Lintgen Adjacent Investments for T1 Mall of Tallinn project (AS Tallinna Moekombinaat) for 2018 in amount 4.1 million euros (2017: 0.9 million euros) have been capitalised and recorded as part of investment property and therefor have not influenced current interest expenses from loans (Note 12). Total capitalised interests in amount of 5.2 million euros is included in the loan balance and constitutes total of 70.2 million euros at the end of the reporting period.

# Note 17. Convertible and non-convertible bonds

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Current convertible debt (Note 13) | 4 331 | 5 930 |
| Current non-convertible debt (Note 13) | 600 | 640 |
| Non-current convertible debt (Note 15) | 5 802 | 4 331 |
| Non-current non-convertible debt (Note 15) | 27 763 | 28 261 |
| Total | 38 496 | 39 162 |

## 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: 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 364 237 convertible bonds in total amount of 1 019 863.60 euros have been redeemed. Remaining balance of the bonds is 10.3 million euros on 31 December 2018.

| 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 | 1 081 076 | 378 070 | 838 984 | 516 029 | 381 634 | 382 778 | 82 950 |
| 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 | 3 027 013 | 1 058 596 | 2 349 155 | 1 444 881 | 1 068 575 | 1 071 778 | 232 260 |
| Return per annum (%) from issue price | 7% | 7% | 7% | 7% | 7% | 7% | 7% |
| Bond 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 | 13 Aug 2019 | 20 Jan 2020 | 10 Aug 2020 | 16 Sept 2020 | 29 Nov 2020 | 8 March 2019 | 25 May 2019 |
| Due date to exchange bonds into shares | 13 Aug 2019 | 20 Jan 2020 | 10 Aug 2020 | 16 Sept 2020 | 29 Nov 2020 | 8 March 2019 | 25 May 2019 |

Interest cost of the period is described in Note 25.

On 22 January 2018 the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date is 20 January 2020.

On 10 August 2018 the Company prolonged the redemption date of 838 984 PKG3 convertible bonds by 2 years. New redemption date is 10 August 2020. The Company redeemed 1 200 PKG3 convertible bonds with the total issue price of 3 360 euros.

On 17 September 2018 the company prolonged the redemption date of 516 029 PKG4 convertible bonds by 2 years. New redemption date is 16 September 2020.

On 29 November 2018 the company prolonged the redemption date of 381 634 PKG5 convertible bonds by 2 years. New redemption date is 29 November 2020. The Company redeemed 2 000 PKG5 convertible bonds with the total issue price of 5 600 euros.

On 8 March 2019 the company prolonged the redemption date of 382 778 PKG6 convertible bonds by 2 years. New redemption date is 8 March 2021 (Note 29).

All other conditions for convertible bonds have remained unchanged. No bonds have been converted into shares until 31 December 2018 (Note 19).

| Number of bonds | 2018 | 2017 |
|---|---|---|
| Number of convertible bonds at the beginning of period | 3 664 721 | 3 940 884 |
| Number of redeemed bonds | -3 200 | -276 163 |
| Number of convertible bonds at the end of period | 3 661 521 | 3 664 721 |

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Value of convertible bonds at the beginning of period | 10 261 | 11 034 |
| Value of redeemed bonds | -9 | -773 |
| Value of the bonds at the end of the period | 10 252 | 10 261 |
| Current portion of liabilities at the end of the reporting period | 4 331 | 5 930 |
| Non-current portion of liabilities at the end of the reporting period | 5 921 | 4 331 |

## Non-convertible unsecured bonds and secured, callable, fixed rate bonds

On 1 August 2013 the Company issued 64 new unsecured non-convertible bonds with face value of 10 thousand euros each. Total amount of the bonds issued was 640 thousand euros, their duration is 5 years and they carry 5% annual interest. In August 2018 the Company redeemed all 64 unsecured non-convertible bonds in amount of 640 thousand euros.

On 15 April 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 thousand euros. Total amount of the bonds issued is 300 thousand euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

On 16 September 2014 the Company issued 30 new unsecured non-convertible bonds with face value of 10 thousand euros. Total amount of the bonds issued is 300 thousand euros, the bonds are unsecured, have duration of 5 years and annual interest of 5%.

As at 31 December 2018 the Company has 60 unsecured bonds with the total value of 0.6 million euros.

On 2 April 2015 the Supervisory Council of AS Pro Kapital Grupp decided to approve the issue of secured, callable, fixed rate bonds of the Company. The Management Board of the Company was authorized to issue the bonds in several tranches maximum up to 50 million euros. On 20 April 2015 the Management Board of the Company decided to announce the start of the subscription process of the first tranche of the bonds in amount of 10 – 15 million euros.

In May 2015 the Management Board of the Company decided on the allocation of the first subscription of above-mentioned bonds with issue price 7 million euros with redemption date on 1 June 2020. 70 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In July 2015 the Management Board of the Company decided on the allocation of the second subscription of the bonds at nominal value 6.4 million euros with issue price 6.5 million euros with redemption date on 1 June 2020. 64 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In February 2016 the Management Board of the Company decided on the allocation of the third subscription of the bonds at nominal value 900 thousand euros with issue price 920 thousand euros with redemption date on 1 June 2020. 9 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

In May 2016 the Management Board of the Company decided on the allocation of the fourth subscription of the bonds at nominal value 15 million euros with issue price 15.1 million euros with redemption date on 1 June 2020. 150 senior secured callable fixed rate bonds carry interest at a fixed rate of 8%.

