

AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2019

PROKAPITAL

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End of the financial year	31 December 2019
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Fields of business activity	Activities of holding companies Purchase and sales of real estate Rent and operation of real estate Management of real estate Hotel operations
Auditor	AS Deloitte Audit Eesti

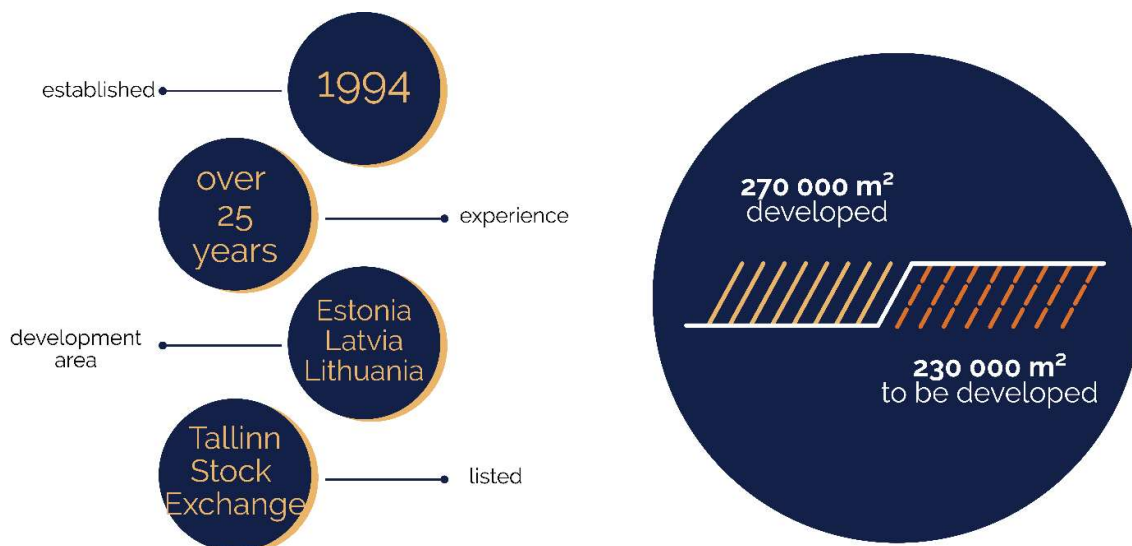


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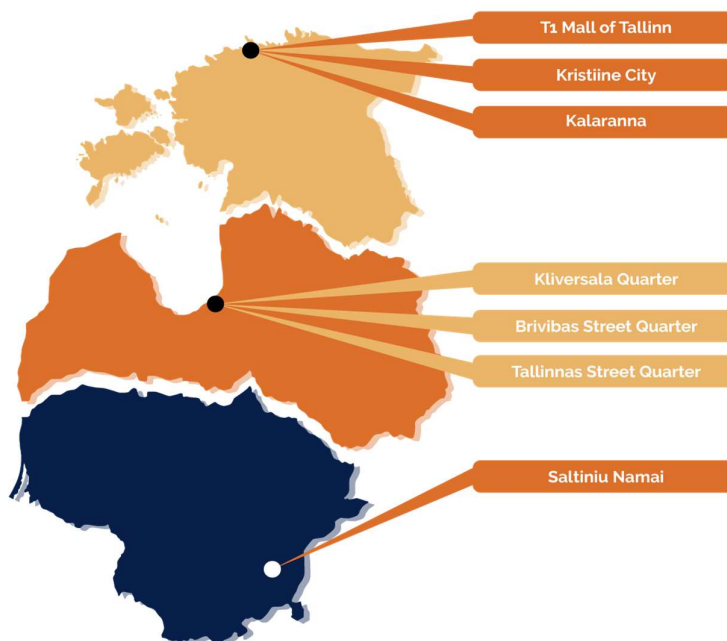
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About the Company



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

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



In Tallinn:

- 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.
- Kristiine City residential area is being developed in stages and will considerably increase the value of the entire region.
- Development of Kalaranna residential and commercial premises, which is located at the border of the sea and the old town, will turn this district into a unique and exclusive environment by opening the seaside area both for the urban population as well as the visitors of the city.

In Riga:

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

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

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



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

Our vision and mission

Vision

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

Mission

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

Our values



QUALITY

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



CUSTOMER RELATIONSHIP

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



CHOICE

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



COHERENCE

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

Results for 2019

Key financials

Consolidated Statement of Income

in thousands of euros	2019	2018	Change
Revenue	55 276	27 991	97%
Gross profit	15 809	9 576	65%
EBITDA	-14 779	21 697	-168%
Operating result	-15 178	21 483	-171%
EBT	-29 193	18 014	-262%
Net result	-29 172	18 056	-262%
Net result for shareholders	-26 981	16 827	-260%
Gross profit margin	28.6%	34.2%	
EBITDA margin	-26.7%	77.5%	
Operating margin	-27.5%	76.7%	
EBT margin	-52.8%	64.4%	
Net margin	-52.8%	64.5%	
Net margin to shareholders	-48.8%	60.1%	
Earnings per share (EPS)	-0.48	0.30	
Share closing price (Nasdaq Tallinn)	1.39	1.63	
P/E ratio	-2.92	5.49	

The total revenue increased by 27.3 million euros (97%) in 2019 comparing to previous period. Gross profit margin of the Company decreased by 5.6% (variance of 16.4%) due to lower profit margin in the real estate segment – completed projects have different profitability, which is related to the product type. However, Gross profit of 15.8 million euros increased by 65% in 2019. The main reason is increase in sale of residential real estate and rental income from T1 Mall of Tallinn.

Although the main operations of the company have generated extraordinary results, the operating result is negative as it includes loss from revaluation of investment properties. The total impact from revaluation is 24.2 million euros, most of it related to devaluation of T1 property due to lower results comparing to initial expectations. If revaluation effect is excluded, the operating result has increased by 2.6 times resulting in 9.1 million euros comparing to 3.5 million euros in 2018. Operating expenses (excluding revaluation effect) have increased by 11%, totalling to 6.8 million euros in 2019 (2018: 6.1 million euros). Marketing expenses decreased by 46% and administration expenses increased by 11% comparing to 2018.

Consolidated Statement of Financial Position

in thousands of euros	31.12.2019	31.12.2018
Total Assets	210 821	245 112
Current Assets	53 122	69 299
Non-Current Assets	157 699	175 813
Total Liabilities	139 255	144 374
Current Liabilities	125 896	29 183
Non-Current Liabilities	13 359	115 191
Equity	71 566	100 738

Current assets have decreased due to good sales in real estate segment, non-current assets are mostly affected by the devaluation of T1 Mall of Tallinn shopping centre in Estonia. Total liabilities have decreased due to changes in customer advances and current payables as many real estate developments were completed in 2019, while the increase of 75.4 million euros has occurred due to reclassifying long-term loan liability related to T1 Mall of Tallinn into short-term liability.

Consolidated Statement of cash flows

in thousands of euros	2019	2018
Cash flows from operating activities	20 413	-1 048
Cash flows from investing activities	-4 145	-46 676
Cash flows from financing activities	-12 692	44 447
Net change in cash and cash equivalents	3 576	-3 277

In 2019, the Company generated net cash 3.6 million euros (2018: used 3.3 million euros). Cash flow generated by operating activities was 20.4 million euros (2018: used by operations 1 million euros). Cash flow used in investing activities was 4.1 million euros (2018: 46.7 million euros) including investments made into development of investment property in total amount of 6.0 million euros (4.7 million euros investments into T1 Mall of Tallinn). The Company generated 2.2 million euros from disposals of investment properties. Financing activities used cash flow in amount of 12.7 million euros (2018: generated 44.4 million euros). The Company redeemed non-convertible bonds in amount of 0.5 million euros. Bank loans were raised in amount of 16.5 million euros, main cash outflow included repayment of bank loans in amount of 21.6 million euros and interest payments for bonds and bank loans of 6.9 million euros.

Financial Ratios

	31.12.2019	31.12.2018
Equity ratio	33.9%	41.1%
Debt to equity ratio	170.0%	121.2%
Net debt to capital	60.8%	53.3%
Debt to EBITDA ratio	-8.2	5.6
Current Ratio	0.4	2.4
Return to assets	-12.8%	8.6%
Return to equity	-31.3%	18.3%

Formulas used for calculating financial ratios

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

Main events in 2019

In Kristiine City, in Tallinn, we are developing integrated and unique living environment in historical barrack area. In 2019 we completed the last four buildings of Kristina Houses – a complex of ten new residential houses with more than 300 apartments in total. It has been a very successful project of high quality with good value for money. Large number of apartments have been pre-booked already before the start of construction works and most of the premises are sold by the time of completion. There are no apartments available today.

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. River Breeze Residence has won a numerous architecture and construction awards, including recognized as “Most Sustainable Building” and winning one of the most important architectural awards in Latvia, the “Annual Architecture Award 2019”. The sales of this project were continued in 2019.

In Vilnius, five residential buildings of Šaltinių Namai Attico development project were completed with ca 100 new apartments. 77% of apartments were sold in 2019. Šaltinių Namai project is located in the heart of Vilnius, on a hillside with beautiful views to the old town.

T1 Mall of Tallinn, a shopping and entertainment centre with a forward-looking concept started operations in November 2018. T1's new concept offering a more dynamic way of spending time with a number of top-class leisure opportunities was well-received within customers. However, the first full year of operations fell short of initial expectations. Due to the challenges of a changing retail market, the start of the operations in a full capacity has been slower than anticipated.

We have taken part in the activities of communities that are carrying our values and concern well-being and health in the areas we are developing. 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.

Chairman's summary

2019 was as a year of challenges, opportunities and acknowledgment, which is characteristic to many companies with an eye on the future and ambition for growth.

Before summarizing the last year, I would like to reflect on the current situation regarding the global outbreak of the coronavirus SARS-CoV-2 and COVID-19. Across our operational areas, the governments of Estonia, Latvia, Lithuania and Germany have announced an Emergency State. For the time being, we continue working remotely aimed at securing the health and wellbeing of our employees, clients and partners. Our operations are ongoing as planned across Baltics. In Tallinn we continue with construction works in Kalaranna District. Recently we started also the construction of Ratsuri Houses project in Kristiine City. We have no ongoing constructions in Riga but we are preparing to proceed with the development of further phases of Kliversala Quarter. The technical projecting process for Tallinn residential quarter and Brivibas street business quarter are ongoing. In Vilnius, more than 70% of the five houses of Šaltiniu Namai Attico project have been already sold and customers have remained active even in the current circumstances. Due to the restrictions in Germany, PK Parkhotel Kurhaus in Bad Kreuznach is closed since the end of March until the end of April. Most significant influence has clearly been on retail and consequently on our T1 Mall of Tallinn shopping centre. Currently only the food stores and pharmacy have remained open. These circumstances are inevitable, however we will reopen the hotel and T1 in full, as soon as it becomes possible.

Looking back at 2019, we have had an extraordinary year from results point of view. The growth of the total annual revenue was 97% compared to 2018, from 28 million euros to 55.3 million euros – achieving the highest annual revenue ever. Our revenues from the sales of the real estate depend on the completion of the residential developments, as the revenues are recorded at the moment final notary deeds of sale are concluded and properties handed over to the buyer. In 2019 we completed 4 residential buildings in Kristina Houses development in Tallinn and 5 residential buildings in Šaltiniu Namai Attico in Vilnius. The gross profit of 2019 was 15.8 million euros compared to 9.6 million euros during the same period in 2018 with an increase of 65% y-o-y. Otherwise positive results were challenged by T1 Mall of Tallinn financial performance during its first year of operations, which has not met our expectations. This had an impact on operating profit and led to the non-monetary decrease of the property value in amount of 23 million euros (18 million euros increase in value of T1 was recorded in 2018). The devaluation of the investment property had a significant impact on the Group's results. In addition, the net result was influenced by the interest expenses related to T1 project, which at the end of the year were 9.5 million euros.

After reporting date AS Tallinna Moekombinaat, a subsidiary owning and operating T1 Mall of Tallinn, submitted an application to Harju County Court for commencement of reorganisation proceedings with the purpose to overcome temporary liquidity issues, reasonably reorganise liabilities and increase profitability. On 3 April 2020 Harju County Court initiated reorganisation proceedings and AS Tallinna Moekombinaat has to submit a reorganisation plan on implementation of reorganisation measures, including impact of reorganisation to the creditors, to the Court by 2 June 2020. The creditors will need to vote to accept the plan and the final decision on approval will be taken by the Court. The initiation of reorganisation proceedings shall not influence in any way the day-to-day economic activities of the T1, its tenants and partners – it means that after the restrictions set by the Estonian government to the shopping centres are lifted, T1 Mall of Tallinn will be fully opened and shall continue its operations as before. The purpose of reorganisation proceedings is to ensure continuation of normal daily business by safeguarding the rights and interests of investors, employees, creditors and all cooperation partners. The reorganisation process involves only AS Tallinna Moekombinaat and has no direct influence to any other group company of AS Pro Kapital Grupp.

On 17 March 2020 we redeemed senior secured bonds 2015/2020 by refinancing them with new senior secured bonds 2020/2024 (the “New Bonds”). The New Bonds, each denominated 100 000 euros, carry a fixed rate coupon of 8.00 per cent and will mature in February 2024. Pro Kapital intends to apply for the listing of the New Bonds on Nasdaq Stockholm within 12 months of the issue date.

Residential real-estate development with long-term mindset

In early November 2019, Pro Kapital was recognised as the winner of the real-estate developer's TOP of Äripäev, which I am very proud and humbled by. I believe this recognition to reflect the long-term commitment of our team and the desire to create something truly great. At the same time, I am pleased that the 2019 real estate developers TOP was led by companies who understand that their work has much broader impact on shaping the cities than merely building physical spaces. The ability to understand but even more importantly to be ahead of the changes in consumer behaviours and to create something valuable for years to come, is a challenge for any real-estate developer.

By developing entire areas, we always acknowledge that our work has a long-term impact on communities. We need to be able to offer people something meaningful in a wide range of aspects. In 2019 we reached several milestones in our residential portfolio development across the Baltics.

I have discussed the Baltics real-estate markets in 2019 interim reports, mainly because the real-estate market in the Baltic counties is a good indicator of the wider socio-

political situation. Undoubtedly, Latvian market has been showing slower pace compared to Lithuania and Estonia, especially in the premium segment, which sets a standard of quality for the rest of the segments. While the Lithuanian real-estate market showed a remarkable, 32% market growth last year, the Latvian real-estate market is mainly dominated by the growth in the economic segment. When the market is driven by the price only for a long time, this will have a considerable footprint on the quality. Therefore, it is very positive that our outstanding development project in Riga, with a worthy name – River Breeze Residence has held its position as the market leader in the premium segment for a second consecutive year.

At the end of October 2019, River Breeze Residence received the 2019 Architecture Award, which is one of the most prestigious awards in Latvia, recognising the balance between private and public outdoor space in an exclusive and innovative housing project. In 2019, River Breeze Residence was also recognised by its impeccable construction quality and as the most sustainable building earlier in 2018. By being one of the most outstanding buildings in Riga in terms of architecture, location and quality, River Breeze sets the new positive example for the whole market.

As a conclusion, I would say, 2019 was well-balanced by positive developments, humbling recognition and confronting challenges. I believe it to be an integral part of the business, allowing us to grow and improve our operations. It takes courage to face new challenges and make decisions to do things that no one else has done. Above all, I am proud of the people who work in the Group - our team is highly professional, competent and dedicated and that is the most important value of any business with such passion towards the long-term value-growth and positive impact.



Paolo Michelozzi
CEO
AS Pro Kapital Grupp
29 April 2020

Management and sustainability report for 2019

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 trade with our shares on the Frankfurt Stock Exchange. Our operations are characterised by a long-term view and therefore we want to ensure that we have an impeccable reputation as a responsibly managed company. As a large developer, we feel our responsibility to various stakeholders, thus we want to ensure the credibility of both the Company as well as the entire sector, regardless of any changes in the economic environment. We manage our sizeable developments portfolio in a strategically sustainable and forward-looking manner which helped us to successfully overcome the global economic crisis 10 years ago and enables us to overcome any turbulence also the future.

Our management principles are based on three pillars:

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

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

In 2019, the Group was not levied any fines or non-pecuniary punishments for essential violations of laws or regulations.

Our principle is to disclose in the reporting any pending litigations which may have a significant economic impact on the Company and its share price. According to this principle, all litigations which economic impact (either one-off or during the period of one financial year) is at least 100 000 euros are disclosed in the reporting. 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 negative 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 2019.

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

In 2019, we continued developing the management principles of the Group and paid attention to the communication with the public and the investor community. 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 starting introducing our interim financial data on the webinars providing an opportunity to communicate directly and let all questions arisen answered after presentations.

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.

Our impact and responsibility in society

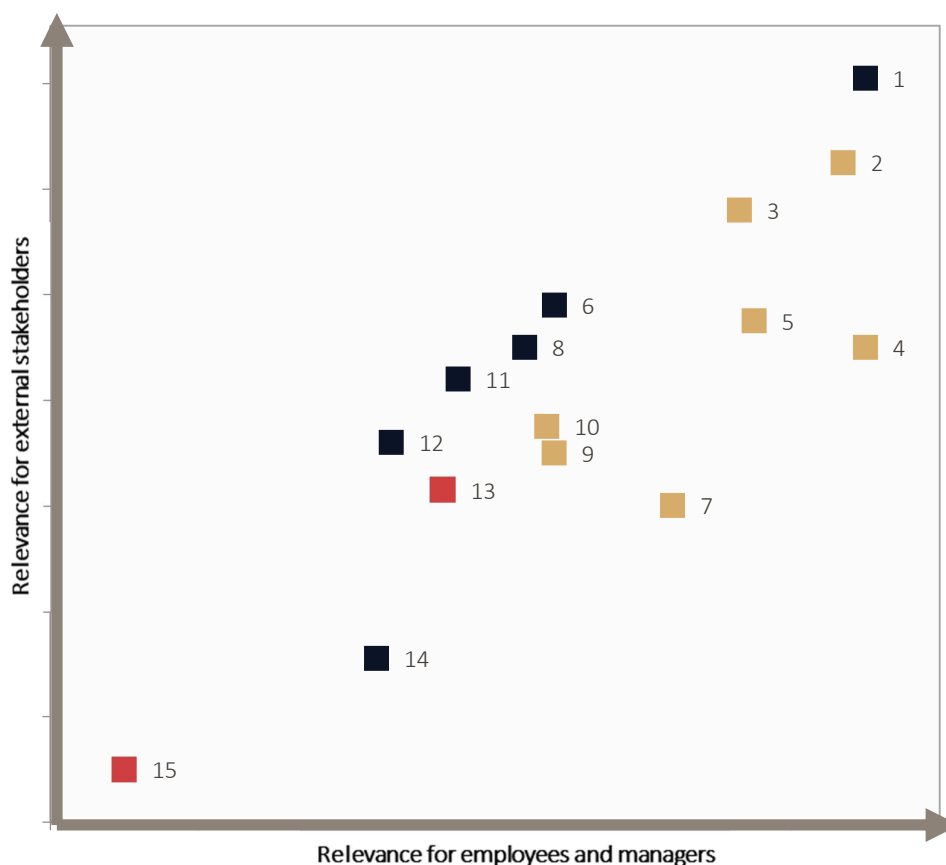
Our business is not just about the development – we create new regions and thereby have a significant impact on the life quality of people, the social development and the economic environment. This impact is not only versatile but even long-term, therefore we recognise this responsibility and are extremely 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 regulations. We have to ensure high quality and safety in our operations but at the same time we have to take into consideration the impact of the development activities on the environment and find reasonable and sustainable solutions.

