Mainor Ülemiste AS

CONSOLIDATED ANNUAL REPORT 2019

Beginning of financial year	01.01.2019
End of financial year	31.12.2019
Registry code	10348595
Address	Valukoja 8 11415 Tallinn, Harju County
Phone	+372 53 046992
Main business activity	Leased or owned real estate rent and operation
Auditor	Deloitte Audit Eesti AS
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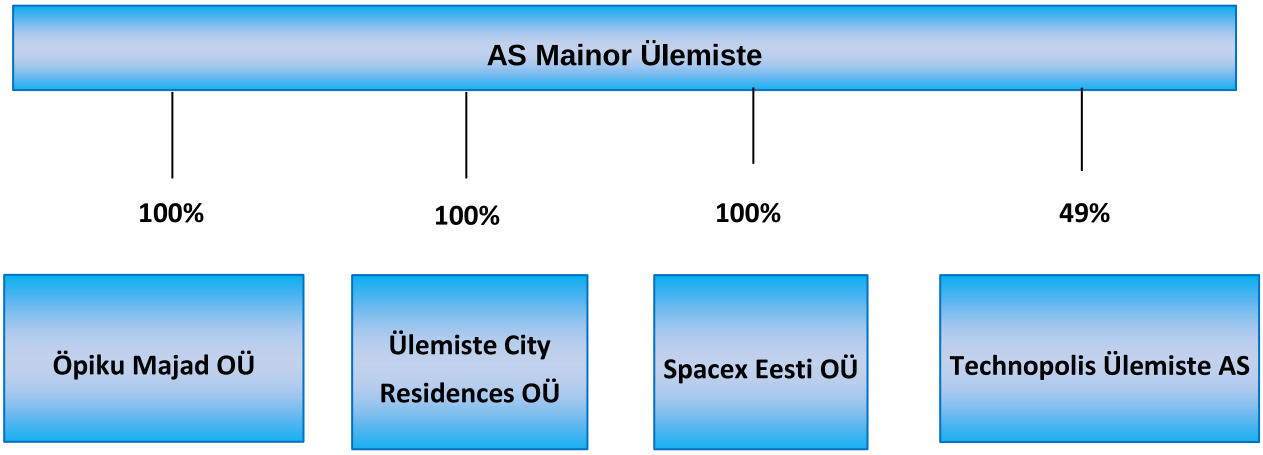

In 2019, the entity was engaged in development of Ülemiste City office campus, including construction of new buildings and renovation of old buildings, renting premises, providing tenants with necessary services and developing these services, preparing new real estate projects.

Mainor Ülemiste AS and Mainor AS actively cooperate with national authorities and on the 19th of February 2019 president of the Republic of Estonia Kersti Kaljulaid opened a new E-Estonia Presentation Centre in Ülemiste city Öpiku Maja, which introduces Estonia unique digital society and e-solutions to the foreign high-level private and public sector representatives.

In 2018, construction of the Valukoja 7 office building has started to being rebuilt into Ülemiste Health Centre. In November 2019 the 1st stage of Ülemiste Health Centre was opened, where mow family doctors, Benu Apteek Eesti OÜ, Synlab Eesti OÜ, Qvalitas Arstikeskus AS and Medemis OÜ are now operating. In 2020 Ülemiste Health Centre will add medical specialists, occupational health, rehabilitation and functional diagnostics services and, as is typical of any innovative environment, the last floor is planned to be dedicated to the future of medicine, i.e. startup companies in the field of medicine and technology with a rental area of more than 5 000 m2.

Mainor Ülemiste AS's subsidiary Öpiku Majad OÜ continued construction works of the Lurich Maja on the Valukoja 10 property that were started in 2018. Lurich Maja consists of two buildings, one of which is 8. storey office building and another 13. storey accommodation building. The accommodation building has 81 fully furnished apartments of different sizes, which will be operated by Ülemiste City Residence OÜ which was founded in 2019. Mainor Ülemiste AS 100% owned subsidiary Ülemiste City Residence has been created to provide accommodation in Ülemiste City. During the year 2019 the company developed a service concept, a business model and successfully entered into the first accommodation service contracts with companies based in Ülemiste City. The accommodation service is aimed primarily at the external talent and professionals of the campus. Lurich Maja will be completed in Spring-Summer 2020.

In order to expand the service portfolio of Ülemiste City, the redevelopment of the former production building on the Valukoja 12 property into the second largest indoor volleyball Hall in the Baltics was initiated. Beach volleyball, tennis, handball, football and other games suitable for a sandy beach can be played in the building. Concerts and special events can also be held on 1890 square meters of the year-round warm beach sand. Ülemiste City Beach House will open its doors in spring 2020.

In December 2019 a construction contract was signed with the construction company Nordecon Betoon OÜ for the second phase of the parking garage based on Sepise 8. This will result in additional 453 parking spots in Ülemiste City. The parking garage primarily serves people working and visiting Öpiku Quarter.

On the Sepise 7 property next to Öpiku Maja, the detailed planning procedure initiated in 2018 was continued with an aim to build a 12-storey office building with a closed gross area of 25 100 m2. An office building named Alma Tominga planned on the Sepiste 7 property was further designed in 2019 with an aim to start construction in 2020 or early 2021. The detailed planning procedure of Valukoja 7 was continued to transform the functionality of the land from a production land to a commercial land and to create the Education Complex of Ülemiste City in the future, where Tallinn International School, Emil School, Estonian Entrepreneurship College Mainor and Kalli-Kalli nursery school will continue to operate.

In 2019, the design of the Alma Tominga office building planned for Sepise 7 property was started by the winning architectural company Pluss and the design of the Education Complex planned for Valukoja 7 property by the architectural company 3+1 Architects.

Mainor Ülemiste and its partners Mainor AS, Technopolis Ülemiste AS, TalTech, Tailinn City and Ericsson AS have launched the Tuleviku Linn professorship, which aims to make the best decisions for the design of the city environment from the analysis of data collected in the city and campus.

In 2019 a number of IT development projects were continued to improve the customer experience of people working and visiting the upper City. To ensure a safer environment, Estonia's first smart crosswalk was installed next to Öpiku house in Ülemiste City in 2019. For cars Smart Crossing has a 360-degree camera plus lidar, a radar, as well as air quality measurement sensors, a car counter and an infrared sensor to detect road conditions.

In 2019 Mainor invested 110 thousand euros to reconstruct Valukoja Street. A total of 14 406 thousand euros was invested in the construction of buildings and equipment improvements in 2019. In 2019 loans were taken in amount of 47 367 thousand EUR and 38 632 thousand EUR of loans was repaid.

An average rental price of commercial premises was increased by 7.4% in 2019. Mainor Ülemiste AS fair value of investment property is 137 780 thousand EUR which increased by 15 150 thousand EUR compared to last year. The value of Mainor Ülemiste AS's 49% stake in Technopolis Ülemiste is 40 314 thousand EUR and increased by 2 566 thousand EUR from last year.

The concept of Ülemiste City development is being fostered, which aims to transform the campus into a multi-purpose and vibrant settlement suitable simultaneously for working, living, studying and recreation. The district aims to become the largest knowledge-based economy in the Baltics and grow into a multi-functional campus with 20 000 people studying, working and living around the clock by year 2025.

Together with Technopolis Ülemiste AS, Tallinna Lennujaama AS and Ülemiste Center OÜ the concept of the European Square is being developed, which will combine commercial and entertainment centers of the Rail Baltic passenger terminal, Tallinn airport developments and other developments in the region.

The owners were paid dividends in amount of 1 400 thousand euros.

At the end of the year Mainor Ülemiste AS had 20 employees who have received a total remuneration of 710 thousand EUR (2018: 624 thousand EUR), of which remuneration paid to the members of the Council and Management Board amounted to 256 thousand EUR (2018: 235 thousand EUR). See also notes 24 and 31.

Mainor Ülemiste AS consolidated turnover in 2019 amounted to 10 564 thousand EUR (2018: 8 798 thousand EUR), other operating income 947 thousand EUR (2018: 2 811 thousand EUR) and net profit 12 102 thousand EUR (2018: 9 334 thousand EUR). The company's equity as of 31.12.2019 is 109 742 thousand EUR and 100 039 thousand EUR in the previous accounting year respectively.

At the shareholders ' meeting, 7th December 2018, it was decided to reduce share capital by 5.2% or EUR 1 000 000,20 to EUR 18 199 999,80. The entry was registered in the Business Register of Estonia on 1 April 2019 year.

Key financial ratios	31.12.2019	31.12.2018
Return on equity – ROE (%)	11,5%	9,7%
Return on assets – ROA (%)	6,3%	5,5%
Operating margin (%)	140,9%	134,9%
Net profit margin (%)	114,6%	106,1%
Dividend payout ratio (%)	15,0%	14,5%
Revenue growth rate (%)	20,1%	14,5%

Formulas underlying the calculation of ratios:

Return on equity – ROE (%) = net profit / average equity for the reporting period x 100
Return on assets – ROA (%) = net profit / average assets for the reporting period x 100
Operating margin (%) = operating profit / revenue x 100
Net profit margin (%) = net profit / revenue x 100
Dividend payout ratio (%) = dividends paid / net profit for the previous year x 100
Revenue growth rate (%) = (revenue for the reporting period / revenue for the previous year – 1) x 100

Management confirmation and signatures

The Management Board of Mainor Ülemiste AS confirms the information correctness and completeness presented in the consolidated financial statements as of 31.12.2019 and additionally that:

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The consolidated financial statements present a true and fair view of the group's financial position, cash flows and financial performance;
- All known subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the date of completion of the consolidated financial statements have been properly considered and presented;
- Mainor Ülemiste AS and it's subsidiary are going concern.

Annual report of Mainor Ülemiste AS for the year ended 2019 is signed by:

(signature, date)	*(signature, date)*	*(signature, date)*
Margus Nõlvak	Rein Suurväli	Ursel Velve
member of the Board	member of the Board	member of the Board

Consolidated Financial Statements

Consolidated Statement of Financial Position

(in thousands of euros)

	Notes	31.12.2019	31.12.2018
ASSETS			
Investment property	6	137 780	122 630
Tangible assets	7	130	100
Intangible assets	8	128	53
Receivables and prepayments	9	9 801	10 597
Financial investments in equity method	13	40 314	37 748
Cash and cash equivalents	14	12 937	9 620
TOTAL ASSETS		**201 090**	**180 748**
EQUITY			
Share capital at par value	15	18 200	19 200
Statutory capital reserve		1 920	1 920
Retained earnings		77 520	69 585
Profit for the financial year		12 102	9 334
TOTAL EQUITY		**109 742**	**100 039**
LIABILITIES			
Provisions	18	264	263
Borrowings	16	86 511	77 807
Derivatives		345	126
Trade payables and prepayments	17	4 228	2 513
TOTAL LIABILITIES		**91 348**	**80 709**
TOTAL LIABILITIES AND EQUITY		**201 090**	**180 748**

Notes on pages 11 - 62 are an integral part of this financial statement.

Consolidated Statement of Comprehensive Income

(in thousands of euros)

	Note	2019	2018
Revenue	19	10 564	8 798
Cost of sales	21	-3 019	-2 742
Gross profit		**7 545**	**6 056**
Marketing expenses	22	-191	-185
Administration expenses	23	-2 208	-2 257
Income from financial investments in equity method	13	8 807	5 463
Other operating income	20	947	2 811
Other operating expenses	25	-11	-15
Operating profit		**14 889**	**11 873**
Financial income and expenses			
Interest income	26	266	422
Interest expense	27	-2 705	-2 600
Other financial income and expenses	28	-333	-361
Total financial income and expenses		**-2 772**	**-2 539**
Profit before tax		**12 117**	**9 334**
Income tax expense	30	-15	0
Net profit for the year		**12 102**	**9 334**
Total comprehensive income for the year		**12 102**	**9 334**
Attributable to the owners of the company		12 102	9 334

Notes on pages 11 - 62 are an integral part of this financial statement.