As at 31 December 2018 the Company has issued 293 secured fixed rate bonds with the total value of 29.3 million euros. At the end of the reporting period 14 bonds were held by the Company itself and the liability on the statement of financial position has been reduced by 1.4 million euros (31 December 2017: 14 bonds with the value of 1.4 million euros). The last emission of the bonds was issued with a discount of 3%, therefor 150 bonds are accounted for at a discounted rate. The total value of secured fixed rate bonds on the statement of financial position on 31 December 2018 was 27.7 million euros (31 December 2017: 27.7 million euros).

Secured, callable, fixed rate bonds of the Company are secured with shares of all subsidiaries of the Group. On 8 July 2015 the bonds have been listed on Nasdaq Stockholm.

| Registration date of bonds issued | 15 April 2014 | 16 Sept 2014 | 27 May 2015 | 28 July 2015 | March 2016 | May 2016 |
|---|---|---|---|---|---|---|
| Number of bonds | 30 | 30 | 70 | 64 | 9 | 150 |
| Issue price per bond | 10 000 EUR | 10 000 EUR | 100 000 EUR | 100 000 EUR | 100 000 EUR | 100 000 EUR |
| Total nominal value, in euros | 300 000 | 300 000 | 7 000 000 | 6 400 000 | 900 000 | 15 000 000 |
| Return per annum (%) from issue price | 5% | 5% | 8% | 8% | 8% | 8% |
| Bond interest payment frequency | Once a year | Once a year | Twice a year | Twice a year | Twice a year | Twice a year |
| Redemption date | 23 April 2019 | 24 Sept 2019 | 1 June 2020 | 1 June 2020 | 1 June 2020 | 1 June 2020 |

| Number of bonds | 2018 | 2017 |
|---|---|---|
| Number of non-convertible bonds at the beginning of period | 124 | 124 |
| Number of non-convertible bonds redeemed | -64 | 0 |
| Number of non-convertible bonds at the end of period | 60 | 124 |

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Value of non-convertible bonds at the beginning of period | 1 240 | 1 240 |
| Value of redeemed non-convertible bonds | -640 | 0 |
| Value of the bonds at the end of the period | 600 | 1 240 |
| Current portion of liabilities at the end of the reporting period | 600 | 0 |
| Non-current portion of liabilities at the end of the reporting period | 0 | 1 240 |

| Number of bonds | 2018 | 2017 |
|---|---|---|
| Number of secured fixed rate bonds at the beginning of period | 293 | 293 |
| Number of secured fixed rate bonds issued | 0 | 0 |
| Number of secured fixed rate bonds at the end of period | 293 | 293 |

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Value of secured fixed rate bonds at the beginning of period | 29 300 | 29 300 |
| Value of secured fixed rate bonds issued | 0 | 0 |
| Value of secured fixed rate bonds issued at the end of the period | 29 300 | 29 300 |
| 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 | 29 300 | 29 300 |

# Note 18. Collaterals and pledged assets

Liabilities disclosed in Note 16 of these consolidated financial statements are pledged with the following properties:

in thousands of euros

| Beneficiary | Collateral description | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| Bank accounts | | | |
| Nordic Trustee & Agency AB (Sweden) | Nordea Bank AB | 37 | 374 |
| Lintgen Adjacent Investments S.A.R.L. | Swedbank AS | 919 | N/A |
| Inventories (Note 10) | | | |
| Luminor Bank AS (Nordea Bank AB) | Sõjakooli St 12, 12a, 12b, 12c, Tallinn | 3 176 | 5 612 |
| Luminor Bank AS (Nordea Bank AB) | Sammu St 6, 6a, 6b, Tallinn | 2 807 | 2 355 |
| Luminor Bank AS (Nordea Bank AB) | Marsi 6, Tallinn | N/A | 2 653 |
| LHV Pank AS | Kalaranna St 5, 7, 8, 22, Tallinn | 15 681 | N/A |
| AB Luminor Bankas (Lithuania) | Aguonu 8 & 10, Vilnius | 12 916 | N/A |
| AS Swedbanka (Latvia) | Trijadibas St 5, Riga | 25 956 | 27 701 |
| Property, plant and equipment (Note 11) | | | |
| Luminor Bank AS (Nordea Bank AB) | Sõjakooli 11, Tallinn | 730 | 732 |
| Investment property (Note 12) | | | |
| Lintgen Adjacent Investments S.A.R.L. | Peterburi 2, Tallinn | 129 200 | 59 450 |

AS Pro Kapital Grupp has pledged in favour of Nordic Trustee & Agency AB the shares of all subsidiaries of the Group. The pledges have been set to guarantee non-convertible bonds issued in 2015 and 2016 in total amount of 29.3 million euros. The total value of pledged shares is 63 million euros. In addition to share pledges, the Parent's bank accounts held with Nordea Bank AB (Luminor) in Sweden are pledged. The balance of cash in Nordea (Luminor) bank pledged accounts was 37 thousand euros on 31 December 2018.

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 0.9 million 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 1 million euros and with termination date of 21 November 2021.

# Note 19. 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 2018 and on 31 December 2017 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 2017, the minimum share capital amounts to 6.0 million euros, whereas maximum share capital amounts to 24.0 million euros.

As described in Note 17 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 2018 amounted to 1.1 million euros (2017: 1.1 million euros).

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 11). According to IAS 8.17 principle, revaluation surplus is recorded prospectively and gains are included into comprehensive income. Revaluation surplus as at 31 December 2018 is 3.3 million euros (2017: 3.3 million euros). Increase in amount of 6 thousand euros resulted from adjustment of deferred tax related to German hotel.