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

At the end of 2018 we analysed the expectations and vision of our stakeholders and experts as regards our broader role and responsibilities in the society. We interviewed our customers, subcontractors, partners, representatives of local communities and local governments, financiers, regulators, construction and sustainability experts and discussed these issues with them. We got the confirmation that we are expected to provide responsible real estate development and customer communication, be honest and open in our daily work, and ensure a pleasant working environment. Substantial and diverse feedback is a very important input to construe and constructively analyse our role in the society in order to plan and focus our operations 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 following matrix visualizes the mapping of the focus areas of interest groups and our own employees.



1. Quality, safe and healthy buildings
2. Fair and ethical management
3. Fair marketing and communication
4. Healthy, safe and proper workplace
5. Customer relationship and experience
6. Resource efficiency and environmentally friendly choices
7. Motivating, developing, diverse and attractive workplace
8. Easy and environmentally friendly access to buildings
9. Open and engaging relations with stakeholders

10. Sustainable supply chain
11. Waste management
12. External impact of construction and operations
13. Contribution to the development of real estate sector
14. Environmental certificates
15. Sponsorship and volunteering

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

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

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

Responsible real estate development

We develop integral living environments 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 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, e-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.

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

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.

River Breeze Residence, located right at the heart of Riga, is the first residential building of Kliversala Quarter. River Breeze Residence is well-known and recognized for its outstanding quality and unique architecture. In 2018, the building won “The most sustainable development project of 2018” award. In 2019, this exclusive apartment building placed 3rd as “The Best New residential building”, 2nd in the nomination for the “Best Newly Constructed Residential Building in Latvia” and won the most prestigious award at the end of 2019 – “Riga Architectural Award 2019”.

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 2019, apartment houses at Sõjakooli 12c and Sammu 3, 3a, 3b were completed in the Kristiine City development district in Tallinn, and the Šaltiniu Namai Attico development in Vilnius, 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 2019 in connection with the constructions works or operation of the buildings.

The major development of the Kalaranna District is located right on the sea shore of Tallinn, therefore we shall make every effort to ensure the safety of the area during the constructions works. The promenade will be an open area for people to enjoy in the future. During the construction, the access to the sea is closed and surrounded with fences. The area will be reopened once the construction works have been completed.

All commercial and residential real estate buildings completed in 2019 or managed by us have convenient access by public transport (at a distance of 500 m) and there are parking spaces for bicycles near each building. All of the completed apartment buildings can be accessed by people with disabilities.

Quality

Our vision is to develop 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-weighted 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 cooperate with architects during the design work stage and analyse in detail the best alternative uses of each square metre.

We are very demanding in our selection of the builder in order to ensure high construction quality. 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 2019, no environmental pollution or damage to protected nature occurred in connection with the buildings constructed or commercial real estate operated by us. All apartment houses completed in 2019 – four in Tallinn and five in Vilnius - have better than usual energy performance certificates.

Šaltinių Namai Attico is one of the first developments in Lithuanian market, certified with A++ energy class. Sustainable, long-term mindset in development is very much appreciated by the market.

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 2019, 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 centre. To ensure informed and timely operation of the employees of the centre 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 one extraordinary situation in February 2019, where one crane went upside down on one construction sight – no one was hurt. No further accidents have taken place at our construction sites in 2019.

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 sport club and tennis centre right at the centre of the Kristiine City residential area. A swimming pool and one of the biggest sports centres in the city with multiple sporting possibilities and an equestrian centre are at the distance of a few minutes' walk. There are two different health tracks for skiing, walking or cycling within the radius of a few kilometres.

Team

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

At the end of 2019, the entire Group had 89 employees comparing to 89 at the end of 2018, among them 40 employees were involved in hotel and maintenance business (40 in 2018). 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 7%, and in 2019 we recruited 3 new employees.

Nine keywords characterize us as an employer:

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

Humane management. Everyone counts and his or her well-being is important to the Company. Rested people who are enthusiastic and who have much more in their lives than just their work and whose lives are balanced are the people who work well. Therefore, we try to be flexible and fair in our work, and we do not discriminate 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 2019:

- *We had no work accidents with our employees (the same in 2018);*
- *Our employees were absent from work due to medical reasons only 0.7% of the days with an average of less than two days per year (the same in 2018);*
- *Over 52% (40% in 2018) of our employees participated in professional training courses or seminars with an average of 10 hours per employee (18 hours per employee in 2018);*
- *We did not receive any official complaints about discrimination or unfair treatment (the same in 2018).*

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

Customer experience

Our customers include buyers of apartments and lessees of commercial premises. In this report, we only describe the issues related to residential real estate.

The residential real estate customer profile is broad. Buyers of apartments include both students who are supported by their parents, young couples, families with small children, 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 2019, we did not violate any requirements or principles relating to marketing ethics, consumer protection, customer privacy or data leakage.

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

River Breeze Residence in Riga has been the market leader in the exclusive segment from 2018 to date. Our customers truly value the combination of its quality, elegance and overall value of Kliversala Quarter. Our developments are highly valued also in Tallinn – many of the customers of our previous projects return to buy apartments in new development projects. Nearly 85% of the apartments in the Kristiine City find their owners already before the completion of the project, which is a trust we greatly value.

A binding principle for us is to be there for our customers even after the sales transaction. Our goal is to be in a constant dialogue with our customers which on the one hand 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.

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 2019, we donated 7 000 euros to sponsorship and support activities. Our goal in 2020 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 2019

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. In 2019 we mainly focused on the first two

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 and were part of the urban city conference and hackathon “Mad City Happening” in Riga – we engaged the audience with telling them more about the impact of the Kliversala Quarter development to benefit the future of Riga.
- For several years already, we have given out an annual living room prize together with the home journal “Kodukiri” which has a long and distinguished history in Estonia. 2017 winners Jelena and Alger Räpp had created a lovely home with brightness and light. In 2018 the prize went to young home owners Triin and Taago Pikas whose beautiful and cosy home is in Kiili. 2019 annual prize went to Alina Zelimhanova who’s truly distinctive and unique home was a truly great find. Her home is full on details, strong patterns, dynamic colours and artwork – all well-balanced and harmonious. 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. We have supported the display solution of Danse Macabre (the Dance of Death), a painting by the Lübeck master Bernt Notke, at the St. Nicholas Church in Tallinn. But also, 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. Last year we also welcomed many artists, young designers and other creative people to use our Kliversala Quarter for their work. Many of photographers, fashion magazines and even new brands have created their visual content in River Breeze Residence.

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 case of any problems, we are open to communication in order to prevent aggravation of disagreements and we aim to promptly find solutions that are suitable for all parties. We understand that involvement of the public and local community is becoming an important part of any development activities. This is evidenced by the ever-growing social interest in the suitability of major infrastructure and industrial investments in the communities and the natural environment.

Environmental risks

Our activities do not involve any high-impact risks that could occur unexpectedly. We manage the most important risks to wildlife, soil and the surrounding environment by the selection of locations, proper design and construction work and by making previous analyses. A large proportion of 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 construction sites, we ensure that they follow the safety rules.

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

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

Strategy and objectives for 2020

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 2020 we continue operating T1 Mall of Tallinn Shopping & Entertainment Centre in Tallinn after restrictions on shopping centres are lifted. We will also proceed with the implementation of reorganisation plan once approved by the Court. We will continue

with the construction Ratsuri Houses project in Kristiine City and Kalaranna development in Tallinn. Sales activities in 2020 will be rather modest as considering the ongoing pandemic and world crisis, we have no high expectations on selling our premises in stock. There will be no building completed in 2020. The presales of Ratsuri Houses and Kalaranna District are continuing. The revenues from presales will be accounted for in 2021 when the buildings are completed and final notarised sales are performed. Hotel segment will suffer from emergency state and we will not be able to reach the results of last year. Though, it is too early to tell, how will the hotel market act in Bad Kreuznach after the restrictions have been lifted. Maintenance segment will suffer the least. Though, as this segment is insignificant in the group, the influence to the result will be minimal.

Goals for 2020:

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



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

distinctive balance with the versatile world of entertainment allows a different customer mindset to emerge.

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

In April 2020 the reorganisation proceedings of the owner and operator of T1 Mall of Tallinn were initiated. Since 27 March 2020 most of the centre has been closed in relation to emergency situation declared and restrictions applied by Estonian Government.

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.



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 and over 300 apartments in total. The Company completed all apartment buildings, the last ones in October 2019. Kristina Houses have been highly valued by our customers as all apartments in this project are sold.

Ratsuri Houses in Kristiine City

The project Ratsuri Houses has been named after its history as a horse stable which will receive a new look being united with a modern New Holland style building. Ratsuri Houses is being constructed by OÜ Vanalinna Ehitus. The construction will include the reconstruction of a 20th-century, two-storey stables building on Mars 5 (lately renamed as Talli 5) property, the construction of an extension and partially underground car park. The building is scheduled for completion in spring 2021. Ratsuri Houses will have a total of 39 apartments – 17 in the former stables and 22 in the modern New Holland style building. To date ca 77% of apartments have been booked.



Kalaranna District in Tallinn

Kalaranna District is a unique sea-side residential district on the boarder of Tallinn's central city and old town. Kalaranna District, located at Kalaranna 8, will have twelve 4-5 storey buildings on nearly six hectares. The area will be developed in two stages. An integral part of the residential quarter is well-thought-out landscape architecture and a beach promenade that largely preserves the existing natural environment. During the first phase of construction, eight buildings will be completed with 240 apartments, commercial premises and an underground car park. The area will include the Kalaranna Park with versatile leisure opportunities and a Square connecting the buildings. The first buildings will be completed by September 2021 at the latest.



Kliversala Quarter in Riga

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



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

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

Brivibas Business Quarter in Riga

Commercial property development for modern office complex will be built on the site of a former factory. The area is located at one of the main transport arteries heading through the city – the Brīvības street - making it an attractive commercial area. The first phase of the project foresees renovation of the existing industrial building into an office building. The construction of new office and commercial buildings will be carried out as a second phase of the project. The site is ready for construction, existing building is conserved. The 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 a unique residential area in the central city of Riga, where new buildings, modern loft-style apartment buildings and also restored historical buildings can be found to create an extraordinary atmosphere in the area. The development foresees business premises on the first floors of the buildings. The building permit has

been issued and the technical design is currently in progress.

Šaltinių Namai in Vilnius

Šaltinių Namai | Attico is a prestigious living area, surrounded by the nature in the most tranquil part of the Old Town, located within the UNESCO protection area. Šaltinių Namai | Attico is inspired by the baroque spirit of Vilnius Old Town and the tradition of Italian architecture in Lithuania. Homebuyers can choose from thoroughly planned apartments with exceptional views to spacious town houses. As an integral part of the landscape, this unique area has the first Italian courtyard garden in the city, designed by an Italian concept architect Gianmarco Cavagnino. In 2019 we have completed five houses of the Šaltinių Namai | Attico project and are currently planning the following construction phase with city villas and commercial building.



Segments

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

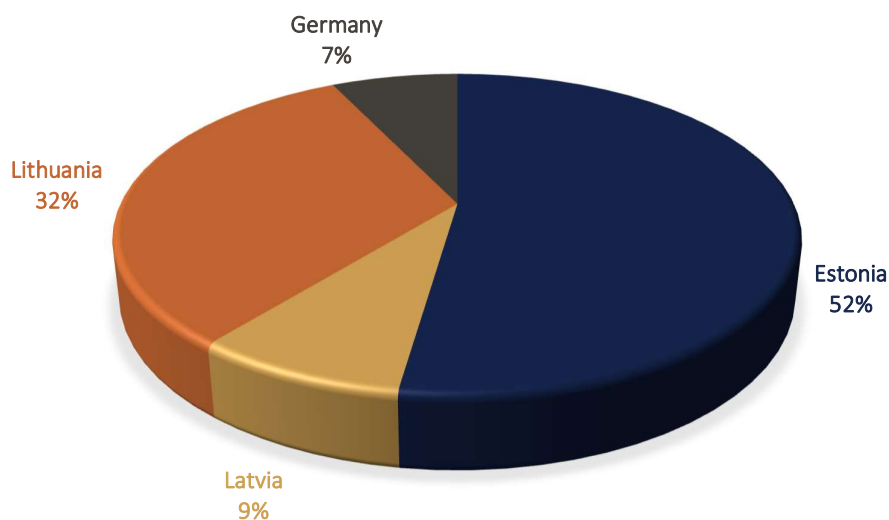
Key financial data of the segments, in thousands of euros

	Revenue			Gross result			Net result		
	2019	2018	Change	2019	2018	Change	2019	2018	Change
Estonia	28 911	15 463	87%	9 685	5 339	81%	-30 028	16 720	-280%
Latvia	4 733	5 765	-18%	2 011	2 574	-22%	343	-213	-261%
Lithuania	17 688	2 828	525%	3 140	617	409%	2 523	38	6 539%
Germany	3 944	3 935	0%	973	1 046	-7%	181	282	-36%

	Gross margin		Net margin	
	2019	2018	2019	2018
Estonia	33.5%	34.5%	-103.6%	108.1%
Latvia	42.5%	44.6%	7.2%	-3.7%
Lithuania	17.8%	21.8%	14.3%	1.3%
Germany	24.7%	26.6%	4.6%	7.2%

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

2019 revenue by geographical segments, %



The general market situation in Baltic capitals remained stable with modest but still an upward trend in 2019. Despite of the grown number of new development projects coming to the market there is a positive price growth outlook for the Company's residential markets based on the strategy to focus on large-scale premium development projects with less competition. Though, market in Tallinn and in Vilnius was more favourable for development activity than in Riga. The rapid change in the world economy due to the pandemic outbreak of COVID-19 in 2020, after reporting date, has made home buyers more cautious but there is still significant interest shown towards our projects in all countries of operation.

Estonia

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

In Estonia real estate market kept stable moderately upward trend in 2019, with price levels, average transaction amount and transaction volume increasing at a steady pace.

The Company has completed all ten apartment buildings in Kristina Houses project, in Kristiine City and the last three of them in 2019. All apartments in the development project have been sold before issuing this report.

In January 2020, after the reporting period, the Company announced about start of the construction of Ratsuri Houses – a new development project at Marsi street in Kristiine City. The development project will have 39 apartments and the completion is planned for spring 2021.

In October 2019, the Company signed the construction contract for building the first two phases in Kalaranna District (each phase includes 4 buildings). The construction works have started and the completion of eight new buildings with 240 apartments, commercial premises and underground parking is scheduled for the end of 2021. Due to very strong interest towards the project, more than 50% of the apartments are covered with reservation or preliminary sales agreements.

In spite of good results and confidence in residential real estate development, the situation with the rental revenue generation is different. T1 Mall of Tallinn has now operated more than a year. The results of 2019 were below expectations and although the shopping centre was generating operating profit throughout the year, it was not able to meet financial covenants agreed with the main lender. While struggling to reach for expected results, the most of the shopping centre in Tallinn was closed on 27 March 2020 due to restrictions set by Estonian Government in relation to COVID-19

and the emergency state in Estonia. Only main food store Selver, pharmacy and a couple of smaller food stores are open without restrictions. This situation influences operations of the shopping centre significantly. On 31 March 2020 the owner and operator of T1 Mall of Tallinn shopping centre, AS Tallinna Moekombinaat (TMK), applied for reorganisation proceedings and Harju County Court initiated the process on 3 April 2020. TMK has to submit to the court a reorganisation plan by 2 June 2020. The purpose is to overcome temporary liquidity issues, to reasonably reorganise liabilities and increase profitability of the centre.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted to 52% compared to 55% of the comparable period last year.

Revenue from Estonia

in thousands of euros	2019	2018	Change
Real Estate	19 367	13 284	46%
Rent	9 467	1 271	645%
Other	77	908	-92%
Total	28 911	15 463	87%

Revenues in real estate segment increased by 46%. Sales revenues are recorded upon signing final notarised sales agreement. During 2019 the total of 133 apartments, 164 parking lots and 83 storage rooms (2018: 112 apartments, 1 business premises, 111 parking lots and 54 storage rooms) were sold and stock consisting of 3 apartments, also several parking spaces and storage rooms were available for sale in Tallinn on 31 December 2019.

Revenue in rent segment increased by 7.4 times in 2019 as a result of full year operations of T1 Mall of Tallinn, which was opened in November 2018.

Other revenues consist mainly of maintenance services provided. Maintenance services revenue decreased due to the Company's decision to reduce the clients' base in the middle of 2018. The Company handed over maintenance of the objects, which were 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 in 2018 and sales were ongoing in 2019. The projecting works of the rest of Kliversala area as well as of the Tallinas residential quarter and Brivibas office complex continued.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period was 9% compared to 21% in the comparable period last year.

Revenue from Latvia

in thousands of euros	2019	2018	Change
Real Estate	4 640	5 616	-17%
Rent	71	68	4%
Other	22	81	-73%
Total	4 733	5 765	-18%

During 2019 the total of 7 apartments, 16 parking lots and 5 storage rooms (2018: 11 apartments) were sold. At the end of the reporting period 34 luxury apartments, several storage rooms and parking lots are available for sale in Latvia.

The rental revenue in Latvia increased by 4% in 2019.

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.

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

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted to 32% compared to 10% last year.

Revenue from Lithuania

in thousands of euros	2019	2018	Change
Real Estate	17 412	2 553	582%
Rent	49	118	-58%
Other	227	157	45%
Total	17 688	2 828	525%

Real estate sales increased by 6.8 times in 2019 comparing to last year. During the reporting period 83 apartments, 1 cottage, 77 storage rooms and 74 parking lots were sold in Lithuania (2018 12M: 10 apartments, 1 business premises and 1 cottage). There were 31 apartments, 2 cottages, 3 business premises, several storage rooms and parking lots in stock in Vilnius at the end of the reporting period.

The Company temporarily rents out some of the properties available for sale. In 2019 rental revenues decreased by 58%.

The Company provides maintenance and other services to its sold and rented out apartments. In 2019 the revenue from maintenance activities has increased by 45% as a result of completion and sales of new premises.

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 7% compared to 14% of the comparable period last year.

Revenue from Germany

in thousands of euros	2019	2018	Change
Hotels	3 944	3 935	0%

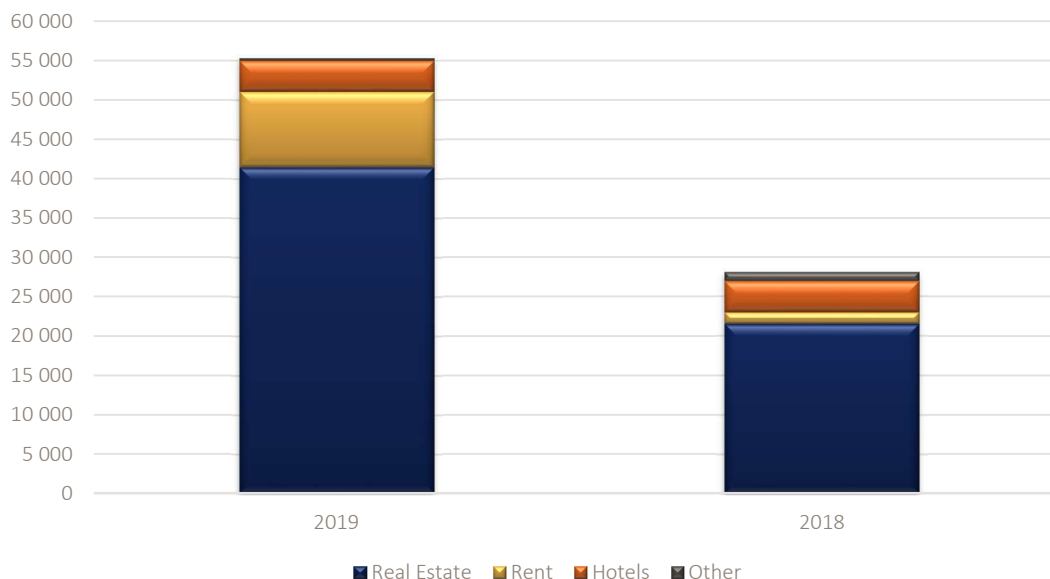
The occupancy rate of PK Parkhotel Kurhaus hotel has remained the same in 2019 as in 2018 constituting the average of 66% for the year. Also, the annual revenue remained at the same level as last year. Gross operating profit decreased by 3% and amounted to 775 thousand euros comparing to 800 thousand euros in 2018. Net result for 2019 was 76 thousand euros comparing to 90 thousand euros last year.