Consolidated Statement of Cash Flows

(in thousands of euros)

	Note	2019	2018
Cash flows from operating activities			
Profit before tax		12 117	9 334
Adjustments:			
Depreciation and impairment of tangible assets	7,8	73	45
Profit (loss) from tangible assets sale and write-offs	7	0	0
Change in fair value of investment property	6	-945	-2 777
Other adjustments	10	37	438
Profit (loss) from financial investments	13	-8 807	-5 463
Other financial income and expenses	28	333	361
Interest income and expenses	26,27	2 439	2 178
Income tax paid on dividends	30	15	0
Change in receivables and prepayments from operating activities		-118	-4
Change in payables and prepayments from operating activities		1 501	-1 260
Net cash generated from operating activities		**6 645**	**2 852**
Cash flows from investing activities			
Sale of tangible and intangible assets		0	0
Purchase of tangible and intangible assets	7,8	-178	-115
Purchases and improvements of investment property	6	-14 205	-17 783
Loans granted	9	0	-25
Interest received		197	2
Dividends received	13,31	1 341	1 232
Other receipts from investing activity	13,31	5 640	0
Net cash generated from investing activities		**-7 205**	**-16 689**
Cash flows from financing activities			
Loans received	16	47 367	24 634
Repayment of loans	16	-38 632	-8 998
Issue of bonds	16	0	7 380
Redemption of bonds	16	0	-5 000
Principal payments of capital lease		-31	-31
Reduction of share capital		-1 000	0
Interest paid		-2 412	-2 627
Dividends paid	15	-1 400	-1 232
Paid income tax on dividends		-15	0
Other receipts from financing activities		140	0
Other payments for financing activities		-140	-69
Net cash generated from financing activities		**3 877**	**14 057**
Total net cash flows		**3 317**	**220**
Cash and cash equivalents at the beginning of the financial year	14	**9 620**	**9 400**
Net change in cash and cash equivalents		3 317	220
Cash and cash equivalents at the end of the year	14	**12 937**	**9 620**

Notes on pages 11 – 62 are an integral part of this financial statement.

Consolidated Statement of Changes in Equity

(in thousands of euros)

	Share capital	Statutory reserve	Retained earnings	Total equity
Balance at 31.12.2017	**19 200**	**1 920**	**70 817**	**91 937**
Dividends declared	0	0	-1 232	-1 232
Total comprehensive income for the year	0	0	9 334	9 334
Balance at 31.12.2018	**19 200**	**1 920**	**78 919**	**100 039**
Reduction of share capital	- 1 000	0	0	-1 000
Dividends declared	0	0	-1 400	-1 400
Total comprehensive income for the year	0	0	12 102	12 102
Balance at 31.12.2019	**18 200**	**1 920**	**89 622**	**109 742**

Detailed information on changes in equity is disclosed in Note 15.

Notes on pages 11 - 62 are an integral part of this financial statement.

Notes to the consolidated financial statements

Note 1. Reporting entity

Mainor Ülemiste AS (hereafter also „the Group“ or „the Entity“) is an entity registered in the Republic of Estonia and its main activity is to develop Ülemiste City business campus located next to Tallinn Airport territory of former Dvigatel factory. Mainor Ülemiste AS shareholders are Estonian registered entities Smart City Group with 83,84% of stake and Logit Eesti AS with 16,16% of stake.

Mainor Ülemiste AS financial statements reporting period is from 01.01.2019 to 31.12.2019 with comparison period from 01.01.2018 to 31.12.2018. The financial statements have been prepared on the basis of consistency and comparability principles; content of the changes in methodology and their impact is explained in respective notes.

The Management Board approved the disclosure present financial statements. According to the Commercial Code of the Republic of Estonia, current annual report must also be approved by the Council and Shareholders. Shareholders have the right not to approve the annual report prepared by the Management Board and approved by the Council and to request preparation of a new report.

Note 2. Application of International Financial Reporting Standards (IFRS)

New and amended International Financial Reporting Standards (IFRS)

The International Accounting Standards Board (IASB) and International Financial Reporting Interpretation Committee (IFRIC) have issued the following standards, amendments to standards and interpretations effective for annual periods beginning in or after 2019. Application of the present standards by the Group implies that they are also adopted in the European Union in case the updates do not comply with previous IFRS clauses.

New amendments, standards and interpretations applied in the reporting period

Following amendments to the standards issued by the International Accounting Standards Board (IASB), also adopted by European Union, began to apply during the reporting period:

- IFRS 16 “Leases”. Adopted by the EU on 31th of October 2017, effective for annual periods beginning on or after 1st of January 2019. The new standard establishes principles for the recognition, measurement, presentation and disclosure of leases. As a result of all leases, the lessee is entitled to use the asset from the lease agreement inception and- if lease payments are made over a period - financing as well. Due to this IFRS 16 eliminates the classification of leases as operating and finance lease as was prescribed by IAS 17, and instead establishes one accounting model for lessees. Lessees must (a) recognize lease assets and lease liabilities on the balance sheet for all lease contracts over 12 months (b) recognize depreciation of leased assets and interest expenses on lease liabilities in the income statement. Principles of IFRS 16 for lessors are essentially the same as those of IAS 17, so that the lessor continues to divide its lease agreements into operating and finance leases and recognizes these leases differently.

The Group has applied IFRS 16 accounting principles since 1 January 2019 using modified retrospective approach with simplified measures. Consequently, 2018 year comparative data will not be adjusted – that is, comparative data is presented as in previous periods in accordance with IAS 17 and its related interpretation. Details of changes in accounting principles are brought below. In addition, IFRS 16 disclosure requirements have not been applied to the comparative period.

Definition of a lease

The Group determined earlier whether the agreement includes a lease or not in accordance with IFRIC 4 "Identification whether the agreement includes a lease'. The Group will now assess whether the contract includes a lease based on the definition of lease, as explained in the note to the essential accounting and reporting principles "Lease accounting'.

When transitioning to IFRS 16, the Group decided to apply the practical expedience according to which the terms of lease of IAS 17 and IFRIC 4 will continue to apply to contracts at the transition date and the new lease term will only apply to new contracts or to contract amendments. This means that contracts that were not considered as leasing agreements in accordance with IAS 17 and IFRIC 4 were not revalued according to whether they constitute a lease agreement in accordance with IFRS 16. Therefore, IFRS 16 was applied only to contracts concluded or amended on or after 1 January 2019.

Group as lessee

In the past, the Group classified a lease as either operating or finance lease based on the assessment of whether with lease contract all the risks and rewards associated with the ownership of the underlying asset were transferred to the Group. In accordance with IFRS 16, most leases are recognized as a right of use asset and lease obligation. The Group used practical expedient in applying IFRS 16 to leases that were previously classified as operating leases in accordance with IAS 17. In particular:

1. No right of use assets and lease obligations were recognized on leases that expire within 12 months from the date of transition;

2. No right of use assets and the lease obligations were recognized on leases with low underlying value. Assets with low underlying value include furniture and office equipment.

Group as lessor

The Group does not need to make any changes for transition to IFRS 16 as a lessor. The Group has applied accounting principles of IFRS 15 to distribute the fee in the contracts between lease and non-lease components.

Impact of IFRS 16 on financial statements

The Group did not recognize right-of-use assets or lease obligations when it transitioned to IFRS 16. Lease expenses for the financial year other than for small underlying assets and short-term leases was immaterial.

- IFRS 9 “Financial Instruments” – features of prepayments with negative benefits – amendments were adopted by the EU on 22nd of March 2018, are effective for reporting periods beginning on or after 1 January 2019;
- IAS 19 “Employee benefits” – amendments, reductions and terminations of the benefit plans. Amendments adopted in the European Union on 13th of March 2019, are effective for reporting periods beginning on or after 1 January 2019.
- IAS 28 “Investments in associates and joint ventures” - long-term interests in associates and joint ventures. Amendments adopted in the European Union on 8th of February 2019, are applicable to reporting periods beginning on or after 1 January 2019;
- Amendments to various standards, additions to IFRS (2015-2017) as part of the annual IFRS development project (IFRS 3, IFRS 11, IAS 12 and IAS 23) with a view to eliminate inconsistencies and improve wording;
- IFRIC 23 “Uncertainty over Income Tax Treatments” – adopted by the EU on 23rd of October 2018, is effective for reporting periods beginning on or after 1 January 2019.

The Group has applied IFRS 16 accounting principles since 1 January 2019. From 1 January 2019, a number of other amendments to IFRS standards will apply, but will not have a material impact on the Group's financial statements.

Amendments and new standards published by the IASB and adopted by the EU which will enter into force in the future

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union have not yet come into force and will not apply for the reporting period ended 31 December 2019:

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors " - apply to reporting periods beginning on or after 1 January 2020. The amendments specify and harmonize the definition of “material” and provide guidance to help improve the consistency of its application in IFRS standards;
- Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” - apply to reporting periods beginning on or after 1 January 2020.

The changes are mandatory and apply to all hedging relationships directly affected by the uncertainty arising from the reform of interbank offered rates (IBOR). The amendments allow for a temporary exemption from the application of the specific requirements of hedge accounting and therefore the use of hedge accounting should not, as a general rule, cease when the IBOR reform is implemented. The changes allow for the following main exceptions

- high probability requirement
- risk components
- forward estimates
- retrospective efficacy test (IAS 39)
- reclassification of cash flow hedge reserve.

The changes will also require companies to provide investors with more information about their hedging relationships, which will be directly affected by the uncertainty surrounding the reform.

- Amendments to the conceptual framework of IFRS standards - adopted in the European Union on 29 November 2019. Applicable to reporting periods beginning on or after 1 January 2020.

The Group does not intend to apply these new standards and changes to existing standards prematurely. The Management Board does not expect the amendment to have a material impact on the Group's financial statements in the period they are first applied. When implementing new standards it is planned to use a modified retrospective change for the accounting policy (corrections for initial recognition and without conversion in 2019).

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

Currently, the IFRS standards adopted by the European Union do not significantly differ from those adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to existing standards and a new interpretation that has not been approved by the date of preparation of the current report in the EU (the effective date below refers to the full IFRS):

- IFRS 17 "Insurance Contracts" – effective for reporting periods beginning on or after 1 January 2021;

- IFRS 3 "Business Combinations" amendments – effective for reporting periods beginning on or after 1 January 2020. These changes have not yet been approved by the European Union. The changes narrow and clarify the concept of business. The amendments make it possible to proovide a simplified assessment of whether the activities and assets acquired in the context of the business comibnation are, by their nature, a set of assets or a business.

- IAS 1 "Presentation of Financial Statements" amendments – payables classification as short- or long-term definition, effective for annual periods beginning on or after 1 January 2020;

- 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;

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" – the European Commission decided to postpone approval of the changes indefinitely. Amendments clarify that in case a transaction involves an associate or a joint venture, the extent of recognition of profit or loss depends on whether the assets sold or transferred constitute a business, so that:
    - gains or losses shall be recognized in full if the transaction between the investor and it's associate or joint venture involves the transfer of assets or assets that constitute a business (irrespective of whether it is located in a subsidiary or not); and
    - gains or losses shall be partially recognized if the transaction between the investor and it's associate or joint venture includes assets that do not form a business (even if those assets are in a subsidiary)

The Group considers that the amendments to IFRS 10 and IAS 28, when applied for the first time, have a significant impact on the Group's financial statements, since the group currently fully recognizes the profits resulting from the loss of control, irrespective of whether the transaction involves the transfer of assets constituting a business or not. The quantitative impact of the adoption of changes can only be assessed in the year of the first implementation of such changes and in an event of the transactions take place, as the effect depends on the transfer of assets or businesses to the associate or joint venture which take place during the reporting period.

The first implementation of the remainder of standards has no significant impact on the accounts.

Note 3. Significant accounting and reporting principles

3.1 Statement of compliance

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

The consolidated financial statements have been prepared on cost basis except for financial assets and liabilities (including investment property and financial instruments) that are revalued or presented at fair value.

The consolidated financial statements are presented in euro, which represents the Group functional currency. Unless otherwise stated, all amounts are presented in thousands of euros.

The main accounting principles are set out below and used in the preparation of the consolidated financial statements. These accounting principles have been consistently applied to all periods in the report, except when stated otherwise.

In accordance with International Financial Reporting Standards, accounting assessments by the Management are to be provided and Management decisions are to be made when implementing the Group's accounting principles. Areas where the intensity and complexity of Management decisions have a more significant impact or where the consolidated financial statements are substantially dependent on assumptions and estimates are described in Note 4.

3.2 Basis for consolidation

The consolidated financial statements incorporate the financial statements of Mainor Ülemiste AS and entities controlled by it. Control is achieved if the Entity:

- has significant influence over the investee;
- is exposed to variable returns from its involvement with the investee;
- has the ability to use its significant influence to affect returns of the investee.

The Entity reassesses 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 Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if the non-controlling interests have a deficit balance.