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

# Note 20. Non-controlling interest

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Arising from AS Pro Kapital Eesti subgroup | 2 624 | 1 395 |
| Total | 2 624 | 1 395 |

At the end of 2017 and in 2018 the Group had only one subsidiary with non-controlling interests - AS Tallinna Moekombinaat in Estonia.

| | AS Tallinna Moekombinaat |
|---|---|
| Principal place of business | Estonia |
| Non-controlling interest as at 31.12.2016 | 8.05% |
| Purchase of minority shareholding | -1.40% |
| Non-controlling interest as at 31.12.2017 | 6.65% |
| Non-controlling interest as at 31.12.2018 | 6.65% |

| Summarised financial information | AS Tallinna Moekombinaat | |
|---|---|---|
| in thousands of euros | 31.12.2018 | 31.12.2017 |
| Current assets | 4 047 | 2 919 |
| Non-current assets | 129 466 | 59 456 |
| Current liabilities | 6 550 | 3 884 |
| Non-current liabilities | 89 579 | 38 065 |
| Equity attributable to owners | 37 384 | 20 426 |
| *including non-controlling interest* | *2 624* | *1 395* |

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Operating profit/ loss | 17 678 | -728 |
| Profit/ loss before tax | 16 958 | -1 369 |
| | | |
| Profit/loss for the year | 16 958 | -1 369 |
| Attributable to: | | |
| Owners of the Company | 15 729 | -1 270 |
| Non-controlling interest | 1 229 | -99 |
| | | |
| Total comprehensive income/ loss for the year | 16 958 | -1 369 |
| Attributable to: | | |
| Owners of the Company | 15 729 | -1 270 |
| Non-controlling interest | 1 229 | -99 |

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Net cash flows used in/ generated by operating activities | -791 | 1 088 |
| Net cash flows used in investing activities | -45 225 | -23 892 |
| Net cash flows generated by financing activities | 48 240 | 22 790 |
| Net change in cash and cash equivalents | 2 224 | -14 |

On 24 January 2017 Pro Kapital group company AS Pro Kapital Eesti concluded the contract for purchase of minority shareholding of its subsidiary AS Tallinna Moekombinaat in amount of 300 000 of the A-shares of AS Tallinna Moekombinaat for 480 thousand euros, which represents 1.40 % of all AS Tallinna Moekombinaat shares. After acquisition AS Pro Kapital Eesti holds 93.35% of AS Tallinna Moekombinaat shares.

# Note 21. Revenue

| Segment revenue (Note 6) in thousands of euros | Total 2018 | Continuing operations 2017 | Discontinued operations 2017 | Total 2017 |
|---|---|---|---|---|
| Revenue from contracts with customers | | | | |
| Revenue from sale of real estate | 21 453 | 6 621 | 0 | 6 621 |
| Hotel operating revenue | 3 935 | 3 533 | 2 021 | 5 554 |
| Revenue from maintenance and other services | 1 145 | 1 748 | 0 | 1 748 |
| Total revenue from contracts with customers | 26 533 | 11 902 | 2 021 | 13 923 |
| | | | | |
| Rental income | 1 458 | 175 | 0 | 175 |
| Total | 27 991 | 12 077 | 2 021 | 14 098 |

| Timing of revenue recognition in thousands of euros | Total 2018 | Continuing operations 2017 | Discontinued operations 2017 | Total 2017 |
|---|---|---|---|---|
| At a point in time | | | | |
| Revenue from sale of real estate | 21 453 | 6 621 | 0 | 6 621 |
| Hotel operating revenue | 3 935 | 3 533 | 2 021 | 5 554 |
| Revenue from other services | 351 | 28 | 0 | 28 |
| Total revenue recognised at a point in time | 25 739 | 10 182 | 2 021 | 12 203 |
| | | | | |
| Over time | | | | |
| Revenue from maintenance fees | 794 | 1 720 | 0 | 1 720 |
| Total revenue recognised over time | 794 | 1 720 | 0 | 1 720 |
| | | | | |
| Rental income | 1 458 | 175 | 0 | 175 |
| Total | 27 991 | 12 077 | 2 021 | 14 098 |

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 decreased by 1.5 million euros compared to the last year and amounted to 5.7 million euros at the end of the reporting period. During the reporting period customer advances in amount of 3.8 million euros were recorded as revenues from sale of real estate.

Signed for identification purposes:
AS Deloitte Audit Eesti



# Note 22. Cost of sales

| Split by activities<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Cost of real estate sold | 14 021 | 3 303 | 0 | 3 303 |
| Cost of providing rental services | 782 | 182 | 0 | 182 |
| Cost of hotel operations | 2 889 | 2 516 | 1 202 | 3 718 |
| Cost of maintenance and other services | 723 | 1 515 | 0 | 1 515 |
| Total | 18 415 | 7 516 | 1 202 | 8 718 |

| Split by type<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Personnel expenses | 951 | 1 069 | 210 | 1 279 |
| Depreciation charge | 135 | 131 | 208 | 339 |
| Other | 17 329 | 6 316 | 784 | 7 100 |
| *Incl cost of real estate sold* | *13 710* | *3 129* | *0* | *3 129* |
| *Incl maintenance services purchased* | *1 590* | *1 317* | *150* | *1 467* |
| *Incl supplies costs* | *1 410* | *470* | *33* | *503* |
| *Incl commissions and service fees* | *306* | *248* | *97* | *345* |
| *Incl other* | *313* | *1 152* | *504* | *1 656* |
| Total | 18 415 | 7 516 | 1 202 | 8 718 |

# Note 23. Marketing and administration expenses

| Marketing expenses<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Personnel expenses | 328 | 247 | 28 | 275 |
| Other | 1 008 | 575 | 27 | 602 |
| Total | 1 336 | 822 | 55 | 877 |

Sales and marketing costs have increased significantly in 2018 due to higher number of completed real estate during the reporting period, including completion and opening of T1 Mall of Tallinn shopping centre in Tallinn.

| Administration expenses<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Personnel expenses | 2 814 | 2 593 | 80 | 2 673 |
| Depreciation charge | 63 | 95 | 10 | 105 |
| Amortisation charge | 0 | 2 | 0 | 2 |
| Land and real estate taxes | 450 | 488 | 0 | 488 |
| Other | 2 100 | 2 078 | 115 | 2 193 |
| Total | 5 427 | 5 256 | 205 | 5 461 |

In 2018, average number of employees in the Group was 88 (2017: 107) and total personnel cost (included in direct, marketing and administrative costs) 2018 was 4.09 million euros compared to 4.22 million euros in 2017.