At the time of publication of the report, due to the coronavirus pandemic, PK Parkhotel Kurhaus in Bad Kreuznach is closed. We will reopen the hotel as soon as it becomes possible.

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	2019	2018	Change
Real Estate	41 419	21 453	93%
Rent	9 587	1 457	558%
Hotels	3 944	3 935	0%
Other	326	1 146	-72%

Revenue in real estate business line has increased by 93% due to completed residential buildings in Tallinn and in Vilnius and active sale during the period. Average price per m² sold in 2019 was 2 225 euros/ m² (2018: 2 199 euros/ m²), prices are given without VAT. The change in average price in Estonia and in Lithuania stayed within 2% range. Average price in Latvia decreased by 14% and was 3 049 euros/ m² in 2019 (2018: 3 470 euros/ m²). The total of 16 896 m² were sold in 2019 (2018: 9 140 m²) as a total in all three countries.

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2020 the Company will actively continue with sales of current stock in Kliversala in Riga and Šaltinių Namai Residential Complex in Vilnius and presales of Ratsuri Houses and Kalaranna District in Tallinn.

Rental revenues increase reflects the rental income from T1 Mall of Tallinn for the year of 2019, as it was the first full year when the shopping and entertainment centre was opened.

In 2019 the Company operated only one hotel, PK Parkhotel Kurhaus in Bad Kreuznach, in Germany. Revenues from hotel business line have remained the same in 2019 compared to 2018.

Occupancy rates, %

	2019	2018	Change
PK Parkhotel Kurhaus, Bad Kreuznach	66.0%	66.0%	0%

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance in 2019 has increased and was 50 278 m² as at 31 December 2019 (31 December 2018: 36 506 m²). Gross profit of the segment has decreased for 35% but overall profitability has increased for 140% compared to the last year.

Financing sources and policies

Pro Kapital Grupp pursues conservative financing policy. Company's goal is to use external financing in the way, which allows to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. In general, the Company seeks to maintain such long-term debt levels that are in reasonable proportion to growth in operations and which preserve the Company's credit standing. 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 2019 the Company has repaid 21.6 million euros of its bank loans and has raised 16.4 million euros of bank loans. The Company has 77.7 million euros of bank loans to be repaid in 2020 and 5.7 million euros of bank loans are repayable in 2021.

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 the reporting date, the Company held 1.4 million euros worth bonds. After the reporting period, the Company has refinanced the bonds in full by issuing similar secured fixed rate bonds with maturity date on 20 February 2024 (Note 18).

As at 31 December 2019 the Company had issued convertible bonds in nominal value 10.25 million euros and balance sheet value 10.1 million euros (current portion: 5.9 million euros; long-term portion: 4.2 million euros).

Shares and shareholders

As at 31 December 2019 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

	31.12.2019	31.12.2018
Number of shares (pcs)	56 687 954	56 687 954
Nominal value (euros)	0.20	0.20
Share capital (euros)	11 337 590.80	11 337 590.80

On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange with an ISIN EE3100006040. On 19 November 2018 Company's shares were listed on the Main List of Tallinn's stock exchange. During the period 1 January – 31 December 2019 the shares were trading at the price range 1.00 – 1.71 euros, with the closing price of 1.39 euros per share on 30 December 2019. During the period 1.04 million of the Company's shares were traded with their turnover amounting to 1.41 million euros.

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January 2017 - 31 December 2019, NASDAQ Baltic Main List*



*Source: www.nasdaqbaltic.com

Trade statistics in euros	31.12.2019	31.12.2018	31.12.2017
High price	1.71	1.99	2.75
Low price	1.00	1.54	1.81
Last price	1.39	1.63	1.82
Average price	1.38	1.71	2.00
Traded volume (pcs)	1 038 459	414 910	219 219
Turnover (million)	1.4	0.71	0.46
Capitalisation (million)	78.80	92.40	103.17

*Source: www.nasdaqbaltic.com

Baltic market indexes 1 January - 31 December 2019*



Index/ Equity	31.12.2019	31.12.2018	Change
■ OMX Baltic Benchmark GI	992.83	873.81	13.62%
■ B8600PI Real Estate	370.58	385.66	-3.91%
■ PKG1T (euros)	1.39	1.64	-15.24%

*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 2019 the shares were trading at the price range of 1.02 - 1.62 euros, with the closing price

1.40 euros per share on 30 December 2019. During the period 205 thousand of the Company's shares were traded with their turnover amounting to 0.29 million euros.

Shareholders

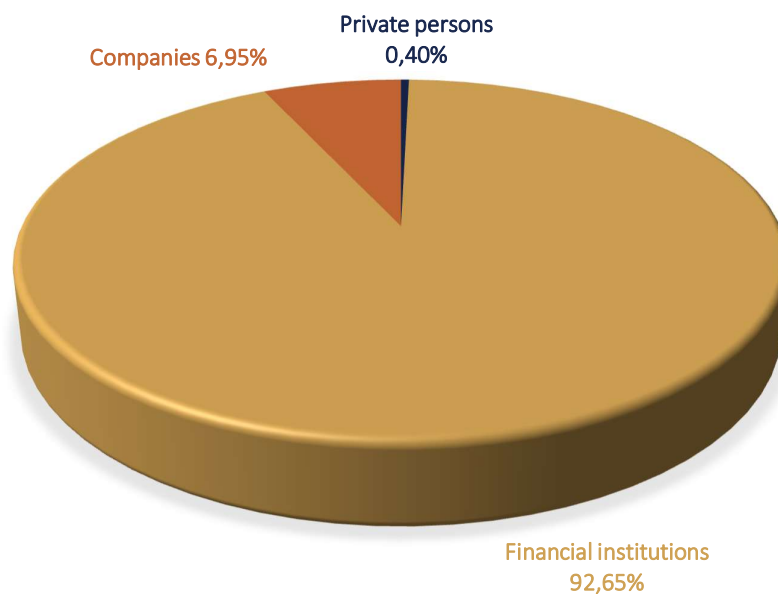
As at 31 December 2019 there were 177 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as at 31 December 2019:

Shareholders	Number of shares	Participation in %
Raiffeisen Bank International AG	27 594 561	48.68%
Clearstream Banking Luxembourg S.A. Clients	11 791 869	20.80%
Nordea Bank Finland Plc Clients	6 309 496	11.13%
Svalbork Invest OÜ	3 633 418	6.41%

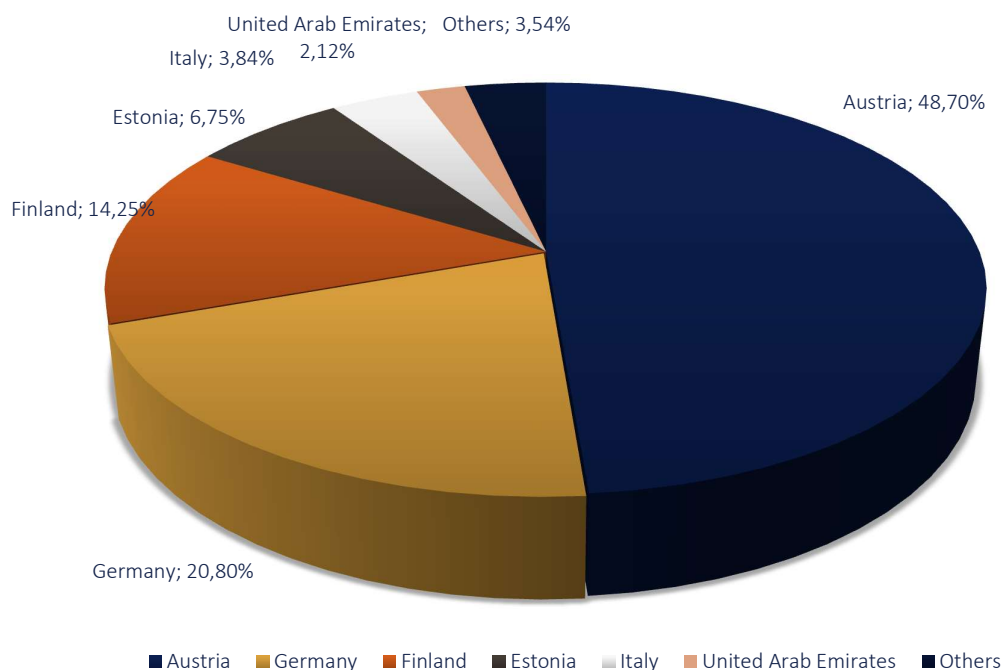
Shareholders split by holders as at 31 December 2019:

Shareholders	Number of shares	Participation in %
Financial institutions	52 523 195	92.65%
Companies	3 939 591	6.95%
Private persons	225 168	0.40%



Shareholders geographical split by residence as at 31 December 2019:

Shareholders	Number of shares	Participation in %
Austria	27 609 782	48.70%
Germany	11 792 157	20.80%
Finland	8 078 504	14.25%
Estonia	3 824 282	6.75%
Italy	2 178 431	3.84%
United Arab Emirates	1 199 192	2.12%
Others	2 005 606	3.54%



The largest shareholders of AS Pro Kapital Grupp are Ernesto Preatoni and his affiliates. Based on the information at the possession of AS Pro Kapital Grupp as of 31 December 2019 Ernesto Preatoni and his affiliates control 39.69% of shares of AS Pro Kapital Grupp. The following shares are considered as being controlled by Ernesto Preatoni because the Management Board believes that he is able to control the use of voting rights by the following persons:

- OÜ Svalbork Invest, Estonian company controlled by Ernesto Preatoni which holds 3 633 418 shares representing 6.41% of the total shares of the Company.
- 13 557 726 shares representing 23.91% 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 Members of the Management Board and the Council Members as at 31 December 2019:

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%
Ernesto Preatoni	Council Member	22 502 129	39.69%

As at 31 December 2019:

- Paolo Vittorio Michelozzi was holding 3 secured, callable, fixed rate bonds of the Company with the nominal value of 300 000 euros.
- Edoardo Axel Preatoni was holding 8 secured, callable, fixed rate bonds of the Company with the nominal value of 800 000 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.

Secured, callable, fixed rate bonds were redeemed on 17 March 2020.

Earnings per share (EPS), P/E ratio

Earnings per share for year 2019 were -0.48 euro/share (2018: 0.30 euro per share). P/E ratio for year 2019 was -2.93 (2018: 5.49).

Group structure

As at 31 December 2019



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.

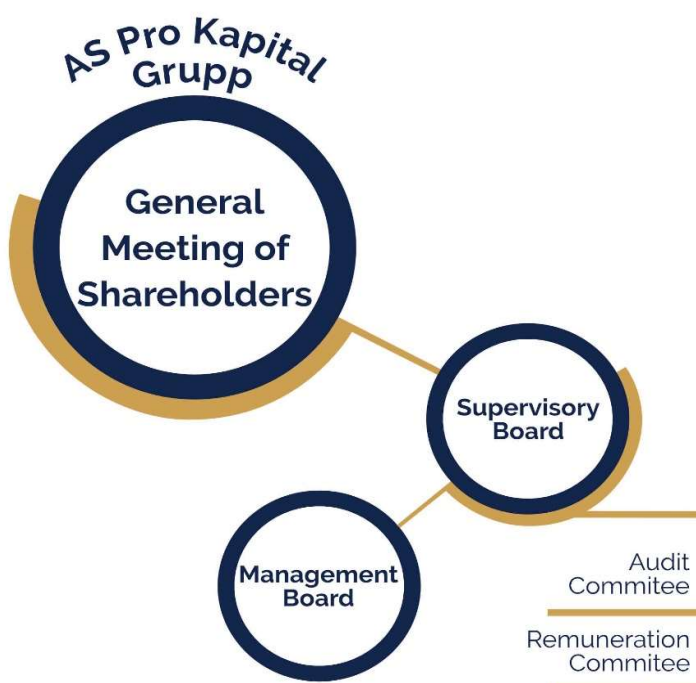
The principles described in these CGR are recommended to be carried out by Issuers and each Issuer should decide whether or not it will adopt these principles as a basis for organizing its management. Issuers should describe, in accordance with the "Comply or Explain" principle, their management practices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

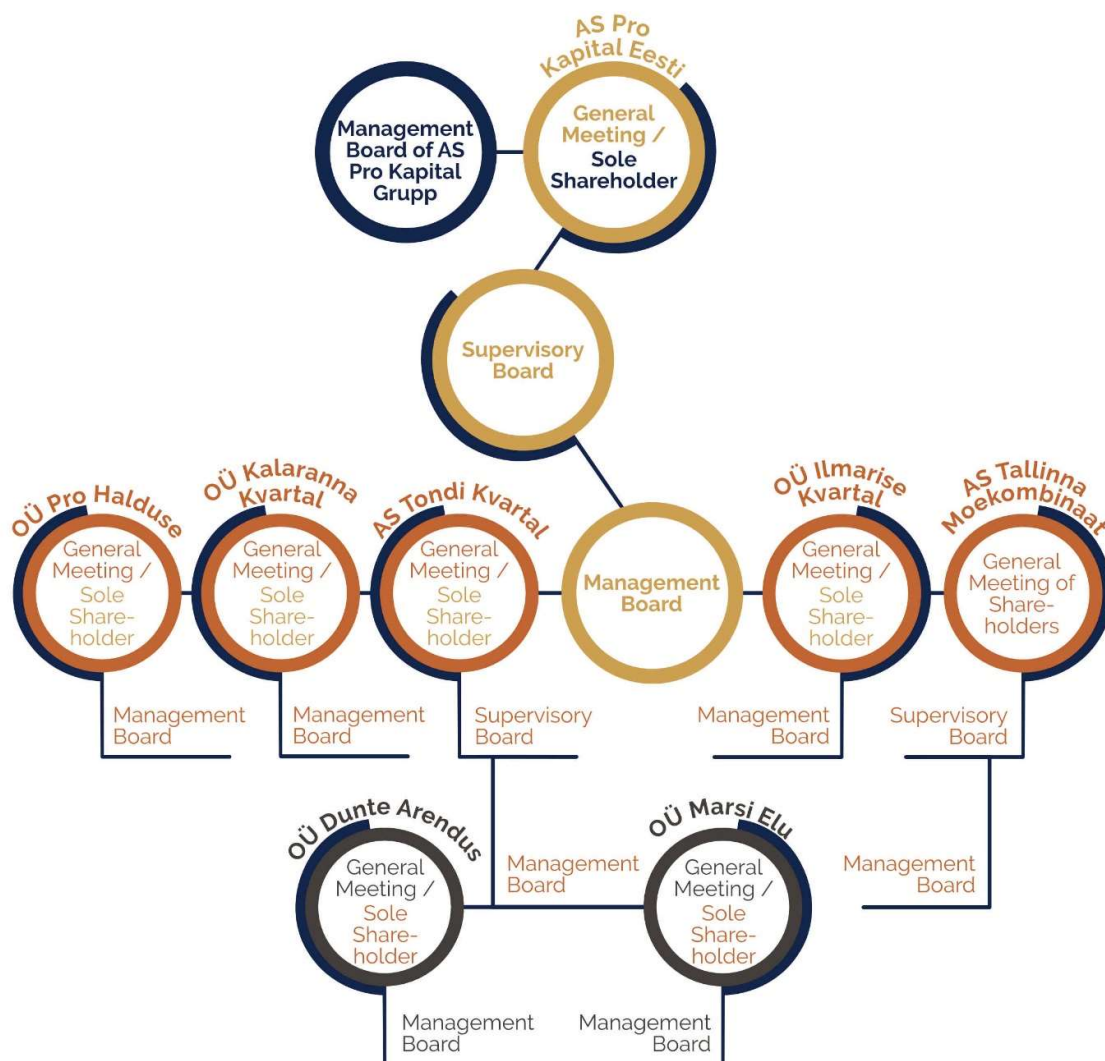
In addition, and only where applicable, the Management Board of the Company has also indicated where the Company is meeting even higher Corporate Governance standards adopted by G20/OECD in 2015 (G20/OECD Principles of Corporate Governance).

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

Holding company



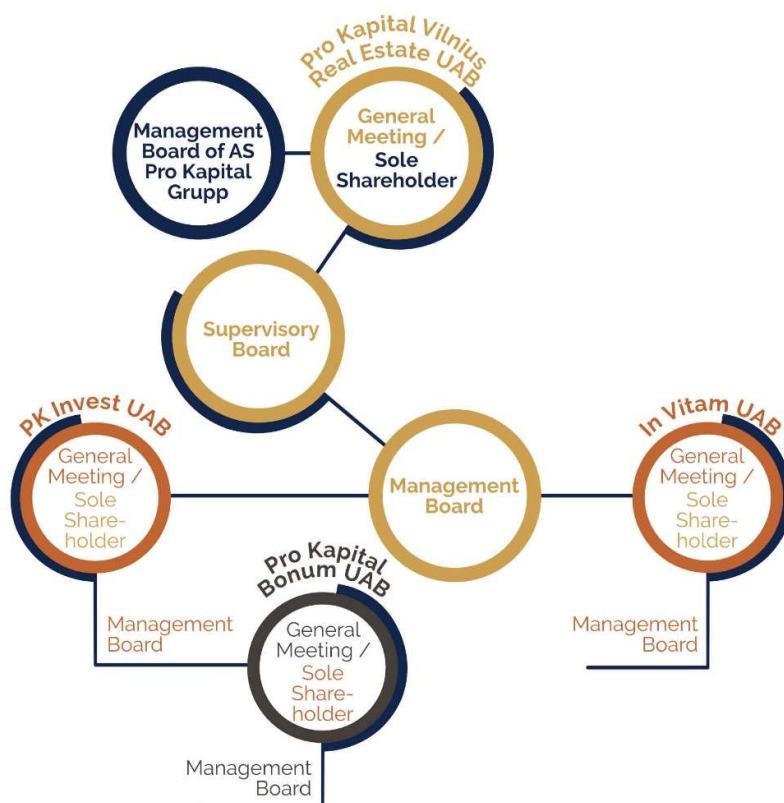
Governance structure of the Estonian group



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 2019, only one annual general meeting of shareholders was held and no questions as to the topics of the agenda of the meeting were presented to the Company before the general meeting. Questions asked during the AGM are recorded in the minutes. In the AGM notice it is clearly stated where the shareholders or their representatives can direct their questions before the meeting (email and phone number) and that should there be such questions, there will be answered and disclosed on the Company website. At the start of the general meetings, the Chairman of the meeting always makes it clear that questions can be asked throughout and before the meeting is adjourned, once more participants are given the opportunity to voice their questions.