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

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

Changes in the Group's stake in existing subsidiaries

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

When the Group loses control of a subsidiary, incurred gain or loss is recognized in profit or loss and calculated as the difference between (i) the aggregate of fair value of the consideration received and fair value of any retained interest and (ii) previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. If the subsidiary's assets are recognized as revalued or in fair value and aggregated profit or loss is recognized under other gross profit or equity then previously recognized gross profit and equity is recorded as if the Group has sold or written off the respective assets (this means classification to the comprehensive income or direct transfer to retained earnings according to the applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, at cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.3 Business combinations

Business combinations are recognized using the cost method. The acquisition cost of a stake acquired in a business combination shall be assessed at fair value, which is determined as the fair value of the assets and liabilities received at the time of acquisition and equity instruments transferred to the acquiree for the purpose of acquiring control. Acquisition related costs are generally recognized in the profit and loss statement.

A value that exceeds the cost of the acquired interest and the difference between non-controlling interests and previously acquired interests (if any) and identifiable acquired net assets is expressed as goodwill. A negative difference between the cost of the acquired stake, the non-controlling interest and fair value of the previously acquired stake (if any) and fair value of the acquired net asset shall be recognized immediately in profit or loss as income.

Non-controlling interest in equity, which guarantees the non-controlling holder a proportionate share in net assets in the event of liquidation, shall be recognized either at fair value or as a proportionate part of the non-controlloing interest in net identifable net assets. The choice between alternative recognition options 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 paid by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at fair value on acquisition date and included as a part of cost of the business combination. Changes in the fair value of contingent consideration that qualify reporting period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Reporting period adjustments are such adjustments that arise from additional information obtained during the reporting period (which cannot exceed one year from the acquisition date).

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as reporting period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not revalued at subsequent reporting dates and its subsequent realization is accounted as change in equity. Contingent consideration that is classified as an asset or a liability is revalued at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the effect of value change being recognized in the profit and loss statement.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is revalued to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in the profit and loss statement.

Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss when at the time of disposal.

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

3.4 Foreign currencies

In preparing the financial statements transactions in currencies other than the Entity’s functional currency (foreign currencies) are recognized 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 recalculated at the rates prevailing at that date, quoted by European Central Banks.

Incurred exchange rate differences on monetary items are recognized in the income statement as gain or loss in the period in which they arise except for:

- Exchange rate differences on foreign currency borrowings relating to assets under construction for future use, which are included in the cost of those assets when it is possible to regard them as an adjustment to interest costs on those foreign currency borrowings;
- Exchange rate differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange rate differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified form equity to profit or loss when the asset or liability is settled.

3.5 Investment property

Investment property is property held to earn lease income and/or for capital appreciation (including property under construction for the purpose capital appreciation).

Land and buildings, which are planned to be held for a long period of time and which have various usage purposes are reported as investment property. In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date accounting principles of the new group of assets to which the asset was reclassified, are applied.

Investment property is initially recognized at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, based on the market price determined annually by independent appraisers, based on 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 recognized at fair value.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn form use and no future economic benefits are expected in the future. 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 of the period in which the property is derecognized.

3.6 Tangible fixed assets

Tangible fixed assets are the assets that the company uses for its economic activities with a minimum cost of 640 euros and useful life of over one year. Assets with a useful life of over one year, but which cost is less than 640 euros, are expensed and accounted for off-balance sheet. Tangible fixed assets are recorded at cost, which consists of its purchase price and any directly attributable expenditure. Subsequent to initial recognition, tangible fixed assets are recorded on the balance sheet at its cost value less accumulated depreciation.

If the tangible asset consists of different components with significant value and different useful lives, those components will be accounted for as separate assets and are assigned depreciation rates that correspond to their useful lives. Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation rates are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of tangible fixed assets is derecognized upon disposal or when no future economic benefits are expected to flow from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of tangible fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit and loss statement.

Annual depreciation rates for groups tangible fixed assets are as follows:

- machinery and equipment 5-20% per annum;
- other inventory 20-33% per annum.

3.7 Intangible assets

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

Intangible assets with finite useful lives acquired separately are carried at cost less accumulated depreciation and impairment losses. Depreciation is recognized on a straight-line basis. The depreciation rate for intangible assets is 10% per annum, excluding usage rights and intangible assets with indefinite useful lives. Usage rights are depreciated on a straight-line basis and the maximum length of the depreciation period is the period for which the usage rights are being used. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

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

An intangible asset is derecognized 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 recognized in the profit and loss when the asset is derecognized.

3.8 Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets are subject to impairment. If any indication exists, the recoverable amount of the asset is estimated by the Entity. 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, assets can be also allocated to individual cash-generating units, or to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Whether or not there are any indications of an impairment loss, intangible assets with indefinite useful lives are tested for impairment annually.

Recoverable amount is either the fair value of the unit, less costs to sell, or value in use, depending on which of them is higher. When assessing value in use, 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 recognized immediately as an expense.

If the previously impaired asset (or cash-generating unit) recoverable amount has risen, then value of the asset (or cash-generating unit) is increase to its recoverable amount, but so that the asset (or cash-generating unit's) carrying amount does not exceed the value of that asset (or cash-generating unit) that would have been without the impairment being recognized. A reversal of an impairment loss is recognized as a reduction of impairment loss expense of the reporting period.

3.9 Investments in subsidiaries

Investments in subsidiaries

Investments in subsidiaries that are not held for sale are recognized in the unconsolidated financial statements of the parent company at cost and in consolidated statements financial indicators of the subsidiary are consolidated line-by-line. Receivables, liabilities, income, expenses and unrealized profits and losses arising from transactions between the parent and the subsidiary are eliminated.

Investments in associates

An associate is an entity over which the investor has significant influence and is not a subsidiary of the investor. Associates are accounted for in the investor's annual report under the equity method.

Under the equity method, the investment is initially accounted for at its cost, adjusted in subsequent periods for changes in the equity of the investee, depreciation and possible discounts on goodwill incurred during the acquisition and recognition of negative goodwill generated during the acquisition.

3.10 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and statement of cash flows comprises of cash on hand, bank accounts, and short-term bank deposits (with time term less than three months from the time of their acquisition). Cash and cash equivalents are measured at cost and the application of IFRS 9 did not have a significant effect on their accounting.

Cash flows from operating activities are presented using the indirect method, according to which the profit (loss) before tax 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 for the accounting period.

3.11 Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a contractual party to the instrument.

When accounting for financial assets and liabilities, transaction costs directly related to the acquisition or issue of the financial asset or liability (excluding financial assets and liabilities recognized at fair value through profit or loss) shall be added or subtracted from or to their fair value, as appropriate. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the profit and loss are recognized immediately as income or expense in the profit or loss statement.

3.12 Financial assets

All purchases or sales of financial assets under normal market conditions shall be recognized and derecognized using the transaction date accounting. A purchase or sale under normal conditions is a purchase or sale of a financial asset under conditions under which the asset is transferred within a period either established by law or in accordance with market practice. All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the certain financial asset.

Classification

Classification and subsequent measurement depends on the business model for managing the financial assets and financial assets contractual cash flow characteristics. Management determines the classification of its financial assets at initial recognition.

a) *Financial assets measured at amortized cost*

Financial instruments are subsequently measured at amortized cost using the effective interest rate method only if both of the following criteria are met:

- the financial asset is held within a business model with the objective of collecting the contractual cash flows; and
- cash flows arising from the contractual terms of a financial asset, consisting only of principal and interest payments calculated on the balance of the principal at specified dates.

The Group classifies cash and cash equivalents, trade, loan receivables and other receivables as financial assets measured at amortized cost.

The effective interest rate is the rate, which is estimated by discounting the anticipated future receipts of a financial instrument for the expected period of validity or, where appropriate, a shorter period exactly at the time of financial instrument initial recognition to the gross balance value (taking into account all paid or received fees, which constitute an essential component of the effective interest rate, transaction costs and other premiums or discounts, but leaving out the expected future credit losses).

Interest income is recognized in profit or loss and is included in “Finance income”.

Income is recognized on an effective interest basis for financial instruments excluding financial assets which are classified as financial assets at fair value through profit or loss.

b) *Financial assets measured at fair value through other comprehensive income*

Financial instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income after initial recognition:

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

The Group does not have any financial assets at fair value through other comprehensive income.

c) Financial assets measured at fair value through profit or loss

Financial assets that do not meet the criteria for recognition at amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss.

- investments in equity instruments are classified at fair value through profit or loss, unless the Group classifies an investment in equity that is neither held for trading purposes nor that is a contingent consideration arising from a business combination at fair value through other comprehensive income on initial recognition;
- financial instruments that do not meet the amortized cost criterion or the fair value through other comprehensive income criterion are classified as at fair value through profit or loss. In addition, financial instruments that meet either the amortized cost criterion or the fair value through other comprehensive income criterion may be designated at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at fair value through profit or loss.

The Group measures derivatives at fair value through profit or loss unless they are designated as effective hedging instruments.

Gains or losses arising from changes in the fair value of the assets classified as financial assets at fair value through profit or loss are recognized in the statement of profit or loss within "Finance income" or "Finance expenses" in the period in which they arise.

Allocation of financial assets and liabilities to categories is presented in note 5.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest rate method less any impairment loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated as available-for-sale or are not classified as

- loans and receivables;
- held-to-maturity investments or
- financial assets at fair value through profit or loss.

Available-for-sale financial assets that are traded in an active market are recognized at fair value at the end of each reporting period. Available-for-sale financial assets that are not traded in an active market are recognized at fair value at the end of each reporting period only if the management considers that fair value can be reliably measured. Interest income calculated using the effective interest method and dividends on held for sale financial assets are recognized in profit or loss. Other changes in the carrying amount of held for sale financial assets are recognized in other comprehensive income and accumulated under the investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Dividends on available-for-sale financial assets are recognized in profit or loss statement when the Group's right to receive dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank accounts and cash) are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

The group forms a reserve to cover expected credit losses on investments and rental claims at amortized cost. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group has applied a simplified approach in recognizing expected credit losses for trade receivables and lease receivables through their expected lifetime as presented by IFRS 9 (see note 5). The Group always recognizes lifetime expected credit losses for trade receivables and lease receivables, which is equal to the expected credit loss during their period of validity. The expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecasted economic conditions at the reporting date, including time value of money where appropriate. Lifetime expected credit loss represents the expected credit losses that will result from all possible events of default over the expected life of the financial instrument.

For all other financial instruments, the Group recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months expected credit loss.

Financial assets are considered to be impaired when there is an objective evidence that, as a result of one or more events occurred after the initial recognition date of the financial asset, the estimated future cash flows of the investment have been negatively affected. Evidence that a financial asset is credit quality has been impaired is apparent when at least one of the following events has taken place:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract agreement, such as default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial restructuring; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Irrespective of the above, the Group considers that bad debt has occurred when a financial asset is more than 90 days overdue unless the Group has a reasonable supportive information to demonstrate that a longer aging criterion is appropriate.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments or an increase in the number of delayed payments, as well as observable changes in economic conditions which can affect receivables collection.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss statement.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss of the period.

If in a subsequent period the amount of the impairment loss decreases for financial assets measured at amortized cost, and the decrease can be objectively linked to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the reversed impairment does not exceed the amortized cost that would have been if the impairment was not recognized.

De-recognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to a third party. If the Group neither transfers not retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirely, the difference between the asset's carrying amount and the sum of the consideration received, amounts receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss statement.

On de-recognition of a part of a financial asset (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that recognized in other comprehensive income is recognized in profit or loss statement. A cumulative gain or loss recognized in other comprehensive income is allocated between the part that is continued to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Even when assets are written off, the Group may continue to collect debt by using its debt collection procedures and, if necessary, by legal advisers.

3.13 Financial liabilities and equity instruments

Classification

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

Equity instruments

An equity instrument is any contract that certifies a stake in a company's balance after deducting all of its liabilities. Equity instruments issued by the Group are recognized in amount of proceeds received net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized as decrease in equity. No gain or loss is recognized in profit or loss statement on the purchase, sale, issuance or withdrawal of the Entity's own equity instruments.

Financial liabilities

All financial liabilities (trade and loan payables, accruals, issued bonds, and other short- and long-term liabilities) are initially recognized at cost which includes all expenses directly attributable to their acquisition. Subsequent recognition is carried out at amortized cost (excluding financial liabilities acquired for resale, which are measured at fair value), using the effective interest rate method or at fair value through profit or loss (negative value of interest rate swaps).

Financial liabilities are classified as current if they are due within 12 months from the reporting date or if the Group does not have an unconditional right to defer the payment for more than 12 months after the end reporting date. Loans and borrowings which due date is within 12 months from the reporting date but which are refinanced and become non-current after the reporting date, but before the consolidated financial statements are authorized for issue are recognized as current. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contractual terms are also classified as current.