# Note 24. Other operating income and expenses

| Other income<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Fines collected | 348 | 200 | 0 | 200 |
| Profit from sale of investment property (Note 12) | 418 | 0 | 0 | 0 |
| Profit from sales of property, plant and equipment | 4 | 3 045 | 0 | 3 045 |
| Other gain from property, plant and equipment | 0 | 26 | 0 | 26 |
| Net gain from fair value adjustments | 18 008 | 530 | 0 | 530 |
| *from property, plant and equipment* (Note 11) | *13* | *0* | *0* | *0* |
| *from investment property* (Note 12) | *17 995* | *530* | *0* | *530* |
| Other | 61 | 313 | 33 | 346 |
| Total | 18 839 | 4 114 | 33 | 4 147 |

In 2018 main fair value adjustment came from T1 Mall of Tallinn due to completion of construction works and start of operations. Kalaranna and Tondi properties value increased due to changes in inputs for valuation assumptions.

| Other expenses<br>in thousands of euros | Total<br>2018 | Continuing operations<br>2017 | Discontinued operations<br>2017 | Total<br>2017 |
|---|---|---|---|---|
| Fines and penalties paid | 92 | 17 | 0 | 17 |
| Loss from disposal of hotel business | 0 | 346 | 0 | 346 |
| Other | 77 | 437 | 3 | 440 |
| Total | 169 | 800 | 3 | 803 |

# Note 25. Finance income and cost

| Finance income | Total | Continuing operations | Discontinued operations | Total |
|---|---|---|---|---|
| in thousands of euros | 2018 | 2017 | 2017 | 2017 |
| Interest income | 4 | 6 | 0 | 6 |
| Total | 4 | 6 | 0 | 6 |

| Finance cost | Total | Continuing operations | Discontinued operations | Total |
|---|---|---|---|---|
| in thousands of euros | 2018 | 2017 | 2017 | 2017 |
| Interest expenses: | 3 260 | 3 148 | 114 | 3 262 |
| *Interest expenses of the bonds* | *3 130* | *3 077* | *0* | *3 077* |
| *Interest expenses of loans and overdrafts* | *130* | *71* | *114* | *185* |
| Other financial expenses | 213 | 204 | 0 | 204 |
| Total | 3 473 | 3 352 | 114 | 3 466 |

Bond interest conditions are described in Note 17, bank loans in Note 16. Interests on financing from Lintgen Adjacent Investments for T1 Mall of Tallinn project are capitalised and recorded as part of investment property and therefor have not influenced current interest expenses from loans (Note 12).

# Note 26. Income tax

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.

| Rates of statutory corporate income tax | 2018 | 2017 |
|---|---|---|
| Estonia | 20% | 20% |
| Latvia | 20% | 15% |
| Lithuania | 15% | 15% |
| Germany | 15% | 15% |

According to current Income Tax Act in Estonia and Latvia (took effect from 1 January 2018) net profit is not taxed until distribution.

Signed for identification purposes:
AS Deloitte Audit Eesti

PROKAPITAL

## Income tax expense in unconsolidated reports

| in thousands of euros 2017 | Estonia | Latvia | Lithuania | Germany | Total |
|---|---|---|---|---|---|
| Profit/ loss before taxation (unconsolidated) | -1 124 | 4 606 | 1 289 | -171 | 4 600 |
| Income tax, statutory rate | 0 | 691 | 193 | 0 | 884 |
| Non-deductible expenses | 0 | 38 | 4 | 0 | 42 |
| Non-taxable income and tax incentive | 0 | -858 | -240 | 0 | -1 098 |
| Tax loss utilised | 0 | -10 | 0 | 0 | -10 |
| Reversals | 0 | 175 | 69 | 0 | 244 |
| Total income tax expense | 0 | 36 | 26 | 0 | 62 |
| Effective income tax rate | 0% | 1% | 2% | 0% | 1% |

| in thousands of euros 2018 | Estonia | Latvia | Lithuania | Germany | Total |
|---|---|---|---|---|---|
| Profit/ loss before taxation (unconsolidated) | 20 858 | -696 | 404 | 77 | 20 643 |
| Income tax, statutory rate | 0 | 3 | 62 | 0 | 65 |
| Non-deductible expenses | 0 | 0 | 2 | 0 | 2 |
| Non-taxable income and tax incentive | 0 | 0 | -69 | 0 | -69 |
| Tax loss utilised | 0 | 0 | -14 | 0 | -14 |
| Reversals | 0 | 0 | 28 | 0 | 28 |
| Total income tax expense | 0 | 36 | 26 | 0 | 12 |
| Effective income tax rate | 0% | 1% | 2% | 0% | 1% |