- 1.1.1. Company's Articles of Association do not allow granting different types of shares with rights which would result in unequal treatment of shareholders in voting. Only one type of shares has been issued, giving all shareholders exactly the same rights related to the shares.
- 1.1.2. Company facilitates the personal participation of shareholders at the General Meeting. When calling the shareholders' meeting a notice period of at least 3 weeks is given for both general and extraordinary shareholders' meetings. In the notice the exact place, date and time of the meeting are stated. Representatives of the Company always participate at the General Meeting and are accessible to the shareholders during the holding of the General Meeting.

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

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

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

- 1.2.2. The Management Board and Supervisory Council shall deliver all information available to them or essential information provided to them necessary for

passing a resolution at the General Meeting to shareholders concurrently with the notice of calling the General Meeting.

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

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

There were no cases of non-compliance with requirements relating to related party transactions (RPTs) in 2019.

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 2019, before the general meeting shareholder representatives asked clarifying questions related to documentation needed to participate at the meeting (clarification that only formal shareholders entered into the registry and not ultimate beneficiaries can issue powers of attorney, apostilles to registration documents and by what time the original documents should arrive), which information was already mostly covered in the meeting notice. As no questions

connected to the agenda topics were asked before the AGM, the Company has not published any questions of the shareholders or replies to the shareholders on the website regarding the 2019 AGM. If and when such questions will be asked in the future, the Company shall outline these questions and answers under a separate accessible link. (The link is currently absent so as not to confuse shareholders that there might have been questions and there is no point in keeping an empty page behind a link.)

Information to shareholders is provided in Estonian and in English.

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

Company is following the recommendation and is publishing materials related to the general meetings on the website of the Company under section Company-Investors-Shareholders (data available from 2013). In addition, legal documentation like the Company's Articles of Association in English and in Estonian as well as the 2017 public offering prospectus, and investor presentations are also up on the Company's website, on the same aforementioned sub-page (investor presentation on the sub-page Investors-Presentation).

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

The Company is following the recommendation. In 2019, 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 2019 the Company held 1 (one) shareholders' meeting. The Annual General Meeting of the shareholders took place on 23 May 2019.

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 2019 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 2019.

The Annual General Meeting of the shareholders took place on 23 May, 2019. Chairman of the Supervisory Council Emanuele Bozzone (by Skype), Supervisory Council member Petri Olkinuora, the CEO and Chairman of the Management Board Paolo Vittorio Michelozzi, Member of the Management Board Allan Remmelkoo, the CFO of the Company Angelika Annus and the auditor of the Company Erki Usin from AS Deloitte Audit Eesti participated at the meeting. The resigning member of the Supervisory Council, Pertti Huuskonen did not participate at the meeting, having tendered his resignation in writing beforehand.

- 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 23 May, 2019 Annual General Meeting the shareholders decided to transfer a mandatory amount of 1/20 of net profit from 2018 into the mandatory statutory reserve and to transfer the remaining profit from 2018 into the retained earnings of previous periods (agenda item no 4), i.e. not to pay dividends at this point in time.

2. MANAGEMENT BOARD

2.1. Duties

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

2.2. Composition and charge

2.2.1. As of 31 December 2019, 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	31.12.2021	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 and from the end of 2019 he is also the Head of Development of the group. Mr Edoardo Axel Preatoni does not own any Company shares. Mr E.A. Preatoni holds 8 (eight) secured, callable, fixed rate bonds of the Company with the nominal value of 100 000 euros each, totalling 800 000 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). As Head of Development, Member of the Management Board Edoardo Preatoni has concluded a service contract with AS Pro Kapital Eesti (an umbrella company for all development project companies).

2.2.2. As per the recommendation the member of the Management Board should not be at the same time a member of more than two Management Boards of an Issuer and should not be the Chairman of the Supervisory Council of another

Issuer. A member of the Management Board can be the Chairman of the Supervisory Council in a Company belonging to same group as the Issuer. The Company follows this recommendation.

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

Paolo 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).

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

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

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

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

- 2.2.4. As per the recommendation, the use of long-term bonus systems (for example options, pension programs) should be connected with the activities of the Management Board member and should be based on explicit and comparable pre-determined factors. The factors, which are the basis for determining the bonus scheme, should not be changed retroactively.
Bonus systems with all Management Board Members have been agreed in their service contracts, they are performance-related and based on explicit and pre-determined targets being achieved.
- 2.2.5. As per the recommendation, the bonus scheme of a Management Board member that is connected with the securities of the Issuer, as well as changes in such bonus schemes should be approved at the General Meeting of the Issuer. The exercise date for share option should be determined at the General Meeting of the Issuer. When granting share options, the Issuer should comply with the rules and regulations of the Tallinn Stock Exchange.
The Management Board does not have a bonus scheme connected to the securities of the Company, except the CEO whose service contract allows the Council at their discretion to pay the CEO's bonus in cash or in shares. At the 23 May 2019 AGM shareholders decided the terms and conditions of payment of bonuses in shares to Management Board members of the Company, agreeing to waive the pre-emptive purchase right of the shareholders in case the Supervisory Council decides to exercise its right under clause 5.8. of the Company's Articles (to increase the Company's share capital up to 1.2 million euros) in order to pay out the management's bonus in shares (agenda item no 7).
- 2.2.6. As per the recommendation severance packages of a Management Board member are connected with their prior work performance and should not be payable if doing so would harm the interests of the Issuer.
All Members of the Management Board have severance packages agreed in their service contracts. Severance compensation is not payable in case the Management Board member is recalled due to the breach of his obligations.
- 2.2.7. As per the recommendation basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) should be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published should be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure. The Chairman of the Supervisory Council should present the essential aspects of the Management Board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting should be presented the differences together with the reasons therefore.

The Company is not following this recommendation. 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 that they should inform the Supervisory Council and other members of the Management Board regarding the existence of a conflict of interests before the conclusion of a contract of service or immediately upon arising of a conflict of interest. Members of the Management Board are aware that they are required to promptly inform other Management Board members and the Chairman of the Supervisory Council of any business offer related to business activity of the Company made to them, a person close to them or a person connected with them. Persons close to members of the Management Board include spouses, children who are minors and persons having shared a household with them for at least one year. Persons connected with members of the Management Board include civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or persons close to them or which is made for the benefit of them or persons close to them and which economic interests are to a significant extent similar with their economic interests or economic interests of persons close to them. The Company, its members of the Management Board follow this recommendation whenever applicable.

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

of questions before the voting. Discussions of transactions with a Supervisory Council member or parties related to them are undertaken at the level of general meetings and relevant Council members if they are also shareholders abstain from voting.

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

The Company is following this recommendation.

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

On 12 March 2019 the Supervisory Council approved the extension of the powers (re-election) of Edoardo Axel Preatoni until 31 December 2021, aligning his term of office with that of the CEO. Also, on 29 August 2019 the Supervisory Council of AS Pro Kapital Eesti approved the appointment and the signing of a service contract with the member of the Management Board Edoardo Preatoni.

During 2019 there were no new transactions with member of the Management Board Allan Remmelkoor.

During 2019 there were no transactions with the CEO and the member of the Management Board Paolo Michelozzi.

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

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

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

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

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

Mr. Paolo 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 2019, Mr. Michelozzi holds 281 647 shares of the Company as a beneficiary holder through Swedbank AS Clients.

Mr. Allan Remmelkoo 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. On 19 March 2019, the Supervisory Council approved an updated Risk Management Policy document where all previously denoted risks were grouped under logical general headings of: (i) business and economic risks related to Company's business, industry and market conditions; (ii) environmental risks; (iii) human resources and health and safety risks; and (iv) legal and political risks.

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

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

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

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

The Company's Supervisory Council meets at least once per quarter, before publication of the Company's quarterly reports and reviews the quarterly report and the Management Board's report of its activities performed during the quarter. The Company publishes important information to the public and its shareholders via the Tallinn Stock Exchange system. In addition to the quarterly and annual report announcements, the Company made 26 announcements in 2019 regarding investor meetings, holding investor conference webinars to introduce quarterly results, also regarding increasing sales revenues, changes in Remuneration and Audit committees, prolongation of a Member of the Management Board's (Edoardo Axel Preatoni's) term of office until 31 December 2021, about changes in Management Boards and Supervisory Councils of group subsidiaries, regarding the signing of an agreement with Nordecon to design and construct the first two phases (8 buildings) of the Kalaranna District, also about several notices of prolongation of redemption dates of convertible bonds PKG1, PKG6, PKG7 convertible bonds and redemption of non-convertible bonds 04.2019 and 09.2019, also regarding notification of calling the AGM and relevant resulting decisions and regarding the 2020 financial calendar.

The Supervisory Council has established an Audit committee comprising from 29 July 2019 onwards of Emanuele Bozzone and Petri Olkinuora (until 23 May 2019 of Emanuele Bozzone and Pertti Huuskonen), all Council members of the Company. The Company has published on its website the existence, duties, membership and position in the organisation of the audit committee members. The Audit committee is an advisory body of the Supervisory Council in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight and budget preparation and legality of the activities of the Company.

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

- 1) processing of financial information;
- 2) efficiency of risk management and internal control;

- 3) the process of auditing of annual accounts and consolidated accounts;
- 4) independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of the activities thereof with other requirements of Auditors Activities Act.

An audit committee is required to make recommendations or proposals to the Supervisory Council regarding the following issues:

- 1) appointment or removal of an audit firm;
- 2) appointment or removal of an internal auditor;
- 3) prevention or elimination of problems and inefficiencies in an organization;
- 4) compliance with legislation and the good practice of professional activities.

In 2019, the Audit Committee met one time (since there were no auditor's findings to follow up; at the time in the composition of Emanuele Bozzone and Pertti Huuskonen):

- to discuss the auditor's report and main findings and the approve the audited 2018 annual report of the Company.

The Company does not have an internal auditor as the Financial Controller performs this function as well. The Company would like to assure that its external auditors have never performed internal audit duties for the Company.

The Supervisory Council has established a Remuneration Committee from 29 July 2019 onwards comprising of Emanuele Bozzone and Ernesto Achille Preatoni (until 23 May 2019 of Emanuele Bozzone and Petri Olkinuora), all 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 2019, the Remuneration Committee met one time (at the time in the composition of Emanuele Bozzone and Petri Olkinuora):

- to discuss the assessment of CEO achieving his 2018 targets, setting the CEO's targets for 2019 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 23 May 2019 prolonged the powers of two members of the Supervisory Council until 5 July 2020 and elected a new Supervisory Council member (Ernesto Achille Preatoni) for the term of one year until 22 May 2020. There are three Supervisory Council members. Mr. Emanuele Bozzone was re-elected as the Chairman of the Supervisory Council of the Company on 03 June 2019.

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
Ernesto Achille Preatoni	Italian	1942	23.05.2019	Member	22.05.2020	22 502 129
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. Ernesto Achille Preatoni started his career in 1967 as a financial advisor to private investors regarding targeted investments and fixed income products in currency trades and real estate. He has a vast experience in real estate (USA, Italy, Egypt, Baltics, the Ukraine, Russia and UAE) and in banking. From 1988, Ernesto Preatoni has been a founder and director of Domina Vacanze, a company active in hotel joint-properties and time-sharing sector. He is currently an executive at Ernesto Preatoni Group, the CEO of Domina Srl and the sole director of Domina Vip Travel Srl. Mr. Preatoni also holds Council member positions in A.F.I. American Financial Investments Limited, Eginvest Limited, Telom AG and Zenit Holding AG. Mr. Preatoni is also a counsellor and Chairman of the Board of Directors in Pk Sicily Spa. As of 31 December 2019, Mr. Preatoni indirectly owns 22 502 129 shares (39.69%) of the Company through OÜ Svalbork Invest and through Raiffeisen Bank International AG and Nordea Bank holding accounts.

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), Tampereen Infra Oy (municipal infra company, since 2019) 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), Rentto Oy (real estate developer and owner, since 2019) 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 Corporate Governance Recommendations. No more than two previous members of the Management Board having been members of the Management Board of the Issuer or a company controlled by the Issuer within the past three (3) years shall be members of the Supervisory Board at the same time. According to the belief of the Management Board this recommendation is followed.

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

Mr. Ernesto Achille Preatoni is not considered an independent member of the Council due to him being one of the largest shareholders of the Company and due to him serving on the boards of the following group subsidiaries: AS Pro Kapital Eesti, AS Tondi Kvartal, AS Tallinna Moekombinaat.

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

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

According to the belief of the Management Board of the Company this recommendation is followed. The Chairman of the Supervisory Council, Mr. Emanuele Bozzone, holds a senior management position in 3 other companies, none of them listed companies. In addition to serving on the Company's Supervisory Council and on the Councils of 3 group subsidiaries, Mr. Ernesto Preatoni holds 4 Supervisory Council appointments and senior management

positions in 5 other companies (2 of which as CEO or Chairman of the Board of Directors). In addition to serving on the Company's Supervisory Council, Mr. Olkinuora holds 15 Supervisory Council appointments, 6 as Chairman of the Council.

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

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

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

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

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

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

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

During 2019, in total 11 meetings of the Supervisory Council were held out of which six were minuted as resolutions made in writing without convening a meeting (foregoing the 7-day prior notice) due to the difficulty to coordinate travelling arrangements and time zones. All Supervisory Council Members attended 10 meetings of the Supervisory Council and Ernesto Preatoni did not participate in one of the meetings due to a prior other commitment.

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

3.3. Conflict of interests

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

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

3.3.2. A Supervisory Council member candidate should inform other members of the Supervisory Council about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Council should promptly inform the Chairman of the Supervisory Council and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year should be indicated in the CGR Report along with their resolutions. The persons close to a member of the Supervisory Council are spouses, a minor child and a person having shared a household with them for at least one year. Persons connected with a member of the Supervisory Council are civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or person close to them or which is made for their benefit or the benefit of a person close to them and which economic interests are to a significant extent similar with their economic interests or the economic interests of a person close to them.

According to the belief of the Management Board of the Company this recommendation is followed. No conflict of interest had occurred during the financial year of 2019.

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 2019 and no Supervisory Council Member resigned in relation to that.

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

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

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

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

Save for being one of the Company's largest shareholders (39.69% with 22 502 129 shares as at 31 December 2019), Mr. Ernesto Preatoni does not have any interests in companies which are Company's business partners, suppliers, clients and other related companies.

Mr. Petri Olkinuora is a sole owner of company Forbia OY, which as of 31 December 2019 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. This right to increase share capital to the same extent of 1 200 000 euros for another three years, i.e. until 22 May 2022 was granted by the shareholders meeting held on 23 May 2019. Payment for the shares issued by the Supervisory Board may be made by monetary or non-monetary contributions pursuant to the resolution of the Supervisory Board. Valuation of the non-monetary contributions shall be performed pursuant to law and the Articles of Association.

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

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

- 4.2. The Management Board and the Supervisory Council ensure that the mutual exchange of data should be adequate and efficient. The Management Board informs the Supervisory Council regularly of all material circumstances, which pertain to planning of the Company's activities, business activities, risks connected

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

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

5. PUBLICATION OF INFORMATION

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

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

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

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

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

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

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

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

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

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

The Company is following the recommendation. The Corporate Governance report is part of the Company's annual report and can be found under 'Investors', subheading 'Financials' in the consolidated 2017 and 2018 as well as 2019 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 2019, when organising investor conference webinars, the Company has always timed them after publishing the interim and annual reports.

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

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

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

6. FINANCIAL REPORTING AND AUDIT

6.1. Reporting

6.1.1. As per the recommendation, Issuers should publish annually its annual report and within a fiscal year its interim reports. The Management Board should draw up annual accounts, which should be audited by the auditor and the Supervisory Council. On meeting of the Supervisory Council, where the annual account is reviewed, the auditor of the Issuer should participate upon invitation of the Supervisory Council. Members of the Management Board of the Issuer and other persons belonging to management should leave the meeting during the auditor reports the most material conclusions of audit. The shareholders should be presented with the annual report signed by members of the Management Board and the Supervisory Council for examination. Together with annual report, the Supervisory Council should make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code. The Company is following this recommendation. Previously, the Company has published its interim reports 6 weeks after period end and the annual report within the legal allotted 6 months from fiscal year-end. In 2019, the Company has considerably brought forward its reporting and published its interim reports within 1 month from period end and its annual report in April 2019 and has been able to publish on schedule.

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 2016-2018 and for 2019 this was reconfirmed at the Company's AGM of 23 May 2019. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2019 was 53 800 euros (net of VAT).

In 2019, besides provision of audit services AS Deloitte Audit Eesti has not rendered any advisory or other services to the Company. As per the OECD 2015 Corporate Governance recommendations regarding avoidance of using external auditors for performance of non-audit services, the Company is certain that rendering tax advisory and translation services will not impair the auditor's independence as to auditing nor will it result in auditing their own work.

6.2.2. As per the recommendation, before entering a contract for auditing services with an auditor, the Management Board should present the Supervisory Council with the draft contract for approval. In a contract to be concluded with an auditor,

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

The Company is following this recommendation.

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

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

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

The Company is following this recommendation. The lead auditor was present at the Company's 2019 AGM to enable shareholders to ask questions about the results of the audit.

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

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

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

- an overview of the progress of the audit, co-operation with employees, subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;
- an overview of the independence of the auditor and the absence of conflict of interests during the audit;
- an analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;

- their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;
- his or her opinion regarding financial forecasts made and the quality of the budget.

The Auditor should present an overview, analysis and opinion described above in writing to the Supervisory Council.

The Company is following this recommendation.

7. HUMAN RESOURCE POLICY

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

8. DIVIDEND POLICY

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

In 2019, the Company did not distribute any dividends as profit to the shareholders, but transferred 51 627.58 euros into the statutory reserve (1/20 of net profit annually until mandatory reserve amount is reached) and transferred the remaining 18 005 279.42 euros to the retained earnings of previous periods.