Borrowing costs that are directly attributable to the acquisition and construction of an asset that takes a significant amount of time to be ready for sale, part of the assets cost value shall be capitalized until the time the activity necessary to bring the asset to the appropriate use or sale is substantially completed. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of breach of the agreement, insolvency or bankruptcy of the Entity or the counterparty.

3.14 Derivatives

The Group's risk policy regulates that an Entity may use interest rate swaps to hedge the risks associated with changes in interest rates on financial liabilities. Such derivatives are recognized at fair value on the date of conclusion of the contract and subsequently revalued according to the change in the fair value of the instrument at the balance sheet date. Derivative with a positive fair value is recognized as an asset and with negative fair value as a liability. The fair value of the interest rate swap is based on the bank quotations at the balance sheet date.

When concluding a transaction, the Group fixes the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for various hedging transactions. The Group also fixes its assessment of the hedging instrument, as well as on a rolling basis, whether derivatives used in hedging transactions are effective in hedging the fair values or cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss attributable to the ineffective portion is recognized immediately in the statement of profit or loss within “Financial expenses” or “Financial income”. Amounts accumulated in equity are reclassified to the statement of profit or loss in the same periods in which the hedged item affects profit or loss. The gain or loss attributable to the effective portion of the instrument hedging variable rate borrowings is recognized in the statement of profit or loss within “Financial expenses”. If a hedging instrument expires or is sold, or no longer meets the criteria for hedge accounting, any cumulative gain or loss recognized in other comprehensive income at that time remains in equity and is recognized when the future transaction is ultimately recognized in the statement of profit or loss. If the future transaction is no longer expected to occur, the cumulative gain or loss recognized in other comprehensive income is immediately recognized in the statement of profit or loss.

At the end of the financial year, the Group did not carry out an analysis to determine if derivative instruments used in hedging transactions are effective for the fair values or cash flows of hedged items.

3.15 Provisions

Provision is recognized if, as a result of a past event, the Group has a present (legal or constructive) obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognized 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.

3.16 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and which existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity or present obligation that arises from past events but is not recognized because it is either not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Guarantees and other binding obligations, which in certain conditions may turn into liabilities in the future, are disclosed in the Notes to the consolidated financial statements as contingent liabilities.

3.17 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.

3.18 Revenue recognition

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

Revenue

Group revenue consists sales revenue from customer contracts and other sales revenue. Revenue from sales is recorded on accrual basis, when substantially all risks associated with the ownership of assets have been transferred to the buyer, and cost of the revenue transaction can be reliably determined.

The Group recognizes revenue when a performance obligation is satisfied or being satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. The five-step approach followed for revenue recognition:

1. Identify the contract(s) with a customer - for all customer contracts to which IFRS 15 applies, a review has been carried out to reflect changes in the contract, the consequences of which will change either the scope or the cost of the contract. Under certain criteria it may happen that an amendment to a contract is treated as a separate contract;
2. Identify the performance obligations in the contract – at inception of the contract, the Group assesses the goods and services promised to the client and identifies performance obligation as 2.1) a good or service that is distinct or 2.2) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer;
3. Determine the transaction cost – the following factors are taken into account when determining transactions cost 3.1) variable fees and limitation of variable fee estimates, 3.2) the existence of a substantial financing component, 3.3) non-monetary payments, 3.4) amounts due to the customer.
   If the fee receivable includes a variable component, the group shall assess its size. Variable fees can be, for example, discounts, benefits, incentive fees, bonuses, fines and similar fees;
4. Allocate the transaction cost to the performance obligations in the contract – to allocate the transaction cost to the performance obligations in the contract by reference to their relative standalone selling prices, at the inception of the contract the Group finds out every distinct good or service transaction costs and allocates transaction costs proportional to standalone selling prices. The standard provides some suitable methods to estimate the cost of a standalone selling price, from which the Entity should choose the most appropriate. The Group uses excepted cost plus approach, where the costs incurred to meet the contractual obligations are assessed and a margin is added to them.

5. Revenue recognition when the entity has satisfied or is satisfying a performance obligation – at this stage Group assesses, if the revenue should be recognized over time or at a point in time.

The main types of revenue recognized under the Group customer contracts:

- Side costs
- Conference room service
- Parking on the parking lot
- Advertising
- Other one-off services

Principles for recognizing revenue under main type of customer contracts is brought below.

Utilities and administration services are considered as side costs, including cost of utilities used by the lessee (electricity, water and sanitation, heating, ventilation and cooling) and proportional share of costs associated with the use and maintenance of the property, building and the rental area. In the contracts concluded, the client has no possibility to choose the utilities and administration providers. The Group has an obligation to fulfill its obligations to its customers, on the basis of which the Group has to provide the goods and services itself, therefore the Group acts as a principal of the sale transaction. When executing an obligation, the Group recognizes revenue in the gross amount of the consideration that the Group estimates to be entitled to when the goods or services are transferred. The side costs are divided into two: fixed side costs and costs calculated on the basis of actual consumption. Revenue from side costs is recognized during the period when the customer uses the services, using a time-based measurement of the performance obligation, as the customer can use the benefits equally throughout the contract period. Payment is made after the service is provided.

Parking fee is calculated according to the price list. The Group's obligation is to provide the lessee with access to the outdoor parking lot and the possibility of using it. In some contracts, specific parking spaces are used. Usually this applies to parking in the garage. Revenue from parking services is recognized during the period in which the service is used, using measurement of performance progress. Payment is made after the service is provided.

Other revenue mainly consists of rental income, which is earned from investment property lease agreements and is recognized as income on a straight line basis during the rental period.

Other income

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

Dividend and interest income

Dividend income from investments is recognized 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 recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is recognized 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 inflows through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.19 Expenses

Cost of sales

Cost of sales includes property rental, development, maintenance and utility costs which are recorded in income statement under "Cost of sales".

Marketing expenses

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

Administrative expenses

Administrative expenses include personnel and office management expenses, research and development expenses, and depreciation on tangible and intangible fixed assets.

Other expenses

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

Financial expenses

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

3.20 Leases

The Group has applied IFRS 16 with a modified retrospective approach and therefore the comparative period information has not been adjusted and the comparative period information continues to reflect the requirements of IAS 17 and IFRIC 4. The accounting principles of IAS 17 and IFRIC 4 are disclosed in detail separately from those of IFRS 16. The impact of transition to IFRS 16 is disclosed in Note 2 "The impact of International Financial Reporting Standards, their amendments and interpretations on the Group."

Accounting principles starting from 1 January 2019

When concluding the contract, the Group assesses whether the contract is a lease or whether the contract includes a lease. A contract is a lease (or includes a lease) if the contract gives the right to control and use the specified property for a certain period for a fee. To assess whether the contract gives the right to control and use the asset the Group uses IFRS 16 lease definition.

These accounting principles shall be applied to contracts entered into 1 January 2019 or later.

The Group as a lessee

When concluding or amending a contract containing a lease component, the Group shall allocate the fee contained in the contract to each lease component based on its separate price.

The Group recognizes the right of use asset and the lease obligation at the start date of the lease. The right-of-use asset is initially measured at cost, which consists of the initial amount of the lease obligation. Advances paid, direct costs incurred and restoration costs (arising from the dismantling and restoration of the property) adjust the initial amount of the lease obligation. Lease discounts are deducted from the consideration received.

The right-of-use asset is amortized on a linear basis from the commencement date of the lease until the end of the lease term, unless the lease agreement transfers ownership of the underlying asset to the Group at the end of the lease term or if the residual value of the right-of-use asset indicates that the Group intends to exercise the purchase option on the asset. In this case, the underlying assets of the right of use asset shall be amortized over the useful life, determined on the same basis as the corresponding tangible fixed assets held by the Group. In addition, the right of use asset amount is reduced by impairment losses. There is also an adjustment in certain revaluations of the lease obligation on the right-of-use asset.

The lease obligation shall initially be measured at the present value of the lease payments that have not yet been paid by the lease date, using the interest rate implicit in the lease or, if this rate cannot be determined, an incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as a discount rate. The Group finds an incremental borrowing rate using different sources of financing. The resulting inputs are adjusted taking into account lease terms and the types of assets to be leased in order to reach an appropriate incremental borrowing rate.

The lease payments of the lease obligation include the following components:

- fixed payments (including in-substance fixed lease payments);
- fines for termination of the lease (if the termination is reasonably certain);
- purchase option price (if the purchase option exercise is reasonably certain);
- guaranteed residual value (expected value of amount payable);
- index or rate-dependent lease payments.

The lease obligation is measured at amortized cost. It is recalculated if there are changes in future lease payments due to the index or rate, if there is a change in the estimated amount of the guaranteed residual value, or if the Group changes its assessment as to whether the purchase, extension or termination option is to be exercised. The lease obligation is also revalued if fixed lease payments (including in-substance fixed lease payments) change.

If the lease obligation is revalued for the reasons listed above, a corresponding adjustment shall be made to the carrying amount of the right of use asset. The effect of the change is recognized in profit or loss if the carrying amount of the right-of-use asset is reduced to zero.

The Group has decided not to recognize the right of use assets and lease obligations for leases with a low asset value and short-term leases. The Group recognizes lease payments as an expense for the lease period.

The Group as lessor

When concluding an agreement that includes a lease component or amending a lease agreement, the Group allocates the fee contained in the agreement to each lease component based on their separate prices.

If the Group acts as a lessor, the Group determines whether the lease is a financial lease or an operating lease at the lease commencement.

When classifying a lease agreement, the Group assesses whether the lease transfers substantially all the risks and rewards associated with the ownership of the underlying asset. If it does, the lease is classified as a financial lease. If it does not, it is an operating lease. As part of this assessment, the Group also assesses certain indicators (such as whether the lease term constitutes a major part of the economic life of the asset).

If the lease includes both lease and non-lease components, the Group applies IFRS 15 accounting principles to allocate the lease fee among the components.

The Group applies de-recognition and impairment requirements in IFRS 9 to the lessor's net investment. The Group regularly analyses estimated non-guaranteed residual values used to calculate the lessor's gross investment.

The group recognizes lease payments received resulting from operating lease as income in profit and loss over the lease term.

In general, accounting principles applied by the Group as a lessor during the comparison period did not differ from IFRS 16 accounting principles.

Accounting policies before 1 January 2019

With regard to contracts concluded before 1 January 2019, the Group assessed whether the agreement is a lease or includes a lease if all the significant risks and rewards associated with the ownership of the asset were transferred to the lessee. Other leases were considered as operating leases.

The Group as lessee

Operating lease payments are recognized 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 received. Contingent leases arising from operating leases are recognized as an expense in the period in which they are incurred.

If there are lease incentives received to enter into an operating lease, such incentives are recognized as a liability. The aggregate amount of incentives is recognized as a reduction of lease expenses 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 received.

Tangible fixed assets lease agreements are treated as finance lease, when all material risks and rewards of ownership are transferred to the lessee. Assets leased under finance leases are initially recognized at a lower value of the fair value of the leased assets or the present value of the minimum lease payments. Leased payments are divided into financial expense/- income and lease payables/- receivables so that the amount due would be the same for each period. Other lease agreements are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term. Initial direct costs incurred from negotiations and arrangements of an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.21 Taxation

According to the Estonian Income Tax Act reporting period profit of a resident legal entity is not subject to corporate income tax if it is not distributed. Income tax is subject to payment when the profit is distributed (dividends are paid out) and from transactions which can be regarded as profit distribution (compensations, gifts, etc.)

Dividend which are paid on retained earnings are generally taxed at the rate of 20/80 from the net amount of distributable dividends (equal to 20% of the gross amount of retained earnings). From the year 2019, a lower tax rate (14/86) applies to the regularly distributed dividends. Dividend payments are considered regular if the amount of distributed profit does not exceed the average of distributed profit of the previous three calendar years from which the income tax was paid in Estonia. Tax rate 14/86 can be applied before 2021 as follows: (i) In 2019, it can be applied to one third of the profits distributed in 2018, which have been subject to income tax and (ii) in 2020, it can be applied to one third of the profits distributed in 2018 and 2019, which have been subject to income tax.

Dividend distributions to owners are recognized as a liability and expense in the income statement in the period in which the owner declares the dividend, irrespective of the period for which they were distributed or when they are paid out. The obligation to pay income tax arises on the 10th day of the month following the dividend payment. Income tax liability arising from the payment of dividends is not recognized as a provision until the dividends have been declared. The maximum possible contingent income tax liability that could result from the distribution of retained earnings in the form of dividends is set out in Note 30 to the annual report.