## Income tax expense in consolidated report

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Profit/ loss before income tax | 21 041 | -1 075 |
| Estimated income tax respective to the tax rates | -54 | 265 |
| | | |
| Adjustments to estimated income tax: | | |
| Income tax, statutory rate | 65 | 0 |
| Non-deductible expenses (+) | 2 | 42 |
| Non-taxable income and tax incentive | -69 | -1 098 |
| Tax loss utilised | -14 | -10 |
| Reversal loss carry forward (+) | 28 | 244 |
| Income tax expense | -42 | -557 |
| Including tax expense in continuing operations | -42 | -596 |
| Including tax expense in discontinued operations | 0 | 39 |
| Effective tax rate | N/A | N/A |
| | | |
| Income tax expense | 12 | 62 |
| Deferred income tax expense | -54 | -619 |
| Total effect on income statement | -42 | -557 |
| | | |
| Income tax paid | 33 | 423 |

### 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 |
|---|---|---|---|---|---|
| 1.01.2017 | 142 | -30 | 4 017 | -769 | 3 360 |
| Effect on income statement: | | | | | |
| Income tax expenses of the reporting period | -16 | 1 661 | -3 033 | 769 | -619 |
| Effect on equity: | -126 | 0 | -557 | 0 | -683 |
| 31.12.2017 | 0 | 1 631 | 427 | 0 | 2 058 |
| Effect on income statement: | | | | | |
| Income tax expenses and reclaims of the reporting period | 0 | -57 | 3 | 0 | -54 |
| 31.12.2018 | 0 | 1 574 | 430 | 0 | 2 004 |

### Deferred income tax balances

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Deferred income tax liability (+) | 2 004 | 2 058 |
| Total, net | 2 004 | 2 058 |

### 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 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Group’s retained earnings | 76 771 | 59 950 |
| Estonian tax rate applicable | 20% | 20% |
| Contingent CIT obligation | 15 354 | 11 990 |
| Maximum net dividend | 61 417 | 47 960 |

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 2018 and 31 December 2017.

The Parent has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in the Republic of Latvia. As at 31 December 2018 the Parent has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44.2 million euros (31 December 2017: 45.1 million euros). The difference of 0.9 million euros results from distribution of the Parent’s dividend in January 2018. The Parent has also the potential opportunity to distribute paid in capital in the total amount of 78.4 million euros without income tax applied. The total maximum possible income tax free amount that could be considered as contingent asset and could be paid as net dividends is 30.7 million euros.

# Note 27. 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 | 01.01.2018-31.12.2018 | (56 687 954 x 365/365) | =56 687 954 |
| For the period | 01.01.2017-31.12.2017 | (54 271 722* 292/365+56 687 954*73/365) | =54 754 968 |

### Indicative earnings per share from continuing operations:

| | |
|---|---|
| 2018 | 16 827 thousand euros/ 56 687 954 = 0.30 euros |
| 2017 | -854 thousand euros/ 54 754 968 = -0.02 euros |

### Indicative earnings per share for the period including discontinued operations:

| | |
|---|---|
| 2017 | -419 thousand euros/ 54 754 968 = -0.01 euros |

The convertible bonds issued by the Company did not have a dilutive effect on earnings in 2018 and 2017, therefore 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 28. 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 | 2018 | 2017 |
|---|---|---|
| Significant owners and owner related companies | | |
| Sales of goods/ services | 62 | 69 |
| Purchase of goods/ services | 8 | 7 |
| Purchase of minority shares | 0 | 480 |
| Payment for minority shares | 0 | 480 |
| Purchase of real estate | 1 978 | 0 |
| Payments for real estate | 1 776 | 0 |
| Dividend payment | 851 | 0 |
| Minority shareholders | | |
| Interest expenses incurred | 37 | 37 |
| Other shareholders/ bondholders | | |
| Interest expenses incurred | 718 | 797 |
| Redemption of convertible bonds | 9 | 733 |
| Redemption of non-convertible bonds | 640 | 0 |
| Interest payments | 718 | 825 |
| Members of the Management Board and Council | | |
| Salaries and bonuses paid to management | 974 | 802 |
| Purchase of goods/ services | 18 | 7 |

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.

Pro Kapital Vilnius Real Estate UAB purchased 12 flats and 7 parking lots at a competitive price for further resale from Colosseum Real Estate Vilnius UAB. Payments for purchased real estate are made after every sale transaction. At the end of reporting period, total of 2 flats and 3 parking lots were available for sale.

Receivables from related parties

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Short-term receivables | | |
| Receivables from related parties (Note 9) | 2 | 2 |
| Total | 2 | 2 |

Receivables from related parties consist of trade receivables.

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 at rates comparable to the average commercial rate of interest. The loans to related parties had no collaterals.

Payables to related parties

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Short-term payables | | |
| Dividends payable to shareholders (Note 14) | 0 | 851 |
| Long-term payables | | |
| To significant owner related company | 203 | 0 |
| To minority shareholders | 474 | 437 |
| Total | 677 | 1 288 |

Long-term payables include loan and interest balances owed to minority shareholders of AS Tallinna Moekombinaat. The balance on 31 December 2018 consists of 308 thousand euros loan amounts and accumulated interests in amount 166 thousand euros. Loans and interests will be due in 2029.