Management declaration

The Management Board declares and confirms that according to their best knowledge, the year 2019 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 2020

Allan Remmelkoo
Chief Operating Officer
Member of the Management Board



29 April 2020

Edoardo Preatoni
Member of the Management Board



29 April 2020

Consolidated financial statements

Consolidated statement of financial position

in thousands of euros	Notes	31.12.2019	31.12.2018
ASSETS			
Current assets			
Cash and cash equivalents	8	10 616	7 040
Current receivables	9	1 475	2 928
Inventories	10	41 031	59 331
Total current assets		53 122	69 299
Non-current assets			
Non-current receivables	11	2 297	216
Property, plant and equipment	12	7 146	7 128
Right-of-use assets	12	519	0
Investment property	13	147 365	168 145
Intangible assets		372	324
Total non-current assets		157 699	175 813
TOTAL ASSETS		210 821	245 112
LIABILITIES AND EQUITY			
Current liabilities			
Current debt	14	111 759	10 328
Customer advances	22	3 974	5 707
Current payables	15	8 741	11 939
Tax liabilities		1 155	357
Short-term provisions		267	852
Total current liabilities		125 896	29 183
Non-current liabilities			
Non-current debt	16	10 871	112 009
Other non-current payables		1 013	1 039
Deferred income tax liabilities	27	1 348	2 004
Long-term provisions		127	139
Total non-current liabilities		13 359	115 191
TOTAL LIABILITIES		139 255	144 374
Equity attributable to owners of the Company			
Share capital in nominal value	20	11 338	11 338
Share premium	20	5 661	5 661
Statutory reserve	20	1 134	1 082
Revaluation surplus	20	3 262	3 262
Retained earnings		76 725	59 944
Profit/ loss for the financial year		-26 981	16 827
Total equity attributable to owners of the Company		71 139	98 114
Non-controlling interest	21	427	2 624
TOTAL EQUITY		71 566	100 738
TOTAL LIABILITIES AND EQUITY		210 821	245 112

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

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Notes	2019	2018
CONTINUING OPERATIONS			
Operating income			
Revenue	22	55 276	27 991
Cost of sales	23	-39 467	-18 415
Gross profit		15 809	9 576
Marketing expenses	24	-728	-1 336
Administration expenses	24	-6 013	-5 427
Other operating income	25	95	18 839
<i>Including net result from fair value adjustments of investment properties</i>	13	0	17 995
Other operating expenses	25	-24 341	-169
<i>Including net result from fair value adjustments of investment properties</i>	13	-24 236	0
Operating profit/ loss		-15 178	21 483
Finance income	26	4	4
Finance cost	26	-14 019	-3 473
Profit/ loss before income tax		-29 193	18 014
Income tax	27	21	42
Profit/ loss from continuing operations		-29 172	18 056
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Total comprehensive profit/ loss for the year		-29 172	18 056
Attributable to:			
Owners of the Company		-26 981	16 827
Non-controlling interests	21	-2 191	1 229
Earnings per share			
From continuing operations			
Basic (euros per share)	28	-0.48	0.30
Diluted (euros per share)	28	-0.48	0.30

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

Consolidated statement of cash flows

in thousands of euros	Note	2019	2018
Cash flows from operating activities			
Profit/ loss for the year		-29 172	18 056
Adjustments for:			
Depreciation and amortisation of non-current assets		399	214
Gain from disposal of property, plant and equipment		0	-4
Gain from disposal of investment property	13	-3	-418
Loss from write-off of PPE and intangible assets		6	0
Change in fair value of property, plant and equipment		-15	-13
Change in fair value of investment property	13	24 236	-17 995
Finance income and costs	26	14 016	3 469
Change in deferred tax assets and liabilities	27	-656	-54
Other non-monetary changes (net amounts)		419	15 458
Movements in working capital:			
Change in receivables and prepayments		-630	1 781
Change in inventories	10	18 276	-21 307
Change in liabilities and prepayments		-6 412	-128
Change in provisions		-51	-107
Net cash used/ generated in operating activities		20 413	-1 048
Cash flows from investing activities			
Payments for property, plant and equipment		-226	-206
Payments for intangible assets		-74	-24
Proceeds from disposal of property, plant and equipment	12	0	336
Payments for investment property	13	-6 019	-47 786
Proceeds from disposal of investment property	13	2 170	1 000
Interests received		4	4
Net cash used in investing activities		-4 145	-46 676
Cash flows from financing activities			
Dividend payments		0	-850
Redemption of convertible bonds	14,18	0	-9
Redemption of non-convertible bonds	14,18	-500	-640
Proceeds from borrowings		16 461	56 923
Repayment of borrowings		-21 551	-7 496
Repayment of lease obligations		-192	0
Interests paid		-6 910	-3 481
Net cash used/ generated by financing activities		-12 692	44 447
Net change in cash and cash equivalents		3 576	-3 277
Cash and cash equivalents at the beginning of the period	8	7 040	10 317
Cash and cash equivalents at the end of the period	8	10 616	7 040

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 statutory reserve	0	0	52	0	-52	0	0	0
Changes in statutory reserve in non-controlling interest	0	0	0	0	6	6	-6	0
Comprehensive loss for the period	0	0	0	0	-26 981	-26 981	-2 191	-29 172
31.12.2019	11 338	5 661	1 134	3 262	49 744	71 139	427	71 566

Changes in non-controlling interests are described in Note 7 and Note 21. Changes in revaluation reserve are described in Note 20.

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 2019 were signed by the Management Board at 29 April 2020.

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	Ownership
		31.12.2019	31.12.2018
Raiffeisen Bank International AG	Austria	48.68%	49.44%
Clearstream Banking Luxembourg S.A. Clients	Luxembourg	20.80%	18.42%
Nordea Bank Finland Plc Clients	Finland	11.13%	10.87%
OÜ Svalbork Invest	Estonia	6.41%	7.15%

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 2019 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, 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 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 became effective for accounting periods beginning on or after 1 January 2019 and supersedes the former 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) was applied and the Group applied practical expedient not to reassess whether a contract is, or contains, a lease at the date of initial application. The Group as a lessee recognises 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 impact of application of IFRS 16 from 1 January 2019: the assets and liabilities of the Group increased in the statement of financial position for 674

thousand euros and 673 thousand euros respectively, applying incremental borrowing rate of 2.62% for office premises and vehicles and 5% for land leases.

in thousands of euros

Operating lease commitment at 31 December 2018	737
Discounted using incremental borrowing rate 2.62%	315
Discounted using incremental borrowing rate 5%	358
Lease liability recognised in the statement of financial position at 1 January 2019	673

- **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, IFRS 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 adopted IFRS 16 from 1 January 2019, 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 16 to the retained earnings as at 1 January 2019 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:

- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition

- of Material - adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform - adopted by the EU on 15 January 2020 (effective for annual periods beginning on or after 1 January 2020);
 - **Amendments to References to the Conceptual Framework in IFRS Standards** adopted by the EU on 29 November 2019 (effective for annual periods beginning on or after 1 January 2020).

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”** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2022),

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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

3.4 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.

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

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

controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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

3.5 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.

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

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

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

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

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 initially recognised at cost which includes direct purchase costs and other costs directly attributable to the acquisition of the inventories incurred in bringing the inventories to their present location and condition. The principles of recognition of borrowing cost are described in 3.16 „Financial liabilities and equity instruments“.

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

Inventories regarding real estate developments are recognised as property held for sale or works in progress depending on the level of completion.

Transfers from inventory to investment property shall be made when, the property no longer meets the definition of inventory and there is a change in use, evidenced that the assets are hold for capital appreciation.

3.9 Property, plant and equipment

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

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

Subsequent expenditure incurred for items of property, plant and equipment are added to the carrying value if it is probable that future economic benefits associated with the

asset will flow to the Company and the cost of the asset can be measured reliably. Replaced parts are derecognised. Other repair and maintenance costs are recognised as expenses at the time they are incurred.

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

3.10 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 from 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 websites.

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

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

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

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

3.12 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 or 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.

Measurement of financial assets at amortized cost

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

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

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

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

Measurement of financial assets at fair value through other comprehensive income

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

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

Measurement of financial assets at fair value through profit or loss

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

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

Impairment of financial assets

The Company uses the following models for determining impairment allowances:

- general model (basic);
- simplified model.

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.

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.

Derecognition of financial assets

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

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

3.16 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 (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.

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

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time (two years) to

get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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

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 customer;
- 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.

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 payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset.

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, amortisation cost of plant, property and equipment.

Other expenses

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

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

The Group as a Lessee (till 31.12.2018)

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 a Lessee (from 01.01.2019)

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating

expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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

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

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

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

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

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

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease

incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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

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

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

The Group as lessor

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.

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 investment property

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. From 2019, tax rate of 14/86 can be applied to dividend payments that be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. 2018 is the first year to be taken into account.

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

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

Other subsidiaries

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

3.24 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, 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; 12 and 13). Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary course of business. Objects are recognized as investment property if purchase objective is gaining profit from rent or rise of market value. Also, objects are recognized as investment property if it is intended to keep them for long time and which have several purposes of use.

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

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

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

Collection risk of receivables

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

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

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		Principal activity
		31.12.2019	31.12.2018	
AS Pro Kapital Grupp	Estonia			Holding activities, parent
Held directly by AS Pro Kapital Grupp:				
AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Vilnius Real Estate UAB	Lithuania	100.00%	100.00%	Real estate development
Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
OÜ Pro Kapital Germany Holdings	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Germany GmbH	Germany	100.00%	100.00%	Real estate development
Held directly by AS Pro Kapital Eesti:				
OÜ Ilmarise Kvartal	Estonia	100.00%	100.00%	Real estate development
AS Tondi Kvartal	Estonia	100.00%	100.00%	Real estate development
OÜ Pro Halduse	Estonia	100.00%	100.00%	Real estate management
AS Tallinna Moekombinaat	Estonia	93.35%	93.35%	Shopping centre
OÜ Kalaranna Kvartal	Estonia	100.00%	100.00%	Real estate development
Held directly by AS Tondi Kvartal:				
OÜ Marsi Elu	Estonia	100.00%	100.00%	Real estate development
OÜ Dunte Arendus	Estonia	100.00%	100.00%	Real estate development
Held directly by Pro Kapital Vilnius Real Estate UAB:				
PK Invest UAB	Lithuania	100.00%	100.00%	Real estate development
In Vitam UAB	Lithuania	100.00%	100.00%	Real estate management
Held directly 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		Revenue for 2019	Profit/loss for 2019	Net Assets	
	31.12.2019	31.12.2018			31.12.2019	31.12.2018
AS Pro Kapital Eesti	17 981	17 981	777	3 249	123 777	120 528
OÜ Ilmarise Kvartal	286	286	135	121	3 375	3 254
AS Tondi Kvartal	4 364	4 364	825	421	24 901	24 480
OÜ Marsi Elu	458	458	19 240	3 082	5 597	2 515
OÜ Dunte Arendus	3	3	0	0	3	3
OÜ Pro Halduse	27	27	47	-49	544	593
AS Tallinna Moekombinaat	13 375	13 375	9 486	-30 221	7 163	37 384
OÜ Kalaranna Kvartal	4 003	3	2	-1 609	2 036	-355
Pro Kapital Vilnius Real Estate UAB	2 375	2 375	659	127	1 972	1 845
PK Invest UAB	6 679	6 679	16 927	5 703	9 320	3 617
Pro Kapital Bonum UAB	800	800	0	26	907	998
In Vitam UAB	43	43	210	27	31	106
Pro Kapital Latvia PJSC	10 188	10 188	453	-225	9 249	9 474
Klīversala SIA	9 819	9 819	4 713	1 349	19 826	18 477
Tallina Nekustamie Īpašumi SIA Nekustamo īpašumu sabiedrība	7 289	6 589	0	-1 081	-404	-23
Zvaigznes centrs SIA	2 500	2 500	15	-211	13	224
OÜ Pro Kapital Germany Holding	971	971	0	0	967	968
Pro Kapital Germany GmbH	25	25	492	-106	2 714	2 820
PK Hotel Management Services GmbH	966	966	3 959	76	235	159

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
2019						
Revenue (Note 22)	0	28 911	4 733	17 688	3 944	55 276
<i>Incl sales of real estate</i>	0	19 367	4 640	17 412	0	41 419
<i>Incl rental income</i>	0	9 467	71	49	0	9 587
<i>Incl hotel operating</i>	0	0	0	0	3 944	3 944
<i>Incl maintenance services</i>	0	48	0	172	0	220
<i>Incl other services</i>	0	29	22	55	0	106
Other operating income & expenses (net)	-3	-23 537	-696	-26	16	-24 246
<i>Incl fair value adjustments</i>	0	-23 529	-707	0	0	-24 236
Segment operating profit/ loss	-2 114	-16 246	497	2 487	198	-15 178
Finance income and cost (net)	-3 183	-10 676	-124	-14	-18	-14 015
Profit/ loss before income tax	-5 297	-26 921	373	2 473	180	-29 192
Income tax	0	0	-30	50	1	21
Non-controlling interest	0	-2 191	0	0	0	-2 191
Net profit/ loss for the financial year attributable to owners of the Company	-5 297	-24 731	343	2 523	181	-26 981
31.12.2019						
Assets	31 976	138 250	19 623	14 844	6 128	210 821
Liabilities	39 127	93 812	2 819	2 189	1 308	139 255
Acquisition of non-current assets (excluding investment properties)	1	133	2	2	162	300
Write-off of non-current assets	0	-14	0	-1	0	-15
Depreciation and amortisation	-5	-78	-54	-32	-230	-399

in thousands of euros	PKG Holding	Estonia	Latvia	Lithuania	Germany	Total
2018						
Revenue (Note 22)	0	15 463	5 765	2 828	3 935	27 991
<i>Incl sales of real estate</i>	0	13 284	5 616	2 553	0	21 453
<i>Incl rental income</i>	0	1 271	69	118	0	1 458
<i>Incl hotel operating</i>	0	0	0	0	3 935	3 935
<i>Incl maintenance services</i>	0	643	10	141	0	794
<i>Incl other services</i>	0	265	70	16	0	351
Other operating income & expenses (net)	-1	20 599	-1 934	0	6	18 670
<i>Incl fair value adjustments</i>	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

Note 7. Changes in ownership in subsidiaries

Changes in minority shareholding	AS Tallinna Moekombinaat
Minority (%) as at 31.12.2017	6.65%
Minority (%) as at 31.12.2018	6.65%
Minority (%) as at 31.12.2019	6.65%

Value of minority shareholding

in thousands of euros

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
Changes in statutory reserve in non-controlling interests	-6
Loss for the reporting period	-2 191
Non-controlling interest as at 31.12.2019	427

Note 8. Cash and cash equivalents

in thousands of euros	31.12.2019	31.12.2018
Cash at hand	25	31
Bank accounts	10 591	7 009
Total	10 616	7 040

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	31.12.2019	31.12.2018
Trade receivables from contracts with customers	721	791
Trade receivables related to operating leases	1 070	192
Allowance for doubtful debts (Note 24)	-619	-14
Receivables from related parties (Note 29)	0	2
Other receivables	101	38
Accrued income	50	130
Prepaid expenses	152	1 789
Total	1 475	2 928

Trade receivables have increased by 0.8 million euros compared to the previous period. The change is affected by an increase in trade receivables from operating leases. Prepaid expenses have decreased by 1.6 million euros in 2019, mostly due to reclaimed VAT. Prepaid expenses comprise of prepaid value added tax and expenses. Allowance for doubtful debts in amount of 619 thousand euros, which are related to T1 Mall of Tallinn shopping centre, have been estimated and recognised by using provision matrix based on Group's historical credit loss experience (IFRS 9). Estimations are based on historical collection experience.

The Company has analysed the maturity of signed rental agreements in T1 Mall of Tallinn as at the end of the year and estimated (prior to state of emergency) receivable payments to be as follows:

Maturity analysis of operating lease payments

in thousands of euros	31.12.2019	31.12.2018
Year 1	3 120	6 379
Year 2	4 869	7 185
Year 3	7 102	7 714
Year 4	7 982	7 785
Year 5 and onward	8 240	7 011
Total	31 313	36 074

Note 10. Inventories

in thousands of euros	31.12.2019	31.12.2018
Property held for resale	17 782	16 604
<i>incl. Kristina Houses, Tallinn</i>	<i>459</i>	<i>1 242</i>
<i>incl. River Breeze, Riga</i>	<i>9 890</i>	<i>12 513</i>
<i>incl. Šaltinių Namai, Vilnius</i>	<i>7 209</i>	<i>2 115</i>
<i>incl. other properties</i>	<i>224</i>	<i>734</i>
Works in progress	23 091	42 665
<i>incl. Kristiine City, Tallinn</i>	<i>722</i>	<i>4 917</i>
<i>incl. Kalaranna District, Tallinn</i>	<i>16 399</i>	<i>15 681</i>
<i>incl. Šaltinių Namai, Vilnius</i>	<i>5 970</i>	<i>22 067</i>
Goods bought for resale	119	58
Prepayments for inventories	39	4
Total	41 031	59 331

Property held for resale include completed real estate stock in Tallinn, Riga and Vilnius. Works in progress include properties under development or waiting for development in the nearest future in Tallinn and Vilnius.

In Tallinn three apartments in Kristina Houses development are recorded as property held for resale as at the end of 2019. All apartments were sold after the reporting date. Properties of Marsi 5 (renamed as Talli 5) and Tondi 49a are recorded as works in progress with the total of 3 168 m² of net sellable area. The Company expects to receive the average income of 2 472 €/m² including parking and storages and considering estimated annual price increase. Total average development cost of net area is estimated to be 1 511 €/m². Tondi street 49a in Tallinn was reclassified from investment properties into inventories during reporting period in the amount of 0.4 million euros as the Company plans to start the development of the property soon. Works in progress include also Kalaranna development with the total estimated net sellable area of 33 259 m². The Company expects to receive the average income of 3 503 €/m² from residential and commercial areas, including parking and storages and considering estimated annual price increase. Total average development cost of net area is estimated to be 1 976 €/m².

In Riga, in River Breeze project in Kugu iela 28, 4 972 m² were available for sale at the end of 2019. The company expects to receive the average income of 3 414 €/m² including parking and storages and considering estimated annual price increase.

In Vilnius, in Šaltinių Namai project 3 112 m² were available for sale at the end of 2019 with the estimated average income 3 320 €/m². The following development of 5 823 m² of net sellable area waits for construction. The Company expects to receive average income of 2 947 €/m² on residential and commercial areas, both including storage and parking areas and considering estimated annual price increase. The estimated average development cost of net area is 1 243 €/m².

All estimations are not including VAT and are made prior to COVID-19 outbreak.

The cost of inventories recognised as an expense during the year was 31.3 million euros (2018: 13.7 million euros). In 2019 inventories were written down for 40 thousand euros because 5 parking lots in Ilmarise Kvartal are under public road and have no selling value. 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 17.8 million euros are expected to be sold within one to two years year and works in progress on amount of 23.1 million euros within two to five years.

Note 11. Non-Current receivables

in thousands of euros	31.12.2019	31.12.2018
Deposit - bank account	0	5
Accrued income	2 265	176
Finance leases	30	34
Other non-current receivables	2	1
Total	2 297	216

Accrued income has increased for 2.1 million euros due to recognition of estimation of rental income in T1 Mall of Tallinn according to IFRS 15.

Note 12. Property, plant and equipment

Since 2011 the Group's land and buildings are carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Fair value of property is determined 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) was formed to account for revaluation differences (see Note 20). Revaluation reserve totals to 3.3 million euros as at 31 December 2019 and 31 December 2018, consisting 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.

Hotel property and office premises in thousands of euros	Cost value		Revaluation value	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Kurhausstrasse 28, Bad Kreuznach	3 134	3 142	6 232	6 244
Office premises	715	715	730	730
Total	3 849	3 857	6 962	6 974

On 1 January 2019 the Group recognised leases in total amount of 674 thousand euros as right-of-use assets using modified retrospective approach (initial application of IFRS 16). Right-of-use assets were depreciated by 155 thousand euros during the reporting period and recorded at a residual value of 519 thousand euros on the balance date. Interest expenses relates to right-of-use assets were recorded in amount of 28 thousand euros for 2019. On comparable date 31 December 2018, property, plant and equipment did not include right-of-use assets.

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 reconstruction	Total
01.01.2018	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
Additions:					
Acquired	121	41	64	0	226
Disposals and write offs:					
Written off	0	0	-8	0	-8
31.12.2019	9 077	959	336	0	10 372

Accumulated depreciation

in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Assets under reconstruction	Total
01.01.2018	1 934	843	288	0	3 065
Additions:					
Charge for the period	147	21	30	0	198
Reclassification	-44	0	-123	0	-167
Change in fair value	-15	0	0	0	-15
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
Additions:					
Charge for the period	148	25	49	0	222
Change in fair value	-15	0	0	0	-15
Disposals and write offs:					
Written off	0	0	-7	0	-7
31.12.2019	2 115	889	222	0	3 226

Residual value

in thousands of euros	Land and buildings revaluation value	Machinery and equipment	Other property, plant and equipment	Assets under reconstruction	Total
31.12.2018	6 974	54	100	0	7 128
31.12.2019	6 962	70	114	0	7 146

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 valuers 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 valuers 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. Valuers 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 2019. Compared to 2018, the occupancy rate and annual revenue remained at the same level in 2019. The gross operating profit decreased by 3% and amounted to 700 thousand euros comparing to 725 thousand euros in 2018.