Recognition of deferred tax liability and assets

Deferred tax refers to the differences between the carrying amount and the tax base on which future income tax is be payable. The deferred tax liability is recognized for all taxable temporary differences, between the tax base of the assets and liabilities and the carrying amounts shown in the consolidated financial statements.

The Group shall recognize a deferred tax liability for taxable temporary differences related to investments in subsidiaries and associates, except for differences for which both of the following conditions are met:

a) the Group is able to control the time of temporary realization; and

b) it is likely that the temporary difference will not materialize in the near future

Since the Group controls dividend policy of the subsidiary, it is also possible to verify the timing of cancellation of the temporary differences related to the investment in question. In these cases, it is often impractical to calculate the amount of income tax arising from the cancellation of a temporary difference. Therefore, if the Group has decided not to distribute such profits in the near future, it will not recognize deferred tax liabilities.

If the Group has decided that dividends will be paid in the near future, the deferred tax liability shall be recognized for those distributions in accordance with IAS 12.40.

Deferred income tax assets are deferred income tax losses or other future income tax deductions related to deductible temporary differences.

The Group shall recognize deferred tax assets for deductible temporary differences related to investments in subsidiaries and associates only to the extent that it is likely that:

a) this temporary difference shall be cancelled in the near future, and

b) in the future there will be taxable profits on which account the temporary difference can be used.

Management Board of the Group has decided to continue to apply the current accounting principles for deferred income tax liability for investments in subsidiaries and associates. According to this, in countries where corporate tax is payable on distributed profits, the deferred tax liability is always zero, since in accordance with paragraph 52A of IAS 12, the 0% tax rate is applicable to retained earnings on investments located in those countries. If the Group changed its accounting principles and recognized deferred tax on the aforementioned investments, the size of the liability to be recognized as of 31.12.2019 would be significant and the Group would have to adjust the underlying data retrospectively.

To date, there has been no common position in Estonia on the topic of which approach is correct. The Ministry of Finance of Estonia has requested an opinion from the IFRS standards Interpretation Committee (IFRIC) on the correct interpretation of IAS 12 “Income Tax”. As of the date of submission of the annual report, IFRIC has not yet published its position.

3.22 Related parties

During the preparation of the annual report of Mainor Ülemiste AS, the following were considered as related parties:

- owners (parent company and parent of the parent company or entities with significant influence over the company, as well as other persons having significant influence over the entity);
- other entities that belong to the Mainor AS group;
- executive and senior management;
- persons and their immediate family members, the entities controlled by them or over which they have a significant influence.

3.23 Subsequent events

The consolidated financial statements reflect material events affecting the valuation of assets and liabilities that occurred between the end of the reporting period and the date of annual report preparation by the Management Board, but which relate to events occurred during or prior the reporting period.

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

Note 4. Significant management assessments and estimates, fair value measurement principles

In the application of the Group's accounting principles, which are described in Note 3, the management is required to make judgements, use estimates and assumptions about the carrying amounts of assets and liabilities information on which is not readily available from other sources. These 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in 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. The following are important estimates made by management in the implementation of the Group's accounting principles and have the most significant impact on the information in the consolidated financial statements.

Fair value of investment property

Investment property is valued at fair value at the end of each reporting period. In determination of the fair value of investment property management estimates are used, which is based on certified real estate appraiser. In determination of the fair value discounted cash flow method is used. More information about investment property value is disclosed in Note 6.

Likelihood of receivables collection

The Group has applied a simplified approach in recognizing lifetime expected credit losses as presented by IFRS 9 for trade receivables and lease receivables (see Note 5). The Group always recognizes lifetime expected credit losses for trade receivables and lease receivables, which is equal to the expected credit loss during their period of their validity. The expected credit losses on these assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecasted direction of conditions at the reporting date, including time value of money where appropriate. Lifetime expected credit loss represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

For all other financial instruments, the Group recognizes lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months expected credit loss.

Even when assets are written off, the Group may continue to collect debt by using its debt collection procedures and, if necessary, legal advisers assistance.

More information about the cost value of receivables in Note 9.

Note 5. Financial instruments and risk management

The Entity's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk. The objective of financial risk management is to reduce volatility of financial results. The Entity's risk management is based on the notion that economic success depends on ongoing monitoring, accurate measurement and skillful handling of risks. The main objective of risk management is to prevent losses that could put the equity of Mainor Ülemiste AS and business continuity at risk.

Financial instruments by category:

In thousands of euros			31.12.2019	
Class of financial instruments	Note	Category	Book value	Fair value
FINANCIAL ASSETS				
Trade receivables	10	Financial assets at amortized cost	626	626
Other receivables	9	Financial assets at amortized cost	9 175	9 175
Cash and cash equivalents	14	Financial assets at amortized cost	12 937	12 937
Total financial assets			**22 738**	**22 738**
FINANCIAL LIABILITIES				
Trade payables	17	Financial assets at amortized cost	2 545	2 545
Loans and borrowings	16	Financial assets at amortized cost	86 511	86 511
Derivatives		Financial assets at fair value	345	345
Other payables	17	Financial assets at amortized cost	1 683	1 683
Total financial liabilities			**91 084**	**91 084**

thousands of euros			31.12.2018	
Class of financial instruments	Note	Category	Book value	Fair value
FINANCIAL ASSETS				
Trade receivables	10	Financial assets at amortized cost	874	874
Other receivables	9	Financial assets at amortized cost	9 723	9 723
Cash and cash equivalents	14	Financial assets at amortized cost	9 620	9 620
Total financial assets			**20 217**	**20 217**
FINANCIAL LIABILITIES				
Trade payables	17	Financial assets at amortized cost	1 174	1 174
Loans and borrowings	16	Financial assets at amortized cost	77 807	77 807
Derivatives		Financial assets at fair value	126	126

Other payables	17	Financial assets at amortized cost	1 339	1 339
Total financial liabilities			**80 446**	**80 446**

Due to the fact that most financial instruments have variable interest rates and contract agreements are not concluded a long time ago and taken into consideration that 22% of loans payable are hedged with SWAP contracts, the fair value of financial assets and liabilities do not differ from their book values.

Credit Risk

Credit risk arises if a customer or counterparty, which is linked to a financial instrument, fails to meet its contractual obligations to the Entity. Credit risk arises mostly in customer receivables. To reduce credit risk, customers' payment discipline is continuously monitored. In case of payments that have exceeded due dates, reminders and warnings are used, as well as individual contact with a particular client.

Maximum amount exposed to credit risk:

	Note	31.12.2019	31.12.2018
Current accounts	14	12 937	9 620
Trade receivables	10	626	874
Other receivables	9	9 175	9 723
Total		**22 738**	**20 217**

Credit risk management is primarily focused on avoiding accumulated significant credit risk concentrations. Credit risk prevention and minimization involves monitoring and routing of clients' payment behavior, which allows applying necessary measures. To minimize credit risk, customers pay a deposit that is usually a two-month lease that is refundable at the end of the contract agreement or netted against debt or customers pay a bank guarantee. As of 31.12.2019 the company has received deposits for 815 thousand euros (01.01.2018: 619 thousand euros) from lessees. Financial instruments that are exposed to credit risk in the maximum amount are receivables from non-group customers, with a breakdown by maturity date as at the reporting date as follows:

	31.12.2019	31.12.2018
Receivables not yet due	414	643
Overdue 1-30 days	168	162
Overdue 31-90 days	44	17
Overdue more than 91 days	0	52
Total	**626**	**874**

To reduce credit risk in 2019, the Entity qualified receivables as doubtful in the amount of 37 thousand euros (31.12.2018: 438 thousand euros). From receivables that were qualified as doubtful in previous years, the Entity did not receive any and which were classified as unrecoverable in amount of 745 thousand EUR. The Group applies a simplified method for recognizing expected credit losses on trade receivables according to IFRS 9, which permits the provision of the allowance reserve for expected credit losses during their lifetime. In order to estimate expected credit losses, the Group has analyzed past periods and based on the results obtained it has concluded that the expected monthly credit loss of receivables from buyers is approximately 0.5% of rental income.

For other receivables (including loan receivables), the Group recognizes an impairment loss in the amount of 12 months expected credit losses if the credit risk has not significantly increased after initial recognition. When there is a significant increase in credit risk, the Group recognizes a credit loss equivalent to the expected credit losses over its lifetime. As of 31.12.2019, the credit risk has not increased significantly.

Liquidity Risk

The entity's liquidity or solvency reflects its ability to fulfil its financial obligations to creditors in a timely manner. In 2019 the Entity's liquidity was most affected by additional loan agreements concluded with OP Corporate Bank plc Estonian branch in the amount of 6 097 thousand EUR, COOP Bank AS in the amount of 1 800 thousand EUR and SEB Bank AS in the amount of 39 500 thousand EUR to ensure the completion of the new office buildings on Sepise 9/Valukoja 8 and Valukoja 10, payment for improving existing office and industrial buildings and repayment of previously signed loans in the amount of 38 632 thousand EUR.

Liquidity risk arises if an Entity does not have enough current assets and is unable to pay their financial commitments timely. With the signed loan agreements, the Entity has committed itself to ensuring that the debt service coverage ratio (DSCR) is at least 1.2 and the loan-to-value (LTV) ratio does not exceed 70% at any time. As at 31.12.2019, the Entity has met aforementioned ratios. To ensure compliance with the commitments the Entity has set collaterals, which are mortgages for the most Entity-owned properties (Note 6).

Below is the Entity's short- and long-term liabilities breakdown by realizable maturities. All presented amounts are payable contractual undiscounted cash flows. The value of payables that are due during the 12 months from the end of the reporting period, is equal to their book value (except for interest-bearing liabilities). Bank loans are the usual source of financing and their termination and extension is a part of the business activity and financing.

In January 2019, loans from Nordea Bank Abp and Luminor Bank AS were refinanced with SEB Bank AS loan in the amount of 32 377 thousand EUR and the loan of Merko Eesti AS in the amount of 4 000 thousand EUR.

Financial liabilities based on their contractual settlement deadlines:

31.12.2019	Note	Within 1 month	1-3 months	3-12 months	1-5 years	Total
Bank loans with guarantees	16	384	746	3 733	99 211	104 074
Bonds		0	0	550	11 375	11 925
Finance lease liability	16	2	6	24	39	71
Trade payables	17	1 892	862	0	0	2 754
Other payables		318	9	41	210	578
Total		**2 596**	**1 623**	**4 348**	**110 835**	**119 402**

31.12.2018	Note	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Bank loans with guarantees	16	246	675	3 814	80 091	9 936	94 762
Bonds		0	0	550	11 925	0	12 475
Finance lease liability	16	3	6	25	99	0	133
Other loans	16	22	43	195	4 022	0	4 282
Trade payables	17	782	538	9	0	0	1 329
Other payables		292	8	38	213	0	551
Total		**1 345**	**1 270**	**4 631**	**96 350**	**9 936**	**113 532**

Interest Rate Risk

Interest rate risk arises from changes in interest rates on the money markets, which may result in the need to re-evaluate the Entity's financial assets and take into account increasing cost of financing in the future. The Entity's bank loans and finance lease liabilities are tied to Euribor. As of 31.12.2019, the Entity has interest-bearing liabilities in amount of 86 511 (31.12.2018: 77 807 EUR) thousand EUR, of which approximately 78% have a floating interest rate (the interest rate is tied to 6 months Euribor), see Note 16.

For short-term interest rate risk management, the Entity compares on a regular basis potential losses arising from changes in interest rates to their hedging expenses. To hedge interest rate risk, "OTC Interest Rate SWAP" contract has been concluded and tied to three loans in amount of 19 433 (2018: 16 835) thousand EUR which has been taken into use fully as of 31.12.2019 (2018: 15 731) thousand EUR. If in the next 12 months, the interest rate would be one percentage higher, the impact net profit of the reporting period would be -955 thousand EUR (to 2018 profit -706 thousand EUR).

As of 31 December 2019, the breakdown of interest- bearing financial liabilities was as follows:

	31.12.2019	**31.12.2018**
Fixed interest rate liabilities (12+ months)	10 024	14 050
Fixed interest rate liabilities (1-12 months)	26	26
Floating interest rate liabilities (1-12 months)	2 725	1 970
Floating interest rate liabilities (12+ months)	73 736	61 761
Fixed interest rate receivables (1-12 months)	6 200	6 940

Currency risk

Entities that belong to the Group perform transactions in euros, currency risk arises from exchange currency transactions, which are performed in currencies not related to euro. To hedge the currency risk, most important contracts in the Group are signed in euros. Thus the main currency risk is related to devaluation of currencies compared to euro, against which the Group is not protected.