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

| Holdings in the Parent | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Significant owner and owner related companies | 37.97% | 39.55% |
| Members of the Council and individuals related them | 0.10% | 0.10% |
| Members of the Board and individuals related them | 0.50% | 0.50% |

# Note 29. Subsequent events

- On 31 January 2019 the Company informed about changes in the Management Board and Supervisory Council of its subsidiaries. Ervin Nurmela was recalled from the Management Board member position of AS Tallinna Moekombinaat and from the Supervisory Council member position of AS Tondi Kvartal. Allan Remmelkoor was elected as the new Supervisory Council member of AS Tondi Kvartal. Allan Remmelkoor was recalled from the Management Board member position of AS Tondi Kvartal and Ervin Nurmela was elected as the new Management Board of AS Tondi Kvartal. CEO of AS Pro Kapital Grupp Paolo Michelozzi said that Allan Remmelkoor continues to work with the T1 Mall of Tallinn and in preparations for potential new shopping mall developments. Ervin Nurmela focuses on the large-scale development projects of Kristiine City and Kalaranna Kvartal residential and commercial area in Tallinn, Estonia.
- On 8 March 2019 the Company prolonged the redemption date of 382 778 PKG6 convertible bonds by 2 years. New redemption date is 8 March 2021 (Note 17).
- On 13 March 2019 the Company announced about the decision of the Supervisory Council of Pro Kapital to re-elect member of the Management Board of Pro Kapital, Edoardo Axel Preatoni until 31 December 2021.

# Note 30. 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 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Cash and bank balances | 7 040 | 10 317 |
| Current receivables | 2 928 | 4 888 |
| Non-current receivables | 216 | 37 |
| Total | 10 184 | 15 242 |

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

Financial liabilities

| in thousands of euros | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Current debt | 10 328 | 6 738 |
| Current payables | 11 939 | 10 091 |
| Non-current debt | 112 009 | 62 527 |
| Non-current payables | 1 039 | 3 437 |
| Total | 135 315 | 82 793 |

Financial liabilities include bank 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 bank 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 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Fixed rate liabilities | 109 196 | 62 239 |
| Variable rate liabilities (1-12 months) | 5 393 | 168 |
| Variable rate liabilities (12+ months) | 7 748 | 6 968 |

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 131 thousand euros (71 thousand euros in 2017) and net profit would decrease by 131 thousand euros (71 thousand euros in 2017).

Cash in banks also bear interest risk, especially due to negative rates and possible flooring. As at 31 December 2018 the Group had 7.0 million euros on bank accounts (31 December 2017: 10.3 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.

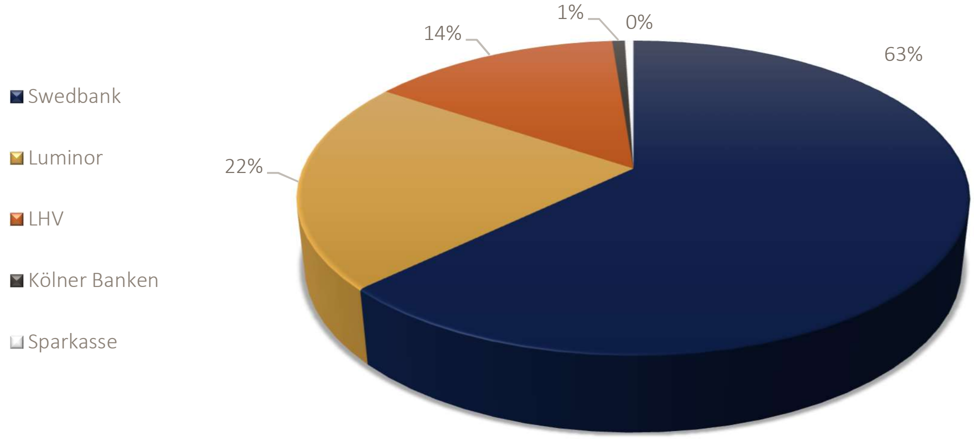
Credit risk

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 financed 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. It does rarely 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.

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.

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: Swedbank, Luminor, LHV, SEB, Kölner Banken and Sparkasse. Cash on accounts in the banks as at 31 December 2018 is 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 forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. As at 31 December 2018 the working capital of the Group's is positive and the current assets portion of short-term liabilities is 2.4 (as at 31 December 2017: 2.2).

Financial liabilities of the Group by due dates:

| | | Repayment of liabilities | | | | Repayment of liabilities | | |
|---|---|---|---|---|---|---|---|---|
| in thousands of euros | 31.12.2018 | Within 1 year | Within 2-5 years | After 5 years | 31.12.2017 | Within 1 year | Within 2-5 years | After 5 years |
| Bank loans | 105 341 | 13 118 | 92 223 | 0 | 35 545 | 412 | 35 133 | 0 |
| Other loans | 1 029 | 0 | 0 | 1 029 | 862 | 0 | 0 | 862 |
| Convertible bonds | 11 424 | 5 258 | 6 166 | 0 | 11 432 | 6 719 | 4 713 | 0 |
| Non-convertibles | 646 | 646 | 0 | 0 | 1 368 | 722 | 646 | 0 |
| Secured bonds | 31 263 | 2 427 | 28 836 | 0 | 35 526 | 2 232 | 33 294 | 0 |
| Trade payables | 11 350 | 11 350 | 0 | 0 | 9 481 | 9 481 | 0 | 0 |
| Other debt | 10 102 | 6 920 | 3 182 | 0 | 13 010 | 7 416 | 5 594 | 0 |
| Total | 171 155 | 39 719 | 130 407 | 1 029 | 107 224 | 26 982 | 79 380 | 862 |

Financial liabilities carrying interests include accumulated interest amounts until repayment.