Note 13. Investment property

in thousands of euros	Investment property held for increase in value	Investment properties held for operating lease	Total
Balance at 01.01.2018	114 140	0	114 140
Additions:			
Acquired	50 200	0	50 200
Capitalised interests (Note 17)	4 070	0	4 070
Disposals:			
Sold	-582	0	-582
Changes in fair value:			
Gain from change in fair value (Note 25)	17 995	0	17 995
Start of operating lease	-129 200	129 200	0
Reclassified into inventories	-17 678	0	-17 678
Balance at 31.12.2018	38 945	129 200	168 145
Additions:			
Acquired	1 273	4 746	6 019
Disposals:			
Sold	-2 167	0	-2 167
Changes in fair value:			
Loss from change in fair value (Note 25)	-1 190	-23 046	-24 236
Reclassified into inventories (Note 10)	-396	0	-396
Balance at 31.12.2019	36 465	110 900	147 365

The fair value of the Group's investment property at 31 December 2019 and 31 December 2018 has been derived on the basis of valuations carried out by Colliers International independent valuers 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.

As a result, the total of 24 million euros loss was recorded of which 23 million euros of decrease in value was related to the T1 Mall of Tallinn. The valuation of the last year was made based on estimations and expectations. With the first year of operations now concluded, it has become apparent that the financial performance of the shopping mall has been below the initial estimates. The underperformance is partially explained by higher vacancies than originally anticipated, largely driven by lower demand for retail spaces than estimated. In order to reduce vacancies, the operator has offered new tenants rebates as well as tenant improvements to tailor vacant areas to the tenant's desired needs; all of which have come at the expense of a lower operating profit in the short term, and which in turn has led to a decrease in property value.

During 2019 the Company has paid for investments 6.0 million euros (2018: 47.8) of which ca 4.7 million euros was invested into T1 Mall of Tallinn. AS Tallinna Moekombinaat finished capitalisation of interest expenses on 31 December 2018 due to the completion of T1 Mall of Tallinn shopping centre.

In 2019 the Company reclassified the property at Tondi Street 49a in Tallinn from investment properties into inventories in amount of 0.4 million euros, as the Company plans to start the development of the property soon.

The Company sold the property at Tammsaare tee 56/58 for 2.17 million euros and earned profit of 3 thousand euros from the transaction at the end of the reporting period.

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 valuers with the following information: purpose of a property, development plans, estimated construction costs and estimated sales or rental prices if available. Valuers 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 ca 55 thousand square meters of leasable area. The mall represents the first new-generation shopping and entertainment centre concept, where retail areas are combined with numerous options of leisure and entertainment activities. 5-year discounted cash flow method has been used with a discount rate 8.7% (2018: 8.5%) and exit yield 7%. The valuator has considered the following inputs in valuation: the construction works are completed (2018: 2 million euros to be invested); average rent is supposed to be 12.97 €/m² on 1st year, 13.95 €/m² on 2nd year, 14.24 €/m² on 3rd year, 14.52 on 4th year and 15.24 on the 5th year of operations (2018: 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), annual vacancy rate 17% 1st year, 12% 2nd year, 8% 3rd year, 6% 4th year, 5% 5th year (2018: 11% 1st year, 7% 2nd year, 5% further on) total average rent including annual increase and vacancy loss 8.07 €/m² (2018: 11.28 €/m²), exit yield after 5 year rental period 7% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 13.61 €/m²

(2018: 15.52 €/m²). The decrease in fair value comparing to last valuation was 18.30 million euros, the subsidiary company has invested 4.7 million euros into the project in 2019, total net effect of revaluation is -23.0 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 (2018: 7 000 square meters). The valuator has considered the following inputs in valuation: construction period of 1 year, starting after 2 year of waiting period (2018: the same), construction cost 562 €/m² (2018: 537 €/m²), total average cost of net leasable area 1 759 €/m² (2018: 1 685 €/m²), average rent 15.37 €/m² for retail spaces (2018: 15.55 €/m²), total average rent including annual increase and vacancy loss 13.90 €/m² (2018: 14.60 €/m²), exit yield after 3 year rental period 7% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 13.37 €/m² (2018: 16.07 €/m²). 6-year discounted cash flow method has been used by the valuator with a discount rate of 12.0% (2018: the 14.5%). The decrease in fair value comparing to last valuation was 30 thousand euros, the subsidiary company has invested 27 thousand euros into the project in 2019, total net effect of revaluation is -57 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 buildings. Construction works of ten new Kristina Houses and renovation of Marsi 6 was successfully completed and apartments sold. Marsi 5 (with the new address Talli 5) and Tondi 49a properties are recorded as inventories in the Company's statement of financial position. The valuator has considered the following inputs in valuation of investment for different phases: total net sellable residential area of 58 225 square meters and rentable commercial area of 6 500 square meters (2018: 50 699 square meters and 24 644 square meters respectively including Tammsaare tee 56/58 property, which was sold during 2019), construction period for first phase up to 3 years, second phase up to 4 years starting from 2021, third phase up to 4 years starting from 2024 and last phase up to 3 years starting 2027 (2018: 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), construction cost 698-754 €/m² (2018: 626-768 €/m²), total average cost of net areas 1 473 €/m² (2018: 1 419 €/m²), starting average apartment sale price 1 900 €/m² (2018: 1 900 €/m²), total average apartment sale price with annual increase

including storage and parking areas 2 271 €/m² (2018: 2 271 €/m²), starting average rent 11 €/m² (2018: 10 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 10.67 €/m² (2018: 8.30 €/m²), exit yield after 2 year rental period 7.25-7.75% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 12.46 €/m² (2018: 11.78 €/m²). For valuation 14-years (2018: the same) discounted cash flow method has been used by the valuator with discount rate 12.0% (2018: 13.50%). The decrease in fair value comparing to last valuation was 38 thousand euros, the subsidiary company has invested 387 thousand euros into the project in 2019, total net effect of revaluation is -425 thousand euros.

Kliversala residential complex, Riga

Kliversala is a residential and commercial development project located on the left bank of river Daugava. The land is located between two main bridges, next to one of the biggest parks in Riga and has a long coastline. The property is situated on the waterfront and provides views of the Old Town on the opposite bank. The project for the residential area foresees a series of exclusive apartment buildings coupled with commercial premises. It has been planned to develop the property in phases. The first phase, the River Breeze Residence, was completed in spring 2018 and is recorded as saleable inventories. Remaining phases are classified as investment property. The valuator has considered the following inputs in valuation of the three phases: net sellable residential area of 38 311 square meters and rentable commercial area of 3 550 square meters, construction period of 2 years for each phase, construction cost 928 €/m² (2018: 894 €/m²), total average cost of net areas 2 221 €/m² (2018: 2 227 €/m²), starting average apartment sale price 3 000 €/m² (2018: 3 150 €/m²), total average apartment sale price with annual increase including storage and parking areas 3 439 €/m² (2018: 3 672 €/m²), starting average rent 13 €/m² (2018: the same) for commercial spaces, total average rent including annual increase and vacancy loss 19.55 €/m² (2018: 21.25 €/m²), exit yield after 2 year rental period 7.50% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 20.12 €/m² (2018: 22.00 €/m²). 10-year discounted cash flow method has been used by the valuator with a discount rate of 11.10% and starting without delay. The increase in fair value comparing to last valuation was 127 thousand euros, the subsidiary company has invested 28 thousand euros into the project in 2019, total net effect of revaluation is 99 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 20 814 square meters and 357 square meters respectively (2018: 20 950 square meters residential and 370 square meters commercial premises). It has been planned to develop the property in one phase. The valuator has considered the following inputs in valuation: construction period of two

years, construction cost 857 €/m² (2018: 835 €/m²), total average cost of net areas 1 810 €/m² (2018: 1 720 €/m²), starting average apartment sale price 2 500 €/m² (2018: the same), total average apartment sale price with annual increase including storage and parking areas 2 768 €/m² (2018: 2 786 €/m²), starting average rent 13 €/m² (2018: the same) for commercial spaces, total average rent including annual increase and vacancy loss 12.55 €/m² (2018: the same €/m²), exit yield after 2 year rental period 7.25% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 7.21 €/m² (2018: 7.21 €/m²). 7-year discounted cash flow method has been used by the valuator with a discount rate of 10.75% (2018: 11.10%) and with the assumption of start after one year waiting period (2018: immediate start). There was no change in fair value comparing to last valuation. The subsidiary company has invested 738 thousand euros into the projecting of the property in 2019, total net effect of revaluation is -738 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. 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, construction cost 933 €/m² (2018: 859 €/m²), total average cost of net areas 1 722 €/m² (2018: 1 720 €/m²), starting rent 11.5-13.5 €/m² (2018: 12.5-13.0 €/m²) for commercial spaces, total average rent including annual increase and vacancy loss 8.04 €/m² (2018: 7.42 €/m²), exit yield after 3-5 year rental period 7.5% (2018: the same) with exit price after vacancy, operating expenses and brokerage fee 13.32 €/m² (2018: the same). For valuation 6-year discounted cash flow method has been used by the valuator with a discount rate of 11.00% (2018: the same). The increase in fair value comparing to last valuation was 7 thousand euros, the subsidiary company has invested 84 thousand euros into the project in 2019, total net effect of revaluation is -77 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:

31.12.2018	Fair value	Construction costs/m2		Sale price/ m2		Rent price/ m2		Exit yield	
		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

31.12.2019	Fair value	Construction costs/m2		Sale price/ m2		Rent price/ m2		Exit yield	
		5%	-5%	5%	-5%	5%	-5%	5%	-5%
T1/Peterb	110 900	N/A	N/A	N/A	N/A	3 900	-3 900	-5700	6 600
Ülemiste	2 370	-310	420	N/A	N/A	600	-470	-670	740
Tondi	14 416	-910	890	3 020	-2 940	N/A	N/A	N/A	N/A
Kliversala	13 570	-3 160	3 160	1 160	-1 150	340	-340	N/A	N/A
Tallinas	3 660	-1 560	1 560	700	-700	30	-30	N/A	N/A
Zvaigz/Briv	2 449	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Zvaigznes/Brivibas sensitivity analyses were not provided in 2019 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 19 to these consolidated financial statements.

Note 14. Current debt

in thousands of euros	Bank loans and overdrafts (Note 17)	Convertible bonds (Note 18)	Non- convertible bonds (Note 18)	Current portion of financial lease	Total
01.01.2018	168	5 930	640	0	6 738
Changes from financing cash flows	201	-9	-640	0	-448
Other changes	5 028	-1 590	600	0	4 038
31.12.2018	5 397	4 331	600	0	10 328
Changes from financing cash flows	-10 390	-108	-500	-192	-11 190
Other changes	82 719	1 652	27 867	383	112 621
31.12.2019	77 726	5 875	27 967	191	111 759

The balance of current debt has changed significantly due to reclassification of non-convertible bonds and repayment of bank loans. The Company repaid bank loans for 21.5 million euros, received bank loans for 11.1 million euros and reclassified 82.7 million euros of loan liabilities to current debt. Due to start of the reorganisation proceedings of the group subsidiary AS Tallinna Moekombinaat related uncertainty, the loan provided to the company has been reclassified as a short-term debt in amount of 75.4 million euros (Note 17). Non-convertible bonds in amount of 27.9 million euros have been reclassified to current debt due to maturity date falling within 12 months and they have been redeemed in March 2020.

Note 15. Current payables

in thousands of euros	31.12.2019	31.12.2018
Trade payables	5 262	10 315
Accrued expenses	3 441	1 623
Other	38	1
Total	8 741	11 939

Trade payables have decreased due to payments to construction companies in relation to T1 Mall of Tallinn and Šaltinių Namai in Vilnius developments. Mainly interest liabilities have affected an increase of accrued expenses by 1.8 million euros.

Note 16. Non-current debt

in thousands of euros	Bank loans and overdrafts (Note 17)	Convertible bonds (Note 18)	Non-convertible bonds (Note 18)	Payables to minority shareholders	Non-current portion of financial lease	Total
01.01.2018	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
Changes from financing cash flows	5 300	0	0	0	0	5 300
Other changes	-77 583	-1 552	-27 763	36	424	-106 438
31.12.2019	5 687	4 250	0	510	424	10 871

Note 17. Bank loans and overdrafts

Borrower	Creditor	Loan balance		Maturity
		31.12.2019	31.12.2018	
AS Pro Kapital Grupp	Swedbank AS (credit cards)	1	4	Monthly
OÜ Marsi Elu	LHV Pank AS	0	870	Repaid
OÜ Marsi Elu	LHV Pank AS	0	285	Repaid
OÜ Marsi Elu	LHV Pank AS	0	2 700	Repaid
AS Tondi Kvartal	Luminor Bank AS (Nordea Bank AB)	417	445	02.09.2021
OÜ Kalaranna Kvartal	LHV Pank AS	5 300	0	21.02.2023
AS Tallinna Moekombinaat	Lintgen Adjacent Investments S.A.R.L.	75 356	70 222	27.12.2021
Kliversala SIA	AS Swedbanka (Latvia)	2 339	4 494	14.11.2020
PK Invest UAB	AB Luminor Bankas (Lithuania)	0	4 347	Repaid
Total		83 413	83 367	

All debts are related to development activities with an exception of AS Tondi Kvartal loan from Luminor Bank AS with the balance of 417 thousand euros. The loan was taken to renovate Sõjakooli 11 building in Tallinn and it is used as the Company's head-office.

The most significant loan facility has been provided to AS Tallinna Moekombinaat (TMK) for the construction of T1 Mall of Tallinn. The total amount of the facility agreement was 65 million euros to which accumulated interests have been added until interest payment obligation started (September 2019). The lower operating profitability of AS Tallinna Moekombinaat triggered non-fulfilment of two financial maintenance covenants under the loan facility agreement with the subsidiary's main creditor (DSCR or Debt Service Coverage Ratio and NLR or Net Leverage Ratio – which are ratios to assess the health of the investment in conformity with expected operating results.)

However, the operating result of AS Tallinna Moekombinaat in 2019 before non-monetary revaluation effect and the interest costs is positive. AS Tallinna Moekombinaat is also in payment default under the above-mentioned loan facility agreement. While the first regular interest payment under the loan facility agreement was duly made in September 2019, during ongoing negotiations with the lender AS Tallinna Moekombinaat has made no further interest or default interest payments. Such non-payment and the above described non-fulfilment of financial covenants entitle the creditor to accelerate its claims under the facility agreement. On 3 April 2020, after the reporting period, Harju County Court has initiated reorganisation proceedings as per application of TMK. The reorganisation plan is under compilation and has to be presented 2 June 2020 to the court.

All agreements and liabilities are fixed in euros. Loan amounts to be repaid within 12 months total to 2.4 million euros, remaining 81.0 million euros are expected to be repaid within three years. Current bank loans are described also in Note 14, non-current bank loans in Note 16, collaterals of the loans in Note 19 and finance costs in Note 26.

The total interest cost on bank loans for the reporting period was 10.4 million euros (2018: 130 thousand euros). Interests on financing for T1 Mall of Tallinn project have been capitalised and recorded as part of the investment property until 31 December 2018 and therefor did not influence interest expenses before 2019. The effect from the recognition of the finance cost is 9.5 million euros in 2019 (Note 13). Interests in amount of 5.1 million euros have been added to the loan principal balance and constitutes the total of 75.4 million euros at the end of the reporting period.

Note 18 Convertible and non-convertible bonds

in thousands of euros	31.12.2019	31.12.2018
Current convertible debt (Note 14)	5 875	4 331
Current non-convertible debt (Note 14)	27 967	600
Non-current convertible debt (Note 16)	4 250	5 802
Non-current non-convertible debt (Note 16)	0	27 763
Total	38 092	38 496

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 10.25 million euros on 31 December 2019. The balance sheet value is 10.1 million euros - 127 thousand euros of prolongation fees have been discounted from the value of the convertible bonds.

Registration date of bonds issued	13 Aug 2009	20 Jan 2010	10 Aug 2010	16 Sept 2010	29 Nov 2010	8 March 2011	25 May 2011
Number of bonds	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
Annual return (%) from issue price	7%	7%	7%	7%	7%	7%	7%
Interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Redemption date/ exchange date	13 Aug 2021	20 Jan 2022	10 Aug 2020	16 Sept 2020	29 Nov 2020	8 March 2021	25 May 2021

Interest cost of the period is described in Note 26.

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 30).

On 25 May 2019 the Company prolonged the redemption date of 82 950 PKG7 convertible bonds by 2 years. New redemption date is 25 May 2021.

On 13 August 2019 the Company prolonged the redemption date of 1 081 076 PKG1 convertible bonds by 2 years. New redemption date is 13 August 2021.

On 17 January 2020, after the reporting period, the Company prolonged the redemption date of 378 070 PKG2 convertible bonds by 2 years. New redemption date is 20 January 2022.

All other conditions for convertible bonds have remained unchanged. No bonds have been converted into shares until 31 December 2019 (Note 20).

Number of bonds	2019	2018
Number of convertible bonds at the beginning of period	3 661 521	3 664 721
Number of redeemed bonds	0	-3 200
Number of convertible bonds at the end of period	3 661 521	3 661 521
in thousands of euros		
Value of convertible bonds at the beginning of period	10 252	10 261
Value of redeemed bonds	0	-9
Value of the bonds at the end of the period	10 252	10 252
Current portion of liabilities at the end of the reporting period	5 875	4 331
Non-current portion of liabilities at the end of the reporting period	4 377	5 921

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

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

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 2019 the Company had 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 2018: 14 bonds with the value of 1.4 million euros). The last emission of the bonds was issued with a discount of 3%, therefore 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 2019 was 27.8 million euros (31 December 2018: 27.7 million euros).

Secured, callable, fixed rate bonds of the Company were secured with shares of all subsidiaries of the Group. On 8 July 2015 the bonds were 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
Annual return (%) from issue price	5%	5%	8%	8%	8%	8%
Interest payment	Once a year	Once a year	Twice a year	Twice a year	Twice a year	Twice a year
Redemption date	Redeemed	Redeemed	1 June 2020	1 June 2020	1 June 2020	1 June 2020

In February 2020, after reporting period, the Company secured refinancing of the existing senior secured bonds 2015/2020 (the “Existing Bonds”) in full by issuing new senior secured, called, fixed rate bonds 2020/2024 (the “New Bonds”) in total amount of 28.5 million euros. The New bonds are similar to the Existing Bonds with minor differences. All shares of Pro Kapital subsidiaries with and exception of As Tallinna Moekombinaat have been pledged. 285 bonds (value of 100 000 euros each) carry a fixed rate coupon 8% and mature in February 2024. The Existing Bonds were redeemed on 17 March 2020.