Due to the fact that Group's liabilities are in euro and all of Group's income comes from euro based contracts, the Group's management estimates the currency risk to be insignificant.

Capital risk management

The purpose of capital risk management is to provide sustainability to the Group and ensure profit to the shareholders through optimal structure of capital. The Group uses debt and equity instruments for financing business activities and it monitors percentage of equity in total assets when designing its financial structure and risk assessment.

	31.12.2019	**31.12.2018**
Equity to total assets	55%	55%
Liabilities to total assets	45%	45%

Loan financing is planned and taken on project- by- project basis. Prior to application for external financing the Entity prepares a budget for the project in question, considers the effect of such financing and interest rate risks. If any special conditions exist in external financing agreement (rental income, vacancy rate, etc.), the Entity pursues to meet them before the agreement is concluded.

External loans are to be approved by the Entity's Council prior to undertaking the loan obligations. Short-term overdrafts are used to soften the seasonality effect on the Entity's business and manage cash flows.

The Commercial Code, effective in the Republic of Estonia states that the Entity registered in Estonia must have the following requirements to their share capital:

- the minimum share capital of a limited company must be at least twenty-five thousand (25 000) EUR;
- the net assets of a limited company must make up at least half of the share capital of the company.

The size of the share capital or the minimum and maximum share capital is determined by the Entity's articles of association, with a minimum amount of ¼ of the maximum share capital.

According to the articles of association currently effective in Mainor Ülemiste AS, the Entity's minimum share capital is 12 800 thousand EUR and the maximum share capital is 51 200 thousand EUR. In 2019 there was a reduction of share capital in amount of 1 000 thousand EUR and as of 31.12.2019 share capital of Mainor Ülemiste AS was 18 200 thousand EUR and net assets 109 742 thousand EUR, thus the share capital and equity requirements established in the Republic of Estonia were met.

Management of the capital is guided by the principle of ensuring the Entity's credibility, sustainable development and shareholders ' assets through the business cycle, as a result of which the Entity's equity to assets ratio at any given point in time is at least 35% (31.12.2019 54.6% and 31.12.2018 55.3%).

Note 6. Investment property

(in thousands of euros)

The Group investment property consists of office and production buildings which rented out and property with development potential but which usage purpose is not yet clear. All investment property is located in Tallinn in Ülemiste City business campus. Total volume of rented out property as of 31.12.2019 is 109,9 thousand m² (31.12.2018: 98,5 thousand m²).

	Note	Investment property
Balance at 31.12.2017		**102 070**
Additions and enhancements		17 783
Gain/(loss) on property revaluation	20	2 777
Balance at 31.12.2018		**122 630**
Additions and enhancements		14 205
Gain/(loss) on property revaluation	20	945
Balance at 31.12.2019		**137 780**

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

Valuation of the Group investment property are made by independent and qualified experts who base the valuation on residual value approach using the discounted cash flows (DCF) method. There has been no changes in valuation approach during the financial year, the same principles were applied also for financials of the comparative reporting period. The Entity provides valuators with the following information: investment property type, development plans, estimated construction costs and expected rental prices. Valuator also uses assumptions and valuation models, which are typical for a specific market such as discount rates and exit yields. Valuation reports are reviewed and accepted by the Management of the Entity.

Total value of investment property of Mainor Ülemiste AS which is located in Ülemiste City business campus is 137 780 thousand EUR as of 31.12.2019 (31.12.2018: 122 630 thousand EUR), from which: 109 260 thousand EUR is property value which is found through the rental cash inflows (2018: 93 710 thousand EUR) and 28 520 thousand EUR is property value which is found through the building rights (2018: 28 920 thousand EUR).

The property assessed on the basis of the rental cash inflows is characterized by the following important parameters: total leased area of 112,7 thousand m² based on current rental fees of 1,7 – 45,0 EUR/m2, vacancy rate up to 7% , discount rate of 8,5-9,5%, capitalization rate of 7,5% - 10% and total length of lease agreements from 1 to 15 years.

The property assessed on the basis of building rights has a total area of 241 thousand m² with a development plan from 2020 to 2029. Construction costs vary from 560 euros/m² for the construction of industrial premises to 950 euros/m² for the construction of office spaces. Respective lease rates are 5,5 euros/m² and 12,0 euros/m². After the completion of buildings, the vacancy rate will be approximately up to 50%, which gradually will decrease over time to an average of 5%. Discount rate of 9,5%, capitalization rate of 8% for office buildings and 8,5% for industrial buildings is used.

The table below shows possible changes in the fair value of the investment property (thousands of euros) if there were changes in the input data in the main Colliers valuation reports:

	Fair value	Change in rental price/m²		Change in capitalization rate	
in thousand euros		5%	-5%	5%	-5%
Valued through rental cash inflows	109 260	115 590	102 905	105 350	113 560
Valued through building rights	28 520	37 570	19 490	23 485	34 105
TOTAL	**137 780**	**153 160**	**122 395**	**128 835**	**147 665**

The Group earned rental income during the reporting period from investment property in amount of 7 678 thousand EUR (Note 19) and in previous reporting period in amount of 6 334 thousand EUR (Note 19). Expenses related to direct management of investment property was 3 149 thousand EUR in the current reporting period and 2 834 thousand EUR in the previous reporting period.

14 205 thousand EUR (including capitalized loan interests in the amount of 122 thousand EUR, which is 5% of interest expenses) was invested into investment property in 2019. In the previous reporting period investment amount was 17 783 thousand EUR (including capitalized loan interests in the amount of 313 thousand EUR, which is 20% of interest expenses). Information about investment property pledged as collaterals is disclosed in Note 16.

Note 7. Property, plant and equipment

(in thousands of euros)

	Machinery and equipment	Fixtures and installations	Total
01.01.2018-31.12.2018			
Carrying amount at 01.01.2018	**32**	**46**	**78**
Purchases and improvements	0	66	66
Disposals	0	-5	-5
Sales	0	-1	-1
Depreciation of sold and disposed assets	0	5	5
Depreciation for the period	-7	-37	-44
Carrying amount at 31.12.2018	**25**	**75**	**100**
incl. acquisition cost	37	203	240
incl. accumulated depreciation	-12	-128	-140

	Note	Machinery and equipment	Fixtures and installations	Prepayments	Total
01.01.2019-31.12.2019					
Carrying amount at 01.01.2019		**25**	**75**	**0**	**100**
Purchases and improvements		0	43	32	75
Disposals		0	-6	0	-6
Depreciation of sold and disposed assets		0	6	0	6
Depreciation for the period		-7	-38	0	-45
Carrying amount at 31.12.2019		**18**	**80**	**32**	**130**
incl. acquisition cost		37	240	32	309
incl. accumulated depreciation		-19	-160	0	-179

Note 8. Intangible assets

(in thousands of euros)

	Note	Computer software	Other intangible assets	Total
01.01.2018-31.12.2018				
Balance at 01.01.2018		**5**	**0**	**5**
Purchase of intangible assets		49	0	49
Depreciation for the period		-1	0	-1
Balance at 31.12.2018		**53**	**0**	**53**
incl. acquisition cost		54	0	54
incl. accumulated depreciation		-1	0	-1
01.01.2019-31.12.2019				
Balance at 01.01.2019		**53**	**0**	**53**
Purchase of intangible assets		103	0	103
Depreciation for the period		-28	0	-28
Balance at 31.12.2019		**128**	**0**	**128**
incl. acquisition cost		157	0	157
incl. accumulated depreciation		-29	0	-29

Intelligent parking solutions are recognized as an intangible asset.

Note 9. Receivables and prepayments

(in thousands of euros)

	Note	31.12.2019	Due within 1 year
Financial assets			
Trade receivables	10	667	667
Allowance for doubtful receivables	10	-41	-41
Receivables from other entities in Mainor AS group	31	8 881	8 881
Total financial assets		**9 507**	**9 507**
Non-financial assets			
Prepaid taxes	11	216	216
Other receivables and prepayments		78	78
Total non-financial assets		**294**	**294**
Total receivables and prepayments		**9 801**	**9 801**

	Note	31.12.2018	Due within 1 year
Financial assets			
Trade receivables	10	1 623	1 623
Allowance for doubtful receivables	10	-749	-749
Receivables from other entities in Mainor AS group	31	9 609	9 609
Total		**10 483**	**10 483**
Non-financial assets			
Prepaid taxes	11	82	82
Other receivables and prepayments		32	32
Total non-financial assets		**114**	**114**
Total receivables and prepayments		**10 597**	**10 597**

Receivable incl. interest from the parent company Smart City Group AS is included in receivables from group entities of the Mainor AS group in amount of 8 574 thousand EUR (31.12.2018: 9 117 thousand EUR). Interest receivable accrued in 2019 amounted to 197 thousand EUR (2018: 208 thousand EUR). Interest rate is 3%.

Additional information in Note 31.

Risks related to financial instruments are disclosed in Note 5.

Note 10. Trade receivables

(in thousands of euros)

	Note	31.12.2019	31.12.2018
Trade receivables	9	667	1 623
Doubtful receivables	9	-41	-749
Total		**626**	**874**
Doubtful receivables			
Doubtful receivables at the beginning of the period		-749	-316
Receivables recognized as doubtful		-37	-438
Doubtful receivables classified as uncollectible		745	5
Doubtful receivables at the end of period	9	-41	-749

Risks related to financial instruments are disclosed in Note 5.

Note 11. Prepaid taxes and taxes payable

(in thousands of euros)

		31.12.2019		31.12.2018	
	Note	Prepayment	Payable	Prepayment	Payable
Value added tax		216	5	82	5
Personal income tax		0	25	0	24
Social tax		0	42	0	42
Other taxes		0	6	0	6
Total	**9,17**	**216**	**73**	**82**	**77**

Note 12. Investments in subsidiaries

(in thousands of euros)

Information about investment in subsidiaries is relevant only for Mainor Ülemiste AS stand-alone financial statements. In consolidated financial statements, subsidiaries are consolidated line by line.

Subsidiary registry code	Company	Core business	Ownership interest (%) 31.12.2019	Ownership interest (%) 31.12.2018
12804904	Öpiku Majad OÜ	Real estate activities	100%	100%
14578228	Ülemiste City Residences OÜ	Real estate activities	100%	100%
12783421	Spacex Eesti OÜ	Real estate activities	100%	100%

Shares in subsidiaries at cost value

Company	31.12.2018	Acquisition	31.12.2019
Öpiku Majad OÜ	10 250	0	10 250
Ülemiste City Residences OÜ	2	0	2
Spacex Eesti OÜ	1	0	1
Total	**10 252**	**0**	**10 252**

Shares in subsidiaries in equity method

Company	31.12.2018	Acquisition	Profit in equity method	31.12.2019
Öpiku Majad OÜ	19 438	0	4 573	24 011
Ülemiste City Residences OÜ	2	0	-2	0
Spacex Eesti OÜ	0	0	0	0
Total	**19 440**	**0**	**4 571**	**24 011**

According to the decision of the Management Board, Spacex Eesti OÜ will not be consolidated into the Group report because the company has not had any economic activity since June 2018.