Short-term liabilities of the Group (loans and bonds) by due dates:

| | | Repayment of liabilities | | | | Repayment of liabilities | | |
|---|---|---|---|---|---|---|---|---|
| in thousands of euros | 31.12.2018 | Within 1 month | 2-3 months | 4-12 months | 31.12.2017 | Within 1 month | 2-3 months | 4-12 months |
| Bank loans | 13 118 | 52 | 1 820 | 11 246 | 412 | 23 | 46 | 343 |
| Convertible bonds | 5 258 | 61 | 1 079 | 4 118 | 6 719 | 1 421 | 0 | 5 298 |
| Non-convertible bonds | 646 | 3 | 0 | 643 | 722 | 62 | 0 | 660 |
| Secured bonds | 2 427 | 0 | 0 | 2 427 | 2 232 | 0 | 0 | 2 232 |
| **Total** | **21 449** | **116** | **2 899** | **18 434** | **10 085** | **1 506** | **46** | **8 533** |

Financial liabilities carrying interests include accumulated interest amounts until repayment.

### *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.

The global financial crisis and the accompanying economic crisis ten years ago affected negatively development of the real estate as well as the tourism sector. Today economy is growing in spite of occasional pessimistic sentiment and the Group strives to take advantage of the positive trend. 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 which could occur with another crisis, the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which could 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 the gain from development activities, property management services and operating hotels. Changes in financial markets could 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 2018:

| | | Allocation by due dates | | |
|---|---|---|---|---|
| in thousands of euros | Carrying amount | Within 1 year | 2-5 years | More than 5 years |
| Investment property (Note 12) | 168 145 | 0 | 0 | 168 145 |
| Property, plant and equipment (Note 11) | 7 128 | 0 | 0 | 7 128 |
| Inventories (assets held for sale) (Note 10) | 59 331 | 16 666 | 42 665 | 0 |
| Current debt (Note 13) | 10 328 | 10 328 | 0 | 0 |
| Non-current debt (Note 15) | 112 009 | 0 | 111 535 | 474 |

In 2018 the net result from revaluation of investment property was 18.0 million euros (2017: 530 thousand euros). Interest expense on financial debt accounted for in profit and loss statement was 3.5 million euros (2017: 3.3 million euros). Capitalised interest expense constituted 4.1 million euros in 2018 (2017: 0.9 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.

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Equity to total assets | 41.10% | 47.20% |
| Debt to total assets | 58.90% | 52.80% |
| Long-term debt level | 47.00% | 38.89% |

The Group pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to the industry standards. 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 32 to these consolidated financial statements, the Parent has been in compliance with such an equity restriction as at 31 December 2018 and 31 December 2017.

# Note 31. 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.

In the opinion of the Management Board AS Pro Kapital Grupp and its subsidiaries did not have at the end of the reporting period any pending court litigation which might have financial effect of at least 100 000 euros.

# Note 32. 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 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 690 | 2 715 |
| Current receivables | 5 682 | 2 669 |
| **Total current assets** | **6 372** | **5 384** |
| Non-current assets | | |
| Investments in subsidiaries | 29 165 | 29 165 |
| Non-current receivables | 22 126 | 21 355 |
| Intangible assets | 20 | 25 |
| **Total non-current assets** | **51 311** | **50 545** |
| **TOTAL ASSETS** | **57 683** | **55 929** |
| | | |
| LIABILITIES AND EQUITY | | |
| Current liabilities | | |
| Current debt | 33 255 | 6 571 |
| Current payables | 905 | 26 005 |
| Tax liabilities | 55 | 60 |
| Short-term provisions | 36 | 1 576 |
| **Total current liabilities** | **34 252** | **34 212** |
| Non-current liabilities | | |
| Long-term debt | 33 565 | 32 592 |
| Non-current payables | 48 929 | 44 844 |
| Other non-current payables | 33 | 45 |
| **Total non-current liabilities** | **82 527** | **77 481** |
| **Total liabilities** | **116 779** | **111 693** |
| | | |
| Equity | | |
| Share capital in nominal value | 11 338 | 11 338 |
| Share premium | 5 661 | 5 661 |
| Statutory reserve | 1 082 | 1 082 |
| Accumulated losses | -77 177 | -73 845 |
| **Total equity** | **-59 096** | **-55 764** |
| | | |
| **TOTAL LIABILITIES AND EQUITY** | **57 683** | **55 929** |

Signed for identification purposes:
AS Deloitte Audit Eesti



## Statement of income

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| Operating income | | |
| Revenue | 705 | 607 |
| Gross profit | 705 | 607 |
| Marketing expenses | -11 | -17 |
| Administration expenses | -2 285 | -2 061 |
| Other operating income | 0 | 0 |
| Other operating expenses | -1 | 0 |
| Operating loss | -1 592 | -1 471 |
| Finance income and cost | | |
| Income from investments into subsidiaries | 3 025 | 0 |
| Interest income | 710 | 737 |
| Interest expense | -5 462 | -5 346 |
| Other finance income and cost | -13 | -25 |
| Loss for the year | -3 332 | -6 105 |

## Statement of changes in equity

| in thousands of euros | Share capital | Share premium | Statutory reserve | Retained earnings | Loss for the year | Total equity |
|---|---|---|---|---|---|---|
| 01.01.2017 | 10 854 | 1 816 | 1 082 | -60 670 | -6 220 | -53 138 |
| Increase of share capital | 484 | 3 845 | 0 | 0 | 0 | 4 329 |
| Distribution of dividends | 0 | 0 | 0 | -850 | 0 | -850 |
| Allocation of net loss | 0 | 0 | 0 | -6 220 | 6 220 | 0 |
| Result of the financial year | 0 | 0 | 0 | 0 | -6 105 | -6 105 |
| 31.12.2017 | 11 338 | 5 661 | 1 082 | -67 740 | -6 105 | -55 764 |
| 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 | 167 611 |
| Adjusted unconsolidated equity 31.12.2017 | X | X | X | X | X | 82 682 |
| Allocation of net loss | 0 | 0 | 0 | -6 105 | 6 105 | 0 |
| Result of the financial year | 0 | 0 | 0 | 0 | -3 333 | -3 333 |
| 31.12.2018 | 11 338 | 5 661 | 1 082 | -73 845 | -3 333 | -59 097 |
| 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 | 186 899 |
| Adjusted unconsolidated equity 31.12.2018 | X | X | X | X | X | 98 637 |