Number of bonds	2019	2018
Number of non-convertible bonds at the beginning of period	60	124
Number of non-convertible bonds redeemed	-60	-64
Number of non-convertible bonds at the end of period	0	60
in thousands of euros	2019	2018
Value of non-convertible bonds at the beginning of period	600	1 240
Value of redeemed non-convertible bonds	-600	-640
Value of the bonds at the end of the period	0	600
Current portion of liabilities at the end of the reporting period	0	600
Non-current portion of liabilities at the end of the reporting period	0	0

Number of bonds	2019	2018
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	2019	2018
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	29 300	0
Non-current portion of liabilities at the end of the reporting period	0	29 300

Note 19. Collaterals and pledged assets

Liabilities disclosed in Note 18 of these consolidated financial statements are pledged with the following properties:

Beneficiary	Collateral description	in thousands of euros	
		31.12.2019	31.12.2018
Bank accounts			
Nordic Trustee & Agency AB (Sweden)	Nordea Bank AB	37	37
Lintgen Adjacent Investments S.A.R.L.	Swedbank AS	3	919
Inventories (Note 10)			
LHV Pank AS *	Sõjakooli St 12, 12a, 12b, 12c, Tallinn	N/A	3 176
LHV Pank AS *	Sammu St 6, 6a, 6b, Tallinn	N/A	2 807
LHV Pank AS	Kalaranna St 5, 7, 8, 22, Tallinn	16 398	15 681
AB Luminor Bankas (Lithuania) *	Aguonu 8 & 10, Vilnius	N/A	12 916
AS Swedbanka (Latvia)	Trijadibas St 5, Riga	23 527	25 956
Property, plant and equipment (Note 12)			
Luminor Bank AS (Nordea Bank AB)	Sõjakooli 11, Tallinn	730	730
Investment property (Note 13)			
Lintgen Adjacent Investments S.A.R.L.	Peterburi 2, Tallinn	110 900	129 200

* Loans have been repaid during the reporting period

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 64 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 2019. After reporting period and redemption of the bonds, the pledges were released. Simultaneously new pledges were set to guarantee new bonds, which were issued in February 2020.

AS Tallinna Moekombinaat has pledged in favour of Lintgen Adjacent Investments S.A.R.L the General and Deposit bank accounts with Swedbank AS. The total balance on the accounts amounted to 3 thousand euros as at the end of reporting period.

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

Note 20. 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 2019 and on 31 December 2018 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 18 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible bonds. The owners of the convertible bonds have not exercised their option to convert the bonds into shares of the Group.

Reserves

Statutory legal reserve of the Parent is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as at 31 December 2019 amounted to 1.1 million euros (2018: 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 12). According to IAS 8.17 principle, revaluation surplus is recorded prospectively and gains are included into comprehensive income. Revaluation surplus as at 31 December 2019 is 3.3 million euros (2018: 3.3 million euros).

Note 21. Non-controlling interest

in thousands of euros	31.12.2019	31.12.2018
Arising from AS Pro Kapital Eesti subgroup	427	2 624
Total	427	2 624

At the end of 2019 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 31.12.2017	6.65%
Non-controlling interest as at 31.12.2018	6.65%
Non-controlling interest as at 31.12.2019	6.65%

Summarised financial information	AS Tallinna Moekombinaat	
in thousands of euros	31.12.2019	31.12.2018
Current assets	606	4 047
Non-current assets	113 267	129 466
Current liabilities	82 731	6 550
Non-current liabilities	23 980	89 579
Equity attributable to owners	7 163	37 384
<i>including non-controlling interest</i>	<i>427</i>	<i>2 624</i>

in thousands of euros	2019	2018
Operating profit/ loss	-19 382	17 678
Profit/ loss before tax	-30 221	16 958
Profit/loss for the year	-30 221	16 958
Attributable to:		
Owners of the Company	-28 030	15 729
Non-controlling interest	-2 191	1 229
Total comprehensive income/ loss for the year	-30 221	16 958
Attributable to:		
Owners of the Company	-28 030	15 729
Non-controlling interest	-2 191	1 229

in thousands of euros	2019	2018
Net cash flows used in/ generated by operating activities	1 259	-791
Net cash flows used in investing activities	-4 800	-45 225
Net cash flows generated by financing activities	1 417	48 240
Net change in cash and cash equivalents	-2 124	2 224

Note 22. Revenue

Segment revenue (Note 6)

in thousands of euros	2019	2018
Revenue from contracts with customers		
Revenue from sale of real estate	41 419	21 453
Hotel operating revenue	3 944	3 935
Revenue from maintenance and other services	326	1 145
Total revenue from contracts with customers	45 689	26 533
Rental income	9 587	1 458
Total	55 276	27 991

Timing of revenue recognition

in thousands of euros	2019	2018
At a point in time		
Revenue from sale of real estate	41 419	21 453
Hotel operating revenue	3 944	3 935
Revenue from other services	106	351
Total revenue recognised at a point in time	45 469	25 739
Over time		
Revenue from maintenance fees	220	794
Total revenue recognised over time	220	794
Rental income	9 587	1 458
Total	55 276	27 991

Revenue from sale of real estate has increased 93% year-over-year due to active sales in Kristina Houses in Tallinn, Kliversala in Riga and in Šaltinių Namai in Vilnius.

Rental income has increased by 8.1 million euros compared to the same period in the last year due to the rental revenues of T1 Mall of Tallinn, which had been operating for the full year (opened in November 2018).

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 1.7 million euros compared to the last year and amounted to 4.0 million euros at the end of the reporting period. The balance of 5.7 million euros of customer advances at the end of 2018 has been recognized as revenue from sale of real estate during the reporting period.

Note 23. Cost of sales

Split by activities

in thousands of euros	2019	2018
Cost of real estate sold	31 857	14 021
Cost of providing rental services	4 522	782
Cost of hotel operations	2 937	2 889
Cost of maintenance and other services	151	723
Total	39 467	18 415

Split by type

in thousands of euros	2019	2018
Personnel expenses	1 067	951
Depreciation charge	242	135
Inventory write-off	40	0
Other	38 118	17 329
<i>Incl cost of real estate sold</i>	<i>31 355</i>	<i>13 710</i>
<i>Incl maintenance services purchased</i>	<i>4 937</i>	<i>1 590</i>
<i>Incl supplies costs</i>	<i>1 421</i>	<i>1 410</i>
<i>Incl commissions and service fees</i>	<i>391</i>	<i>306</i>
<i>Incl other</i>	<i>14</i>	<i>313</i>
Total	39 467	18 415

Note 24. Marketing and administration expenses

Marketing expenses

in thousands of euros	2019	2018
Personnel expenses	334	328
Other	394	1 008
Total	728	1 336

Administration expenses

in thousands of euros	2019	2018
Personnel expenses	2 869	2 814
Depreciation charge	137	63
Allowance for doubtful debt (Note 9)	619	15
Written-off uncollectable debt	30	0
Land and real estate taxes	404	450
Other	1 954	2 085
Total	6 013	5 427

In 2019, average number of employees in the Group was 89 (2018: 89) and total personnel cost (included in direct, marketing and administrative costs) in 2019 was 4.26 million euros compared to 4.09 million euros in 2018.

Note 25. Other operating income and expenses

Other income

in thousands of euros	2019	2018
Fines collected	37	348
Profit from sale of investment property (Note 13)	3	418
Profit from sales of property, plant and equipment	0	4
Net gain from fair value adjustments	15	18 008
<i>from property, plant and equipment</i> (Note 12)	15	13
<i>from investment property</i> (Note 13)	0	17 995
Other	40	61
Total	95	18 839

Other expenses

in thousands of euros	2019	2018
Fines and penalties paid	36	92
Loss from write off of non-current assets	6	0
Net gain from fair value adjustments	24 236	0
<i>from investment property</i> (Note 13)	24 236	0
Other	63	77
Total	24 341	169

In 2019 main fair value adjustment came from T1 Mall of Tallinn. Also, Tondi properties in Tallinn and Tallinas development in Riga recorded loss from devaluation due to changes in inputs for valuation assumptions.

Note 26. Finance income and cost

Finance income

in thousands of euros	2019	2018
Interest income	4	4
Total	4	4

Finance cost

in thousands of euros	2019	2018
Interest expenses:	13 590	3 260
<i>Interest expenses of the bonds</i>	3 169	3 130
<i>Interest expenses of loans and overdrafts</i>	10 421	130
Other financial expenses	429	213
Total	14 019	3 473

Bond interest conditions are described in Note 18, bank loans in Note 17. Interests on financing from Lintgen Adjacent Investments for T1 Mall of Tallinn project (AS Tallinna Moekombinaat) have been capitalised and recorded as part of investment property until 31 December 2018 and therefor did not influence interest expenses during previous periods. The effect from the change in recognition of interests as finance cost is 9.5 million euros for 2019 (Note 13).

Note 27. Income tax

Rates of statutory corporate income tax	2019	2018
Estonia	20%	20%
Latvia	20%	20%
Lithuania	15%	15%
Germany	15%	15%

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

Income tax expense in unconsolidated reports

in thousands of euros 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	6	9	0	12
Effective income tax rate	0%	0%	2%	0%	0%

in thousands of euros 2019	Estonia	Latvia	Lithuania	Germany	Total
Profit/ loss before taxation (unconsolidated)	-31 401	-138	6 489	-31	-25 081
Income tax, statutory rate	0	0	973	0	973
Non-deductible expenses	0	0	7	0	7
Non-taxable income and tax incentive	0	0	-45	0	-45
Tax loss utilised	0	0	-330	0	-330
Reversals	0	0	0	0	0
Total income tax expense	0	0	605	0	605
Effective income tax rate	0%	0%	9%	0%	2%

Income tax expense in consolidated report

in thousands of euros	2019	2018
Profit/ loss before income tax	-29 193	21 041
Estimated income tax respective to the tax rates	-656	-54
Adjustments to estimated income tax:		
Income tax, statutory rate	973	65
Non-deductible expenses (+)	7	2
Non-taxable income and tax incentive	-45	-69
Tax loss utilised	-330	-14
Reversal loss carry forward (+)	0	28
Income tax expense	-51	-42
Including tax expense in continuing operations	-51	-42
Effective tax rate	N/A	N/A
Income tax expense	635	12
Deferred income tax expense	-656	-54
Total effect on income statement	-21	-42
Income tax paid	3	33

Deferred income tax asset and liability (net) movements

in thousands of euros	Deferred				Total
	Accelerated tax depreciation	development cost	Revaluation of assets	Deferred tax losses	
1.01.2018	0	1 631	427	0	2 058
Effect on income statement:					
Income tax expenses of the reporting period	0	-57	3	0	-54
31.12.2018	0	1 574	430	0	2 004
Effect on income statement:					
Income tax expenses and reclaims of the reporting period	0	-656	0	0	-656
31.12.2019	0	918	430	0	1 348

Deferred income tax balances

in thousands of euros	31.12.2019	31.12.2018
Deferred income tax liability (+)	1 348	2 004
Total, net	1 348	2 004

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	31.12.2019	31.12.2018
Group's retained earnings	49 744	76 771
Estonian tax rate applicable	20%	20%
Contingent CIT obligation	9 949	15 354
Maximum net dividend	39 795	61 417

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 2019 and 31 December 2018.

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 2019 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 2018: 44.2 million euros). 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 28. 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	01.01.2019-31.12.2019	$(56\,687\,954 \times 365/365)$	=56 687 954
For the period	01.01.2018-31.12.2018	$(56\,687\,954 \times 365/365)$	=56 687 954

Indicative earnings per share from continuing operations:

2019	-26 981 thousand euros/ 56 687 954 = -0.48 euros
2018	16 827 thousand euros/ 56 687 954 = 0.30 euros

The convertible bonds issued by the Company did not have a dilutive effect on earnings in 2019 and 2018, 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 29. 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	2019	2018
Significant owners and owner related companies		
Sales of goods/ services	194	62
Purchase of goods/ services	1	8
Purchase of real estate	0	1 978
Payments for real estate	0	1 776
Dividend payment	0	851
Minority shareholders		
Interest expenses incurred	37	37
Other shareholders/ bondholders		
Interest expenses incurred	733	718
Redemption of convertible bonds	0	9
Redemption of non-convertible bonds	500	640
Interest payments	755	718
Members of the Management Board and Council		
Salaries and bonuses paid to management	988	974
Purchase of goods/ services	13	18

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.

Receivables from related parties

in thousands of euros	31.12.2019	31.12.2018
Short-term receivables		
Receivables from related parties (Note 9)	0	2
Total	0	2

Receivables from related parties consisted of trade receivables in 2018.

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	31.12.2019	31.12.2018
Short-term payables		
To other shareholders/ bondholders	100	0
Long-term payables		
To significant owner related company	0	203
To minority shareholders	510	474
Total	610	677

Long-term payables include loan and interest balances owed to minority shareholders of AS Tallinna Moekombinaat. The balance on 31 December 2019 consists of 308 thousand euros loan amounts and accumulated interests in amount 202 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	31.12.2019	31.12.2018
Significant owner and owner related companies*	36.96%	37.97%
Members of the Council and individuals related them	0.10%	0.10%
Members of the Board and individuals related them	0.50%	0.50%

**Significant owner is also a member of the Council. For the sake of clarity, the participation is recorded only on this line.*

Note 30. Subsequent events

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

On 12 February 2020 the Company announced about the signing the construction contract with OÜ Vanalinna Ehitus for re-construction of a stables-building and additional construction of a new adjacent building as well as a semi-underground parking to be located at Marsi Street in Kristiine City. The Ratsuri Houses development project will have 39 apartments and the construction cost is ca 3.5 million euros (including VAT). The completion is planned for spring of 2021.

On 19 February 2020 the Company announced of successful issue of senior secured, callable, fixed rate bonds (New Bonds) in total amount of 28.5 million euros. The new bonds carry a fixed rated coupon of 8% and mature in February 2024.

On 20 February 2020 the Company notified of early redemption of the senior secured, callable fixed rate bonds (Existing Bonds) in full. Pro Kapital sent an irrevocable notice of early redemption to all directly registered owners and registered authorised nominees in the debt register for the Existing Bonds kept by Euroclear Sweden as of 19 February 2020. The Existing Bonds were redeemed on 17 March 2020. In accordance with the terms and conditions for the Existing Bonds, these 279 bonds were redeemed at an amount equal to 101.00 per cent of the nominal amount, *i.e.* 101 000 euros per each bond. The total redemption amount per each Existing Bond, together with accrued and unpaid interest up to and including the early redemption date was 103 355.56 euros.

On 31 March 2020 the owner and operator of T1 Mall of Tallinn shopping centre, AS Tallinna Moekombinaat (TMK, a group subsidiary of AS Pro Kapital Grupp), submitted an application to Harju County Court for commencement of reorganisation proceedings with the purpose to overcome temporary liquidity issues, reasonably reorganise liabilities and increase profitability of TMK. On 3 April 2020 Harju County Court initiated reorganisation proceedings. On 2 June 2020, TMK has to submit to the Court a reorganisation plan on implementation of reorganisation measures, including impact of reorganisation to the creditors. The creditors will need to vote to accept the plan and the final decision on approval will be taken by the Court. The initiation of reorganisation proceedings shall not influence in any way the day-to-day economic activities of the T1 Mall of Tallinn, its tenants and partners – it means that after the restrictions set by the Estonian government to the shopping centres are lifted, T1 Mall of Tallinn will be fully opened and shall continue its operations as before. The purpose of reorganisation proceedings is to ensure continuation of normal daily business by safeguarding the rights and interests of investors, employees, creditors and all cooperation partners. The reorganisation process involves only AS Tallinna Moekombinaat and has no direct influence to any other group company of AS Pro Kapital Grupp.

As at 31 March 2020, AS Tallinna Moekombinaat had 71 creditors with the total of ca 7 million euros past due debts. The main creditor is an international financing platform TSSP with Lintgen Adjacent Investments S.a.r.l acting as this lender's agent. At the end of 2016, AS Tallinna Moekombinaat signed a loan agreement to finance the construction works of the shopping centre, situated at Peterburi road 2, for the total amount of 65 million euros. It is a specific 5-year development loan facility for interim financing, with a higher interest rate than cash flow project loans and this loan is repayable as a bullet at the end of the term. There has been a plan to refinance the abovementioned development loan with a cash flow project loan when the shopping

centre reaches a stable cash flow generating ability. The development loan is secured with a pledge on Peterburi road 2 land plot in the amount of 84,5 million euros. On 31 March 2020, the principal amount of the loan was ca 75,4 million euros. The principal amount has increased by interests, which have been accumulated until interest payment start date. Interest payment obligation started in September 2019. High interest rate aside, the loan agreement also includes financial covenants as non-monetary obligations. Due to significantly longer launch period of the shopping centre and the consequent lower income performance than expected, AS Tallinna Moekombinaat has not been able to meet the agreed financial covenants nor pay correctly the interest payments to the lender. Also, TMK would not be able to repay the principal amount in case the loan is accelerated. Amidst the global pandemic situation of COVID-19, constructive negotiations with the lender have not yielded any results and there was a risk that the lender will terminate the loan agreement and accelerate the repayment of the loan. Also, there is no certainty how long the emergency situation will last and what will be its full impact on the operations of TMK. To ensure operations continue and that tenants, employees and other stakeholders of T1 Mall of Tallinn are protected, AS Tallinna Moekombinaat has submitted an application to commence its reorganisation proceedings. The next steps shall include compilation and approval of a reorganisation plan, how to increase the operations of the centre to the maximum extent possible, given the temporary influence of the COVID-19 crisis on consumer behaviour and on the economy as a whole. In order to halt the spread of the corona virus, Estonia has declared an emergency situation in the country, as a result of which TMK has been forced to temporarily close down most of the T1 Mall of Tallinn centre since 27 March 2020. Only Selver, a couple of food shops and the pharmacy are allowed to remain open.

The operations of AS Tallinna Moekombinaat were profitable in 2019 – the centre generated operating profit each month. Due to high financing costs and the non-monetary decrease in the property value the net result at the end of 2019 was negative. TMK estimates to be able to fulfil its obligations, if the conditions of its debt would be reasonable (considering normal activities before emergency situation). As the management of the shopping centre considers its activities sustainable, the application for reorganisation is a necessary measure to protect its stakeholders. In the worst-case scenario, TMK will not be able to reorganise its debts and has to declare its bankruptcy.

To understand the full impact of TMK to the consolidated financial reports, below are given the main financial indicators of consolidated statements compared to the carveout – consolidated statements excluding TMK.

in thousands of euros	PKG consolidated	PKG without TMK	Difference
Revenue	55 276	45 900	-17%
Gross profit	15 809	10 913	-31%
EBITDA	-14 779	4 566	131%
EBT	-29 193	1 028	104%
Net result	-29 172	1 049	104%
Total Assets	210 821	134 506	-36%
Current Assets	53 122	54 259	2%
Non-Current Assets	157 699	80 247	-49%
Total Liabilities	139 255	56 728	-59%
Current Liabilities	125 896	44 907	-64%
Non-Current Liabilities	13 359	11 821	-12%
Equity	71 566	77 778	9%
Gross profit margin, %	28.6%	23.8%	-17%
EBITDA margin, %	-26.7%	9.9%	137%
EBT margin, %	-52.8%	2.2%	104%
Net margin, %	-52.8%	2.3%	104%
Equity ratio, %	33.9%	57.8%	70%

In the worst-case scenario, if TMK goes bankrupt, the group (AS Pro Kapital Eesti) will have to record the maximum losses of 31 million euros including loan amount of 21.9, unpaid interest balance 1.9 million euros, unpaid invoices 0.3 million euros and the portion of equity of TMK in the amount of 6.9 million euros as at the end of 2019. If to discount the investments and receivables from TMK until 0, the consolidated assets of the group would be 96.7 million euros and the equity 40.2 million euros on 31 December 2019. However, it would not affect liquidity of the group nor the short-term cash flows as AS Pro Kapital Eesti was not supposed to receive any loan repayments nor interests before the main lender. The situation would influence the long-term cash flows to the extent of loan and interest payments.

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

In March 2020, after the reporting period, the worldwide spread of SARS-CoV-2 virus and COVID-19 became pandemic and the Company consider it as a non-corrective event after the reporting date. The management of the Company is unable to estimate

the exact negative impact to Company's financial results in 2020 as the length of the current emergency situation is undefined.