The statement of financial position of the subsidiary Öpiku Majad OÜ

in thousands of euros	31.12.2019	31.12.2018
ASSETS		
Investment property	83 710	70 080
Property, plant and equipment	2	2
Trade receivables and prepayments	585	536
Cash and cash equivalents	138	303
TOTAL ASSETS	**84 435**	**70 921**
EQUITY		
Share capital at par value	3	3
Share premium	10 247	10 247
Retained earnings	9 188	5 350
Profit for the financial year	4 573	3 838
TOTAL EQUITY	**24 011**	**19 438**
LIABILITIES		
Borrowings	55 907	47 292
Trade payables and prepayments	4 517	4 191
TOTAL LIABILITIES	**60 424**	**51 483**
TOTAL LIABILITIES AND EQUITY	**84 435**	**70 921**

The income statement of the subsidiary Öpiku Majad OÜ

in thousands of euros	31.12.2019	31.12.2018
Revenue	6 679	4 048
Cost of sales	-1 610	-1 065
Gross Profit	**5 069**	**2 983**
Marketing expenses	-15	-30
Administration expenses	-618	-95
Other operating income	2 065	2 798
Other operating expenses	-1	-1
Operating profit (loss)	**6 500**	**5 655**
Interest income	2	2
Interest expense	-1 929	-1 693
Other financial income and expense	0	-126
Profit before tax	**4 573**	**3 838**
Net profit for the period	**4 573**	**3 838**

Note 13. Financial investments recognized in equity
(in thousands of euros)

Shares in associate companies, general information

Associate registry code	Name of associate	Primary activity	Participation rate (%) 31.12.2019	Participation rate (%) 31.12.2018
11978111	Technopolis Ülemiste AS	Real Estate activities	49 %	49 %

Shares in associate companies, detailed information

Company	31.12.2018	Sale of shares	Dividends	Profit (loss) im equity method	31.12.2019
Technopolis Ülemiste AS	37 748	-4 900	-1 341	8 807	40 314
TOTAL	**37 748**	**-4 900**	**-1 341**	**8 807**	**40 314**

As of 31.12.2019 share capital of Technopolis Ülemiste AS amounted to 82 273 thousand EUR and Mainor Ülemiste AS share was 40 314 thousand EUR. In 2019 Technopolis Ülemiste AS bought back 6 250 thousand shares in the amount of 10 000 thousand EUR, of which 4 900 thousand EUR were paid out to Mainor Ülemiste AS. According to the Technopolis Ülemiste AS shareholders' agreement, Mainor Ülemiste AS has a right for a put option where the entity has a right to demand Technopolis OYJ to buy shares held by Mainor Ülemiste AS and pay for them within 6 months the latest. In a note to the shareholders' agreement it is stated that the sales price of the shares is their net asset value, but not lower than the net asset value of the last quarter.

Key financial indicators of Technopolis Ülemiste AS as of 31.12.2019:

in thousands of euros	Technopolis Ülemiste AS
Current assets	3 302
Non-current assets	182 406
Liabilities	103 334
Equity	82 273
Revenue	27 099
Operating profit	20 505
Profit (loss) before tax	18 585
Total comprehensive income	17 974

Note 14. Cash and cash equivalents

(in thousands of euros)

	31.12.2019	31.12.2018
Current accounts in banks	12 937	9 620
Total	**12 937**	**9 620**

Risks related to financial instruments are disclosed in Note 5.

The bank account of Mainor Ülemiste AS in SEB Bank and OP Corporate plc Bank Eesti filiaal is included in the AS Mainor group account. Mainor Ülemiste AS belongs to the Mainor AS consolidation group.

Note 15. Share capital

	31.12.2019	31.12.2018
Number of shares	30 333 333	32 000 000
Nominal value of shares (*in euros)*	0,60	0,60
Share capital (*in thousands of euros*)	18 200	19 200

The share capital of Mainor Ülemiste AS consists of 30 333 333 ordinary shares with a nominal value of 0,60 cents, which is divided as follows:

- Smart City Group, which owns 25 430 311 shares
- LOGiT Eesti AS, which owns 4 903 022 shares

All shares have been paid in full.

Each ordinary share gives the shareholder the right to receive dividends, in case they 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.

The decision on the amount of dividends to be paid out shall be adopted by the general meeting on the basis of approved in the Entity's annual report. Potential contingent tax liabilities arising from the distribution of profit are disclosed in Note 30.

In 2019 the shareholders were paid dividends in amount of 1 400 thousand EUR (2018: 1 232 thousand EUR) from 2018 year net profit, which means that dividend per share was 4,6 eurocents (in 2018 it was 3,8 eurocents per share).

On the extraordinary general meeting of shareholders on December 7, 2018, it was decided to decrease share capital by 5,2% or EUR 1 000 000,20 to EUR 18 199 999,80. The entry was made in the Commercial Register on 1 April 2019.

According to Mainor Ülemiste AS articles of association and Commercial Code, the Entity's reserve capital requirement is 1/10th of the share capital, which is formed from annual net profit allocations. Each financial year, the shareholders decide upon the amount entered in the reserve capital, considering the statutory requirement to carry at least 1/20th of the annual net profits in the statutory reserve. The reserve capital may be used to cover losses by decision of the shareholders.

Note 16. Borrowings

(in thousands of euros)

	31.12.2019	Breakdown by residual maturity		
		Within 12 months	Within 1-5 years	Over 5 years
Bank loans	76 442	2 720	73 722	0
Bonds	10 000	0	10 000	0
Finance lease liabilities	69	31	38	0
Total	**86 511**	**2 751**	**83 760**	**0**

	31.12.2018	Breakdown by residual maturity		
		Within 12 months	Within 1-5 years	Over 5 years
Bank loans	63 707	1 965	61 742	0
Bonds	10 000	0	10 000	0
Other long-term liabilities	4 000	0	4 000	0
Finance lease liabilities	100	31	69	0
Total	**77 807**	**1 996**	**75 811**	**0**

The following liabilities are included in long-term borrowings:

- Luminor Bank AS 6 125 thousand EUR (2018: 8 281), of which the short-term part is 0 thousand EUR (2018: 78 thousand EUR);
- Coop Bank AS 4 322 thousand EUR (2018: 2 746 thousand EUR), of which the short-term part is 271 thousand EUR (2018: 166 thousand EUR);
- AS LHV Bank 14 121 thousand EUR (2018: 14 251 thousand EUR), of which the short-term part is 135 thousand EUR (2018: 130 thousand EUR);
- OP Bank Estonian branch 13 805 thousand EUR (2018: 8 208 thousand EUR), of which the short-term part is 728 thousand EUR (2018: 471 thousand EUR);
- AS SEB Bank 38 069 thousand EUR (2018: 0 thousand EUR), of which the short-term part is 1 586 thousand EUR.

Bank loans interest range is 1,85%-4,5%.

In 2019, Mainor Ülemiste AS and its subsidiary Öpiku Majad OÜ received a loan of 47 367 thousand EUR from financial companies (2018: 24 634 thousand EUR) and repaid loans in amount of 34 632 thousand EUR (2018: 8 998 thousand EUR). Loan received from Merko Ehitus AS in the amount of 4 000 thousand EUR was repaid in January 2019.

Loans are secured with Mainor Ülemiste AS, Öpiku Majad OÜ properties with booking value of 137 780 thousand EUR (31.12.2018: 122 630 thousand EUR) and Technopolis Ülemiste AS shares with booking value as of 31.12.2019 40 314 thousand EUR (31.12.2018: 37 748 thousand EUR). The total carrying amount of guarantees is 178 094 thousand EUR (31.12.2018: 160 378 thousand EUR).

Note 17. Payables and prepayments

(in thousands of euros)

			Breakdown by residual maturity	
	Note	31.12.2019	12 months	1-5 years
Financial liabilities				
Trade payables		2 545	2 545	0
Other payables		253	253	0
incl. interest payable		253	253	*0*
Liabilities to companies in Mainor AS group		209	209	0
Total financial liabilities		**3 007**	**3 007**	**0**
Non-financial liabilities				
Payables to employees		240	240	0
Taxes payable	11	73	73	0
Prepayments received		815	118	697
Expenses of the future periods		93	93	0
Total non-financial liabilities		**1 221**	**524**	**697**
Total payables and prepayments		**4 228**	**3 531**	**697**

			Breakdown by residual maturity	
	Note	31.12.2018	12 months	1-5 years
Financial liabilities				
Trade payables		1 174	1 174	0
Other payables		179	179	0
incl. interest payable		179	179	*0*
Liabilities to companies in Mainor AS group		157	157	0
Total financial liabilities		**1 510**	**1 510**	**0**
Non-financial liabilities				
Payables to employees		216	216	0
Taxes payable	11	77	77	0
Prepayments received		619	133	486
Expenses of the future periods		91	91	0
Total non-financial liabilities		**1 003**	**517**	**486**
Total payables and prepayments		**2 513**	**2 027**	**486**

Risks related to financial instruments are disclosed in Note 5.

Note 18. Provisions

(in thousands of euros)

	31.12.2018	Formation/ Adjustments	31.12.2019
Compensation for loss of ability to work	263	1	264
incl. short-term	50	4	54
Incl. long-term	213	-3	210

Provisions have been recognized for former employees of AS Dvigatel for incapacitation benefits and personal pension payment obligations. The balance as of 31.12.2019 includes a short-term portion in the amount of 54 thousand EUR and a long-term portion in the amount of 210 thousand EUR (as of 31.12.2018 it was 50 and 213 thousand EUR). The long-term part of the provision has been discounted with a rate of 9,5%.

Note 19. Sales revenue

(in thousands of euros)

	Lisa	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Revenue from contracts with customers			
Other revenue		415	314
Revenue from administrative services		2 232	2 087
Total revenue from contracts with customers		**2 647**	**2 401**
Revenue from other sources			
Rental income from operating leases	29	7 678	6 334
Revenue from parking services in garage		239	63
Total revenue from other sources		**7 917**	**6 397**
Total revenue		**10 564**	**8 798**

(in thousands of euros)	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Revenue from contracts with customers			
Fixed side costs		146	117
Side costs		2 086	1 970
Conference room service		90	72
Parking in the parking lot		81	67
Advertising		38	18
Other one-time services		206	157
Total revenue from contracts with customers		**2 647**	**2 401**
Revenue from other sources			
Shared office rent		222	138
Office rent		4 989	3 530
Industrial premises rent		1 737	2 008
Other rent		730	658
Parking in the garage		239	63
Total revenue from other sources		**7 917**	**6 397**
Total revenue		**10 564**	**8 798**

Note 20. Other operating income

(in thousands of euros)

	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Gain/loss from change in fair value of investments in properties	6	945	2 777
Other income		2	34
Total		**947**	**2 811**

Note 21. Cost of Sales

(in thousands of euros)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Electricity	-1 125	-1 193
Heating	-293	- 289
Water- and sewage	-191	-197
Security costs	-76	-72
State and local taxes	-72	-73
Property maintenance	-936	-553
Other	-326	-365
Total	**-3 019**	**-2 742**

Note 22. Marketing expense

(in thousands of euros)

	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Personnel expenses	24	-48	-56
Advertisement, PR		-143	-129
Total		**-191**	**-185**

Note 23. Administrative expenses

(in thousands of euros)

	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Various office expenses		-21	-25
Research and development expenses		-17	-10
Business trip expenses		-17	-13
Training expenses		-33	-27
Expenses from doubtful receivables		-37	-420
Personnel expenses	24	-928	-799
Depreciation	7,8	-73	-45
Legal expenses		-53	-65
Insurance expenses		-38	-37
Management expenses		-360	-300
Consultation expenses		-116	-63
Bank fees		-53	-65
IT expenses and software maintenance		-71	-36
Compensation expense for incapacitation		-60	-53
Other		-331	-299
Total		**-2 208**	**-2 257**

Note 24. Salary expenses

(in thousands of euros)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Salary expense	-710	-624
Social- and unemployment tax expense	-238	-209
Pension expense	-15	-14
Social tax on pensions	-5	-5
Sickness benefit	-1	0
Vacation reserve	-7	-3
Total	**-976**	**-855**
Average number of full-time employees	20	19

Paid fees for board members are represented in the Note 31.

Note 25. Other operating expenses

(in thousands of euros)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Other operating expenses	-11	-15
Total	**-11**	**-15**

Note 26. Interest income

(in thousands of euros)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Interest income from Mainor AS group companies	260	394
Interest income from other receivables	6	2
Interest income from bonds	0	26
Total	**266**	**422**

Note 27. Interest expenses

(in thousands of euros)

	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Interest expenses from loans	-1 823	-1 830
Limit fees	-33	0
Interest expenses on finance lease	-1	-3
Interest rate fixation fee	0	-69
Interest expenses from other liabilities	0	-2
Interest expense from bonds	-550	-570
Interest expenses from derivatives	-298	- 126
Total	**-2 705**	**-2 600**

Note 28. Other financial income and expense

(in thousands of euros)

	Note	01.01.2019-31.12.2019	01.01.2018-31.12.2018
Other financial expenses		-321	-157
Other financial expenses		0	-158
Risk fee		-12	-46
Total	**9,31**	**-333**	**-361**

Note 29. Operating lease

(in thousands of euros)

<u>Entity as a lessor</u>

The entity has rented out office and production premises.

	Note	2019	2018
Income from operating lease	19	7 678	6 334
Subsequent periods operating lease income from active contracts:			
Within 12 months		7 790	7 332
1 to 5 years		21 257	21 974
Over 5 years		2 407	3 382
Carrying amount of leased assets	6	137 780	122 630

Mainor Ülemiste AS has rented out office and production premises.

Lease contracts period concluded by the Entity is typically 1-5 years. In some exceptional cases, when it comes to large-scale contracts, the lease period is 10-15 years.