## Statement of cash flows

| in thousands of euros | 2018 | 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year | -3 332 | -6 105 |
| Adjustments for: | | |
| Amortisation of intangible assets | 5 | 2 |
| Finance income from subsidiary | -3 025 | 0 |
| Finance income and costs | 4 766 | 4 634 |
| Other non-monetary changes | -124 | 0 |
| Change in receivables and prepayments | 12 | 131 |
| Change in liabilities and prepayments | 229 | 42 |
| **Cash flow used in operating activities** | **-1 469** | **-1 296** |
| | | |
| **Cash flows from investing activities** | | |
| Payments for intangible assets | 0 | -25 |
| Loans granted | -2 550 | -1 970 |
| Repayments of loans granted | 2 350 | 3 338 |
| Interest received | 127 | 272 |
| Payments into share capital of subsidiaries | 0 | -769 |
| **Cash flows used in/ generated by investing activities** | **-73** | **846** |
| | | |
| **Cash flows from financing activities** | | |
| Share capital raised | 0 | 483 |
| Share premium raised | 0 | 3 846 |
| Proceeds from bonds | 0 | 1 443 |
| Convertible bonds redeemed | -9 | -773 |
| Non-convertible bonds redeemed | -640 | 0 |
| Proceeds from borrowings | 4 170 | 672 |
| Repayments of borrowings | -82 | -417 |
| Interests paid | -3 072 | -2 981 |
| **Cash flows generated by financing activities** | **-483** | **2 273** |
| | | |
| **Net change in cash and cash equivalents** | **-2 025** | **1 823** |
| | | |
| Cash and cash equivalents at the beginning of the year | 2 715 | 892 |
| Cash and cash equivalents at the end of the year | 690 | 2 715 |

# Signatures of the Management Board and Supervisory Council to the consolidated annual report 2018

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2018.

Paolo Michelozzi

Chairman of the Management Board ______ 29 April 2019

Allan Remmelkoor

Member of the Management Board ______ 29 April 2019

Edoardo Preatoni

Member of the Management Board ______ 29 April 2019

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 — 29 April 2019

Chairman of the Supervisory Council

Pertti Huuskonen — 29 April 2019

Member of the Supervisory Council

Petri Olkinuora — 29 April 2019

Member of the Supervisory Council

AS Deloitte Audit Eesti
Roosikrantsi 2
10119 Tallinn
Estonia

Tel: +372 640 6500
Fax: +372 640 6503
www.deloitte.ee

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

**Opinion**

We have audited the consolidated financial statements of AS Pro Kapital Grupp and its subsidiaries (hereafter "the Group") set out on pages 87 to 161, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of 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, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards (IFRSs) as adopted by the European Commission.

**Basis for Opinion**

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 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.

| **Key Audit Matter**<br><br>**Valuation of investment property** | **How our audit addressed the key audit matter** |
|---|---|
| As at 31 December 2018 the carrying value of investment properties amounted to 168 145 thousand EUR and the fair value adjustment recorded in comprehensive income for the year in respect of investment properties was 17 995 thousand EUR profit. Significant judgment is required by management in determining the fair value of investment property.<br><br>The Group's investment properties comprise various categories of properties, the most significant being properties held for lease and land plots for future development. The Group uses an independent appraiser to determine the | Our audit procedures included:<br>• We assessed the competence, capabilities and objectivity of management's independent appraiser.<br>• We discussed the scope of the work of the independent appraiser with management and reviewed his terms of engagement to determine that there were no matters that affected appraiser's objectivity or imposed scope limitations upon him. |

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><th>Valuation of investment property</th><th></th></tr>
<tr><td>fair values for all of the properties held in these categories.<br><br>The inputs and assumptions with the most significant impact on these valuations are disclosed in Note 12, and include timing and costs of the potential developments, future rental and sales prices, timing of the revenue as well as the management’s ability to realize those assumptions in Group’s operations.<br><br>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 judgment associated with determining the fair value.</td><td>• With the support of our valuation specialists we evaluated management’s judgments and independent valuation result, in particular:<br>• The models used; and<br>• The significant assumptions including discount rates, related revenue and construction costs and the timing of development plans.<br><br>We compared the assumptions used to market data and historical financial information.<br><br>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.<br><br>Furthermore, we selected a sample and tested data inputs underpinning the investment property valuation, to assess the accuracy, reliability and completeness thereof.<br><br>We also assessed the appropriateness of the consolidated financial statements disclosures concerning those key management assumptions and pertaining to the investment property as such.</td></tr>
</table>

**Other Information**

Management is responsible for the other information. The other information comprises the Corporate profile and the Management report 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 Accounting Act and 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 skepticism 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.

***Other reporting obligations as required by Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public interest entities***

***Appointment of the Auditor***
We were appointed as the statutory auditor by the Group's Shareholder's General Meeting on 26 June 2018. The length of our total uninterrupted engagement including previous renewals of the engagement and our reappointments as the statutory auditors is 19 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 29 March 2019.

***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.

29 April 2019

Erki Usin
Certified Auditor No. 496
AS Deloitte Audit Eesti
License No. 27

# Profit allocation proposal

The Management Board of AS Pro Kapital Grupp proposes to allocate the net profit of the year ended at 31 December 2018 in amount of 16 827 thousand euros to retained earnings.