In Tallinn we are currently developing sea-side residential area of Kalaranna Kvartal in the City centre and also Kristiine City not far from the City centre. The bank financing of the ongoing developments has been secured and relevant presales agreements with the clients have been signed to guarantee the necessary proceeds to complete the works. There is currently no stock of completed apartments available for sale in Tallinn. New apartments will be ready in 2021 and presales are ongoing. Construction works of Kalaranna Kvartal and Ratsuri Houses in Kristiine City are ongoing according to the plan and we currently do not foresee any delays in completion timing.

In Riga there is currently no ongoing construction and preparations are being made to start the new stage of development in Kliversala Quarter and projecting is ongoing for the other two developments: in Tallinas and Brivibas streets. There is unsold inventory available in the River Breeze Residence, which is one of the high-end projects in the city. As the prices are in accordance with the luxury quality of the product, the sale of this project has been slower than in Tallinn, already before the start of the pandemic. Though, there has been some interest towards the apartment sale in spite of the economic situation in the world. The remaining loan balance related to the unsold inventory in River Breeze Residence is 1,7 million euros.

In Vilnius construction of five new residential buildings was completed in 2019. More than 77% of the apartments have been sold and there have been customers interested in buying apartments even during last weeks. The development loan has been repaid in full.

In Bad Kreuznach our hotel operations were paused from 23 March until further notice according to local restrictions set in relation to corona virus spread. The hotel operator expects to retain all the workforce and is meanwhile minimizing the costs to be ready to reopen in full after release from restrictions.

Considering the start of new residential developments, AS Pro Kapital Grupp will monitor the economic situation in all Baltic countries and in the world in general and if necessary, might postpone its development plans until the situation will stabilize. To secure health and wellbeing of our employees, clients and partners, the employees in our offices are working remotely, however being available by e-mails and on the phone. We are reviewing our fixed and variable costs and plan to make adjustments to spending where appropriate. AS Pro Kapital Grupp has consolidated cash balance over 10 million euros on its accounts as at 31 December 2019 and has in February successfully refinanced secured bonds with the new ones, which are redeemable in 2024. Although the economies of the world have been severely hit by the current situation, the business model of AS Pro Kapital Grupp is having a long-term view. We are constantly reviewing our risks and we strive to minimize any external impact to enable AS Pro Kapital Grupp reach its targets.

Note 31. 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	31.12.2019	31.12.2018
Cash and bank balances	10 616	7 040
Current receivables	1 475	2 928
Non-current receivables	2 297	216
Total	14 388	10 184

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

Financial liabilities

in thousands of euros	31.12.2019	31.12.2018
Current debt	111 759	10 328
Current payables	8 741	11 939
Non-current debt	10 871	112 009
Non-current payables	1 013	1 039
Total	132 384	135 315

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	31.12.2019	31.12.2018
Fixed rate liabilities	114 574	109 196
Variable rate liabilities (1-12 months)	2 369	5 393
Variable rate liabilities (12+ months)	5 687	7 748

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 81 thousand euros (131 thousand euros in 2018) and net loss would increase by 81 thousand euros (131 thousand euros in 2018).

Cash in banks also bear interest risk, especially due to negative rates and possible flooring. As at 31 December 2019 the Group had 10.6 million euros on bank accounts (31 December 2018: 7.0 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.

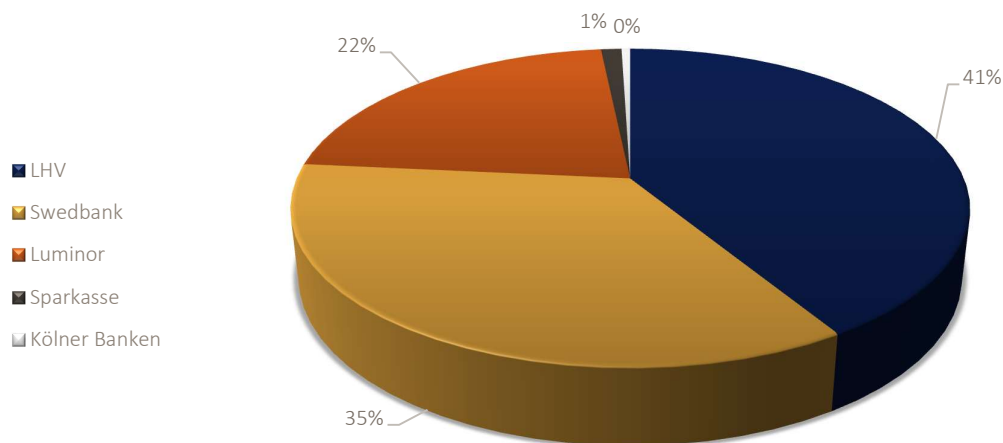
Credit risk

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. In extremely rare cases it may happen that the ownership is transferred to the buyer prior to final settlement. In this case a mortgage is set in favour of the Group entity to secure the debt. There were no such cases in 2019.

For rental, hotel and maintenance businesses the payment discipline of the customers is consistently followed and dealt with for mitigating the credit risk. Credit evaluations are performed and prepayments are requested for, where appropriate. The highest risk of credit losses is related to rental activities since the opening of T1 Mall of Tallinn shopping centre at the end of 2018. The balance of trade receivables related to operating leases as at 31 December 2019 was 1.1 million euros of which 0.6 million euros have been recorded as allowance for doubtful debts (Note 9). Tenants have to provide deposit amounts and/or bank guarantees to reduce the possible credit risk. The balance of provided deposit amounts was 0.9 million euros at the end of the year, recorded as other non-current payables.

Also, cash accounts with the banks are subjects to the credit risk. The Group has narrowed the risk by having its assets in different high ratings assigned banks. Currently the Group is holding assets in the following banks: LHV, Swedbank, Luminor, Nordea, Kölner Banken and Sparkasse. Cash on accounts in the banks as at 31 December 2019 was distributed as follows:



Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by constantly monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. As at 31 December 2019 the working capital of the Group's is positive and the current assets portion of short-term liabilities is 1.1 (as at 31 December 2018: 2.4).

Financial liabilities of the Group by due dates:

in thousands of euros	31.12.2019	Repayment of liabilities			31.12.2018	Repayment of liabilities		
		Within 1 year	Within 2-5 years	After 5 years		Within 1 year	Within 2-5 years	After 5 years
Bank loans	94 795	88 746	6 049	0	105 341	13 118	92 223	0
Lease liabilities	658	212	446	0	0	0	0	0
Other loans	1 066	0	0	1 066	1 029	0	0	1 029
Convertible bonds	10 952	6 469	4 483	0	11 424	5 258	6 166	0
Non-convertibles	0	0	0	0	646	646	0	0
Secured bonds	28 934	28 934	0	0	31 263	2 427	28 836	0
Trade payables	5 262	5 262	0	0	11 350	11 350	0	0
Other debt	9 005	6 517	2 488	0	10 102	6 920	3 182	0
Total	150 672	136 140	13 466	1 066	171 155	39 719	130 407	1 029

Financial liabilities carrying interests include accumulated interest amounts until repayment.

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

in thousands of euros	31.12.2019	Repayment of liabilities			31.12.2018	Repayment of liabilities		
		Within 1 month	2-3 months	4-12 months		Within 1 month	2-3 months	4-12 months
Bank loans	88 746	937	1 812	85 997	13 118	52	1 820	11 246
Lease liabilities	212	18	35	159	0	0	0	0
Convertible bonds	6 469	1 063	0	5 406	5 258	61	1 079	4 118
Non-convertible bonds	0	0	0	0	646	3	0	643
Secured bonds	28 934	100	0	28 834	2 427	0	0	2 427
Total	124 361	2 118	1 847	120 396	21 449	116	2 899	18 434

Financial liabilities carrying interests include accumulated interest amounts until repayment. The secured bonds with redemption date on 2 June 2020 were refinanced in the beginning of 2020.

Fair value

Based on the estimates of the Group's management, book value of the financial assets and liabilities does not differ significantly from their fair value, due to accounting policies used in Group.

Fair value of interest-bearing receivables and liabilities is not considered to be significantly different from their book value, because the interest rates fixed by the contracts underlying the corresponding receivables and liabilities do not significantly differ from the effective market interest rates.

Business risk

The business risk of the Group depends on the development of the real estate markets in the Baltic States and hotel market in Germany.

Before the world pandemic health crisis, the economy was growing in spite of occasional pessimistic sentiment and the Group strives to take advantage of the positive trends. The large and versatile real estate asset portfolio enables the Group to act flexibly to the market trends and accelerate or slow down the development activities according to the market needs.

Significant risk occurs with any crisis resulting in the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which decrease the demand for real estate and hotel services and have a negative impact to the Group operating activities, decreasing the sales and rent income as well as the gain from development activities, property management services and operating hotels. Changes in financial markets reduce the Group's business opportunities to involve local and foreign capital to finance business and to refinance existing financial liabilities.

Following instruments are exposed to market risk as at 31 December 2019:

in thousands of euros	Carrying amount	Allocation by due dates		
		Within 1 year	2-5 years	More than 5 years
Investment property (Note 13)	147 365	0	0	147 365
Property, plant and equipment (Note 12)	7 665	0	0	7 665
Inventories (assets held for sale) (Note 10)	41 031	17 940	23 091	0
Current debt (Note 14)	111 759	111 759	0	0
Non-current debt (Note 16)	10 871	0	10 361	510

In 2019 the net result from revaluation of investment property was -24.2 million euros (2018: 18.0 thousand euros). Interest expense on financial debt accounted for in profit and loss statement was 14.0 million euros (2018: 3.5 million euros). No interest expense was capitalised in 2019 (2018: 4.1 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.

	31.12.2019	31.12.2018
Equity to total assets	33.95%	41.10%
Debt to total assets	66.05%	58.90%
Long-term debt level	6.33%	47.00%

The Group pursues conservative financing policy. The goal is to use external financing so as to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. The Group seeks to maintain such long-term debt levels that are in reasonable proportion to growth in operations and which preserve the Group's credit standing.

Long-term financing is planned and obtained on project-by-project basis. Prior to application for external finance a company constructs budget for the project in question, performs sensitivity analysis. When applying for external financing, company carefully considers the effect such additional financing may have on its debt/equity ratio, gearing ratio and NPV of the project. Additional borrowing conditions in face of loan/financial covenants, as well as interest rate risks are taken into consideration. If any special conditions are set in external financing agreement (rental income, ratio of rented/vacant space, etc.), company seeks to meet them yet before the agreement is signed. Generally, the Group's policy is to finance its assets and operating requirements in the currency of the country/currency zone concerned, in order to create a natural hedge and avoid any currency risk.

Long-term partners are preferred for external financing, given their offers are most favourable. Long-term loans are to be approved by the Company's Council prior to the assumption of loan obligations. Short term overdrafts may be used to smooth out the seasonality of company's business and to maintain cash balances that are adequate for operating levels. Short term financing partners are usually those through whom everyday banking operations of a company are carried out.

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the adjusted unconsolidated equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 33 to these consolidated financial statements, the Parent has been in compliance with such an equity restriction as at 31 December 2019 and 31 December 2018.

Note 32. Lawsuits

To bring out better the events which might have material financial effect on the Company and its share price and not to burden the reporting with smaller litigation issues, the Group has set the policy to disclose in its reporting pending court litigation disputes which might have material financial effect on the Company and its share price. As per the policy all disputes which might have financial effect of at least 100 000 euros (at once or during the period of one financial year) are disclosed in the reporting.

As at 31 December 2019, AS Pro Kapital Eesti had two interlinked administrative court cases in progress. In the first court case, the company is requesting nullification of a decision of the Land Board whereby a cadastral unit located at Kalasadama 3, Tallinn, with 100% purpose of land under water bodies was not registered. On 27 March 2020 the Tallinn District Court decided in favour of AS Pro Kapital Eesti and ruled that the Land Board should make a new decision or, then, should invalidate its original 30 April 1999 decision from the privatisation era. As at 29 April 2020 the Land Board has not appealed the District Court's decision to the Supreme Court. On 27 April 2020 the Land Board appealed the District Court's decision to the Supreme Court, which has not started proceedings as at the date of publishing this report. The second court case is a claim of compensation against the state in relation to the same cadastral unit – court proceedings have been halted until a final court decision takes effect in the first court case. In case the Supreme Court takes the matter for review and decides in favour of the Land Board or if the Land Board should render its original decision from privatisation time invalid, then AS Pro Kapital Eesti will have unjustly paid land tax from this cadastral portion of land and the company shall have a right to claim that the state compensate 192 336 euros of land tax paid in excess during 2004-2018 and to claim that the state compensates 733 450 euros of the purchase price paid by the company for that portion of land, the claim for compensation amounting to 925 788 euros in total.

Note 33. 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	31.12.2019	31.12.2018
ASSETS		
Current assets		
Cash and cash equivalents	392	690
Current receivables	6 202	5 682
Total current assets	6 594	6 372
Non-current assets		
Investments in subsidiaries	29 165	29 165
Non-current receivables	20 186	22 126
Intangible assets	16	20
Total non-current assets	49 367	51 311
TOTAL ASSETS	55 961	57 683
LIABILITIES AND EQUITY		
Current liabilities		
Current debt	64 716	33 255
Current payables	920	905
Tax liabilities	50	55
Short-term provisions	0	36
Total current liabilities	65 686	34 252
Non-current liabilities		
Long-term debt	4 250	33 565
Non-current payables	51 508	48 929
Other non-current payables	10	33
Total non-current liabilities	55 768	82 527
Total liabilities	121 454	116 779
Equity		
Share capital in nominal value	11 338	11 338
Share premium	5 661	5 661
Statutory reserve	1 134	1 082
Accumulated losses	-83 626	-77 177
Total equity	-65 493	-59 096
TOTAL LIABILITIES AND EQUITY	55 961	57 683

Statement of income

in thousands of euros

	2019	2018
Operating income		
Revenue	760	705
Gross profit	760	705
Marketing expenses	-7	-11
Administration expenses	-2 105	-2 285
Other operating expenses	-3	-1
Operating loss	-1 355	-1 592
Finance income and cost		
Income from investments into subsidiaries	0	3 025
Interest income	695	710
Interest expense	-5 723	-5 462
Other finance income and cost	-13	-13
Loss for the year	-6 396	-3 332

Statement of changes in equity

in thousands of euros	Share capital	Share premium	Statutory reserve	Retained earnings	Loss for the year	Total equity
01.01.2018	11 338	5 661	1 082	-67 740	-6 105	-55 764
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
Allocation of net loss	0	0	0	-3 333	3 333	0
Changes in statutory reserve	0	0	52	-52	0	0
Result of the financial year	0	0	0	0	-6 396	-6 396
31.12.2019	11 338	5 661	1 134	-77 230	-6 396	-65 493
Cost of subsidiaries' shares	X	X	X	X	X	-29 165
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	166 224
Adjusted unconsolidated equity						
31.12.2019	X	X	X	X	X	71 566

Statement of cash flows

in thousands of euros	2019	2018
Cash flows from operating activities		
Loss for the year	-6 396	-3 332
Adjustments for:		
Amortisation of intangible assets	5	5
Finance income from subsidiary	0	-3 025
Finance income and costs	5 042	4 766
Other non-monetary changes	0	-124
Change in receivables and prepayments	-486	12
Change in liabilities and prepayments	31	229
Change in provisions	-59	0
Cash flow used in operating activities	-1 863	-1 469
Cash flows from investing activities		
Payments for intangible assets	-1	0
Loans granted	-803	-2 550
Repayments of loans granted	3 300	2 350
Interest received	103	127
Cash flows used in/ generated by investing activities	2 599	-73
Cash flows from financing activities		
Dividends paid	0	-850
Convertible bonds redeemed	0	-9
Non-convertible bonds redeemed	-500	-640
Proceeds from borrowings	3 037	4 170
Repayments of borrowings	-462	-82
Interests paid	-3 109	-3 072
Cash flows generated by financing activities	-1 034	-483
Net change in cash and cash equivalents	-298	-2 025
Cash and cash equivalents at the beginning of the year	690	2 715
Cash and cash equivalents at the end of the year	392	690

Signatures of the Management Board and Supervisory Council to the consolidated annual report 2019

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the profit allocation proposal for 2019.

Paolo Michelozzi

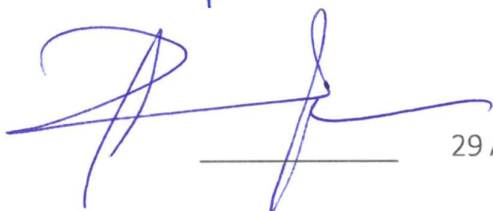
Chairman of the Management Board



29 April 2020

Allan Remmelkoor


Member of the Management Board



29 April 2020

Edoardo Preatoni

Member of the Management Board



29 April 2020

The Supervisory Council has reviewed the consolidated annual report which consists of the management report and the consolidated financial statements prepared by the Management Board, and which also includes the auditor's report and the profit allocation proposal and approved it for presentation at the General Meeting of Shareholders.

Emanuele Bozzone

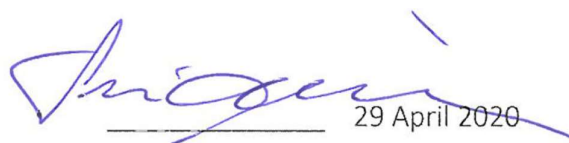
Chairman of the Supervisory Council



29 April 2020

Petri Olkinuora

Member of the Supervisory Council



29 April 2020

Ernesto Preatoni

Member of the Supervisory Council



29 April 2020

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"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, 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.

Emphasis of Matter

We draw attention to Note 30 "Subsequent Events" in the financial statements, which disclose that Tallinna Moekombinaat AS, the subsidiary of Pro Kapital Grupp AS, has submitted application for reorganization proceedings to Harju County Court on 31 March 2020. On 3 April the application was approved by the Court and by 2 June 2020 Tallinna Moekombinaat AS has to submit a reorganization plan to the Court. Pro Kapital Grupp AS ability to retain or lose control over the operations, assets and liabilities of Tallinna Moekombinaat AS depends on the outcome of the reorganization process. Our opinion is not modified in respect of this matter.

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	How our audit addressed the key audit matter
<p>Valuation of investment property</p> <p>As at 31 December 2019 the carrying value of investment properties amounted to 147 365 thousand EUR and the fair value adjustment recorded in profit and loss and other comprehensive income for the year in respect of investment properties was 24 236 thousand EUR loss. Significant judgment is required by management in determining the fair value of investment property.</p> <p>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 fair values for all of the properties held in these categories.</p> <p>The inputs and assumptions with the most significant impact on these valuations are disclosed in Note 13, 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.</p> <p>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.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • We assessed the competence, capabilities and objectivity of management's independent appraiser. • 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. • With the support of our valuation specialists we evaluated management's judgments and independent valuation result, in particular: <ul style="list-style-type: none"> • The models used; and • The significant assumptions including discount rates, related revenue and construction costs and the timing of development plans. <p>We compared the assumptions used to market data and historical financial information.</p> <p>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.</p> <p>Furthermore, we selected a sample and tested data inputs underpinning the investment property valuation, to assess the accuracy, reliability and completeness thereof.</p> <p>We also assessed the appropriateness of the consolidated financial statements disclosures concerning those key management assumptions and pertaining to the investment property as such.</p>

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 23 May 2019. The length of our total uninterrupted engagement to the Group as a public interest entity, including previous renewals of the engagement and our reappointments as the statutory auditors is 8 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 28 April 2020.

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.

4 May 2020



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 cover the losses of the year ended at 31 December 2019 in amount of 26 981 million euros to retained earnings.