Upon the contract agreement expiration, the lease agreement will not be extended automatically. After the expiration, the contract may become termless or will be extended, agreeing on new terms for the next rental period.

After each calendar year starting from agreement conclusion, the rental price is increased automatically once per year without any additional agreements. The percentage increase in rent price corresponds to the agreed rate in the contract or last calendar years’ consumer price index, which is published by the Statistics Estonia.

Note 30. Income tax

(in thousands of euros)	2019	2018
Retained earnings	77 520	69 585
Profit of the year	12 102	9 334
Profit before tax	**89 622**	**78 919**
Estimated income tax calculated at 14% tax rate	0	0
Estimated income tax calculated at 20% tax rate	17 924	15 784
Calculated income tax	**17 924**	**15 784**
Dividends declared and paid during the reporting period	1 400	1 232
Further paid tax-exempt dividends	1 341	1 232
Taxable dividends	59	0
Estimated income tax calculated with 20% tax rate	-15	0
Income tax expense for the period	**-15**	**0**
Effective income tax rate	**0,1%**	**0%**

The Entity's retained earnings as of 31.12.2019 amounted to 89 622 thousand EUR (31.12.2018: 78 919 thousand EUR). As of the 1 January 2019 according to the income tax law (TuMS) § 4 lg 5 ja § 50[1] lower tax rate of 14% (14/86) applies to dividends paid on a regular basis. A resident company can be subject to a lower tax rate of 14/86 and a standard rate of 20/80s. A resident company can apply a lower tax rate of 14/86 in 2019 to one third of the profit distributed in 2018 from which a resident company has paid income tax. When dividends are paid to owners, the income tax expense is partly accompanied with 14/86 and partly 20/80 rate from the amount of net dividend. The maximum income tax liability that would arise if all of the undistributed profits were distributed at once would be 17 924 thousand EUR (31.12.2018: 15 784 thousand EUR), therefore the net dividend that would be paid out is 71 698 thousand EUR (31.12.2018: 63 135 thousand EUR). On dividends paid out in 2019, Mainor Ülemiste AS has paid an additional income tax of 15 thousand EUR, since the amount of dividends received was 59 thousand EUR higher from Technopolis Ülemiste AS. In 2018 Mainor did not pay any additional income tax on the dividends paid out in amount of 1 232 thousand EUR, since the amount of the dividends paid was equal to those received from the associate Tehcnopolis Ülemiste AS. Income tax on dividends was previously paid by the associate company, so no additional income tax liability arose.

Note 31. Related party transactions

(in thousands of euros)

Mainor Ülemiste AS related parties are:

- The ultimate parent of the group is Mainor AS through the parent company Smart City Group AS
- Owners of the Entity: Smart City Group AS (83.84%), Logit Eesti AS (16.16%)
- Companies related to management and supervisory board

Balances with related parties	Receivables 31.12.2019	Liabilities 31.12.2019	Receivables 31.12.2018	Liabilities 31.12.2018
Parent company	8 574	0	9117	0
Other companies in Mainor AS consolidation group	307	209	492	157
Affiliated companies	22	63	34	21
Members of the management board and council and their family members	56	2	15	1

Transactions with related parties in 2019	Purchases	Sales	Granted loans	Loan repayments
Affiliated companies	430	171	0	0
Other companies in Mainor AS consolidation group	2 040	796	0	0
Members of the management board and council and their family members	77	219	0	0

Transactions with related parties in 2018	Purchases	Sales	Granted loans	Loan repayments
Affiliated companies	142	120	0	0
Other companies in Mainor AS consolidation group	1 763	620	0	0
Members of the management board and council and their family members	35	145	0	0

Companies, who belong to Mainor AS consolidation group, and with whom transactions in 2019 were made are: Eesti Ettevõtluskõrgkool Mainor AS, Dvigatel-Energeetika AS, Doranova Baltics OÜ, Mairenestal OÜ, Rekman OÜ, Tallinn International School OÜ and Mainor AS.

Companies related to Supervisory Council and the Management Board, their intermediate families and the companies in which they hold control or have significant influence, and with whom transactions in 2019 were made are: Nets OÜ, RVVE Grupp OÜ, Disain Pluss OÜ, Nordic Financial Group OÜ, RS Büroo OÜ, Flennert OÜ, Lasteharidus OÜ, Ekast AS, Guide2Industry OÜ ja SK Kehra Käsipall.

Mainor AS is the company controlling the parent company Smart City Group AS with a stake of 83.84%. The parent company Smart City Group AS reduced its liabilities by 740 thousand EUR in 2019.

Affiliated companies, with whom transactions in 2019 were made is Technopolis Ülemiste AS.

Services included in the investment property were purchased from consolidation group companies in amount of 194 thousand EUR and in the previous reporting year 156 thousand EUR.

Interest income calculated on the parent's receivable, the parent's group account deposit and on the use of mortgages to guarantee loans amounted to 260 thousand EUR (2018: 393 thousand EUR).

Associate Technopolis Ülemiste AS paid dividends in the amount of 1 341 thousand EUR (2018: 1 232 thousand EUR).

Remuneration for the members of the board during the reporting year was in 256 thousand EUR and in 2018: 235 thousand EUR.

Note 32. Events after the balance sheet date

In February 2020, Öpiku Majad OÜ, a subsidiary of Mainor Ülemiste AS, concluded a loan agreement with SEB Bank in the amount of 3 200 thousand EUR for the construction of 2nd stage of the parking house.

Due to the state of emergency declared by the government of the Republic of Estonia, the management board has analyzed a possible impact on the Group's turnover and future cash flows of such event. The Board is managing daily to lower the potential negative economic impacts and risks arising from the COVID-19 and declared emergency, and enters into temporary agreements with lessees if necessary. Based on the information available at this time, the Board has assessed that the loss of income due to the measures imposed in the emergency situation will not affect the Group going concern principle. In addition, the Management Board has reviewed monthly expenditures and minimized the cost base until the end of the state of emergency.

Considered above, the Management of the Group considers the liquidity buffers in case of the long-term duration of the crisis to be sufficient.

The rapid development of the COVID-19 virus and its social and economic impact on the Estonian and global economy may lead to the need to change the accounting estimates used by the Board in future reporting periods. As of the preparation of this report, the Board cannot reliably assess the impact of these events.

As of the preparation of this report, Mainor Ülemiste AS and its subsidiaries fulfill all their obligations and therefore continue to use the going concern principle in the preparation of the report.

Note 33. Unconsolidated Statement of Financial Position

(in thousands of euros)

	31.12.2019	31.12.2018
ASSETS		
Investment property	54 070	52 550
Property, plant and equipment	128	98
Intangible assets	128	53
Trade receivables and prepayments	21 233	26 650
Financial investments into subsidiaries	10 252	10 252
Financial investments in equity method	40 314	37 748

Cash and cash equivalents	12 798	9 315
TOTAL ASSETS	**138 923**	**136 666**
EQUITY		
Share capital	18 200	19 200
Statutory reserve	1 920	1 920
Retained earnings	68 332	64 235
Profit (loss) for the financial year	7 532	5 496
TOTAL EQUITY	**95 984**	**90 851**
LIABILITIES		
Provisions	264	263
Borrowings	41 429	44 457
Trade payables and prepayments	1 246	1 095
TOTAL LIABILITIES	**42 939**	**45 815**
TOTAL LIABILITIES AND EQUITY	**138 923**	**136 666**

Note 34. Unconsolidated Statement of Comprehensive Income

(in thousands of euros)

	2019	**2018**
Revenue	4 579	5 012
Cost of sales	-1 468	-1 844
Gross profit	**3 111**	**3 168**
Marketing expenses	-128	-155
Administrative expenses	-2 270	-2 272
Income from financial investments	8 807	5 462
Other operating income	1	13
Other operating expenses	-1 129	-14
Operating profit	**8 392**	**6 202**
Financial income and expenses		
Interest income	1 172	1 578
Interest expense	-1 684	-1 939
Other financial income and expenses	-333	-345
Total financial income and expenses	**-845**	**-706**
Profit before tax	7 547	5 496
Income tax expense	-15	0
Net profit for the year	**7 532**	**5 496**
Total comprehensive income for the year	**7 532**	**5 496**

Note 35. Unconsolidated Statement of Cash Flows

	2019	2018
Cash flows from operating activities		
Net profit for the year	7 547	5 496
Adjustments:		
Depreciation and impairment of non-current assets	72	45
Profit (loss) from fixed asset sales and write-offs	0	0
Change in fair value of investment property	1 119	-9
Profit (loss) from financial investments	-8 807	-5 462
Other financial income and expenses	333	-1 233
Interest expenses/income	512	1 939
Other adjustments	14	435
Income tax on dividends	-15	0
Changes in receivables and prepayments from operating activities	-425	-107
Changes in payables and prepayments from operating activities	161	141
Net cash from operating activities	**511**	**1 245**
Cash flows from investing activities		
Purchases of property, plant and equipment	-178	-115
Purchases of investment property	-2 639	-1 911
Acquisition of a subsidiary	0	-2
Loans granted	-70	-1 456
Repayments of loans granted	3 172	1 450
Interest received	2 836	132
Dividends received	1 341	1 232
Other proceeds from the investing activities	5 640	0
Net cash used in investing activities	**10 102**	**-670**
Cash flows from financing activities		
Reduction of share capital	-1 000	0
Proceeds from borrowings	1 800	8 625
Repayment of borrowings	-4 824	-7 827
Issuance of bonds	0	7 380
Bond redemption	0	-5 000
Principal payments of finance lease	-5	-5
Interest paid	-1 689	- 1 863
Other financial expenses	-12	-361
Dividends paid	-1 400	-1 232
Net cash used in financing activities	**-7 130**	**-283**
Total cash flows	**3 483**	**293**
Cash and cash equivalents at the beginning of the financial year	*9 315*	*9 022*
Net change in cash and cash equivalents	3 483	293
Cash and cash equivalents at the end of the year	*12 798*	*9 315*

Note 36. Unconsolidated Statement of Changes in Equity

	Share capital	Statutory reserve	Retained earnings	Total
Balance as of 31.12.2017	**19 200**	**1 920**	**65 467**	**86 587**
Dividends declared	0	0	-1 232	-1 232
Comprehensive income for the year	0	0	5 496	5 496
Balance as of 31.12.2018	**19 200**	**1 920**	**69 731**	**90 851**
Value of interests under control and significant influence under the equity method	0	0	19 440	19 440
Cost value of interests under control and significant influence	0	0	-10 252	-10 252
Adjusted unconsolidated equity at 31.12.2018	**19 200**	**1 920**	**78 919**	**100 039**
Reduction of share capital	-1 000	0	0	-1 000
Dividends declared	0	0	-1 400	-1 400
Comprehensive income for the year	0	0	7 532	7 532
Balance as of 31.12.2019	**18 200**	**1 920**	**75 863**	**95 983**
Value of interests under control and significant influence under the equity method	0	0	24 010	24 010
Cost value of interests under control and significant influence	0	0	-10 252	-10 252
Adjusted unconsolidated equity at 31.12.2019	**18 200**	**1 920**	**89 621**	**109 741**

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[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mainor Ülemiste AS:

Opinion

We have audited the consolidated financial statements of Mainor Ülemiste AS and its subsidiaries (hereinafter „the Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and consolidated notes to the 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 as adopted in the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). 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 Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Management Board is responsible for the other information. The other information comprises the information included in 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 the Management Board and Those Charged with Governance for the Consolidated Financial Statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Accounting Act and International Financial Reporting Standards as adopted in the European Union and for such internal control as the Management Board 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, the Management Board 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 the Management Board 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 consolidated 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 (EE) 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 (EE), 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 the Management Board.
- Conclude on the appropriateness of the Management Board'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 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 financial statements, including the disclosures, and whether the 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.

21 April 2020

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

Profit allocation proposal

Mainor Ülemiste AS Board of Directors propose during the general meeting of shareholders to allocate the 2019 net profit in the amount of 12 102 thousand EUR as follows:

(in thousands of euros)	**31.12.2019**
Group profit before profit allocation for the reporting period	77 520
Profit for the reporting period to be included in retained earnings	12 102
Group retained earnings after distribution of profit for the reporting period	**89 622**

Mainor Ülemiste AS sales revenue according to EMTAK 2008

EMTAK	Field of activity	01.01.2019-31.12.2019
68201	Rent out and handling of own or leased real estate property	7 917
68329	Other property management or management related activities	2 647
	Total sales revenue	10 564