CLOSED-END INVESTMENT UNDERTAKING FOR INFORMED INVESTORS CAPITALICA BALTIC REAL ESTATE FUND I UAB

CONSOLIDATED FINANCIAL STATEMENTS FOR 2022
PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION, PRESENTED TOGETHER WITH THE ANNUAL REPORT AND INDEPENDENT AUDITOR‘S REPORT

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VAT payer code LT108784411
Register of Legal Entities

INDEPENDENT AUDITOR'S REPORT

To the shareholders of UAB Capitalica Baltic Real Estate Fund I

Opinion

We have audited the consolidated financial statements of UAB Capitalica Baltic Real Estate Fund I and its subsidiaries (hereinafter the Group), which comprise the consolidated statement of financial position as of 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the requirements of the Law on Audit of the financial statements of the Republic of Lithuania that are relevant to the audit in the Republic of Lithuania, and we have fulfilled our other ethical responsibilities in accordance with the Law on Audit of the financial statements of the Republic of Lithuania and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Group's 2022 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information presentation.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as indicated below.

In connection to 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.

We also have to evaluate, if the consolidated financial information included in the Group's Annual Report corresponds to the consolidated financial statements for the same financial year and if the Group's Annual Report was prepared in accordance with the relevant legal requirements. In our opinion, based on the work performed in the course of the audit of the consolidated financial statements, in all material respects:

- The financial information included in the Group's Annual Report corresponds to the financial information included in the consolidated financial statements for the same year; and
- The Group's Annual Report was prepared in accordance with the requirements of the Law on Consolidated Reporting by Groups of Undertakings of the Republic of Lithuania.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

UAB ERNST & YOUNG BALTIC
Audit company's licence No. 001335

Jonas Akelis
Auditor's licence
No. 000003

7 June 2023

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position

	Notes	As at 31 December 2022	As at 31 December 2021
ASSETS			
Non-current assets			
Intangible assets	3	43	53
Investment property	4	129,781	89,648
Right-of-use assets	14	544	125
Total non-current assets		**130,368**	**89,826**
Current assets			
Receivables from contracts with customers	5	523	251
Other receivables	6	138	47
Prepaid income tax		4	4
Prepayments	7	644	94
Cash and cash equivalents	8	2,838	2,009
Total current assets		**4,147**	**2,405**
Total assets		**134,515**	**92,231**

(continued on the next page)

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of financial position (continued)

	Notes	As at 31 December 2022	As at 31 December 2021
EQUITY AND LIABILITIES			
Equity			
Capital	9	18,362	18,362
Share premium		1,375	1,375
Legal reserve	10	1,006	698
Retained earnings		26,803	14,619
Total equity		**47,546**	**35,054**
Non-current payables and liabilities			
Non-current loans	11	36,188	2,625
Issued bonds	12	3,000	8,000
Lease liabilities	14	461	119
Deferred tax liability	20	5,397	4,924
Other non-current liabilities	13	2,371	853
Total non-current payables and liabilities		**47,417**	**16,521**
Current payables and liabilities			
Current portion of non-current loans	11	23,427	29,440
Issued bonds	12	8,100	5,073
Lease liabilities	14	86	7
Trade payables	15	4,573	3,705
Contract liabilities		1,118	805
Other current liabilities	16	2,248	1,626
Total current payables and liabilities		**39,552**	**40,656**
Total equity and liabilities		**134,515**	**92,231**

The accompanying notes are an integral part of these financial statements.

Director of management company UAB CAPITALICA ASSET MANAGEMENT	Andrius Barštys		7 June 2023
Head of Accounting of UAB SBA Competence and Service Center	Milda Kiaušinytė		7 June 2023

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of comprehensive income

	Notes	2022	2021
Sales revenue	17	5,755	5,088
Cost of sales	18	(2,175)	(1,366)
Gross profit		**3,580**	**3,722**
Operating expenses	19	(3,212)	(1,879)
Gain (loss) on investment property valuation at fair value	4	14,999	6,346
Operating profit		**15,367**	**8,189**
Finance income			
Late payments received		37	-
Finance costs			
Interest		(2,028)	(1,113)
Other finance costs		(402)	(5)
Profit before tax		**12,974**	**7,071**
Income tax	20	(482)	(1,210)
Net profit		**12,492**	**5,861**
Other comprehensive income			
Other comprehensive income		-	-
Total comprehensive income after tax		**12,492**	**5,861**

The accompanying notes are an integral part of these financial statements.

Director of management company UAB CAPITALICA ASSET MANAGEMENT	Andrius Barštys		7 June 2023
Head of Accounting of UAB SBA Competence and Service Center	Milda Kiaušinytė		7 June 2023

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of changes in equity

	Capital	Share premium	Legal reserve	Retained earnings	Equity Total
Balance as at 1 January 2021	**18,362**	**1,375**	**604**	**8,852**	**29,193**
Net profit for the year	-	-	-	5,861	5,861
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	5,861	**5,861**
Transfer to reserves	-	-	94	(94)	-
Balance as at 31 December 2021	**18,362**	**1,375**	**698**	**14,619**	**35,054**
Net profit for the year	**-**	**-**	**-**	12,492	12,492
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**-**	12,492	**12,492**
Transfer to reserves	**-**	**-**	308	(308)	-
Balance as at 31 December 2022	**18,362**	**1,375**	**1,006**	**26,803**	**47,546**

The accompanying notes are an integral part of these financial statements.

Director of management company UAB CAPITALICA ASSET MANAGEMENT	Andrius Barštys		7 June 2023
Head of Accounting of UAB SBA Competence and Service Center	Milda Kiaušinytė		7 June 2023

(all amounts are in EUR thousand unless otherwise stated)

Consolidated statement of cash flows

	Notes	2022	2021
Operating activities			
Net profit		12,492	5,861
Adjustments for non-cash items and financing and investing activities:			
Income tax expense	20	482	1,210
Depreciation and amortisation	3, 14	31	15
Allowance for doubtful receivables		-	5
Interest expense		2,028	1,113
Change in accrued expenses		2,124	708
Change in fair value	4	(14,999)	(6,346)
Elimination of other financing activity results		-	5
		2,158	2,571
Changes in working capital:			
(Increase) in trade and other receivables		(548)	(89)
Decrease (increase) in prepayments		(600)	18
Increase (decrease) in trade payables		(554)	(96)
Increase in contract liabilities and other current liabilities		425	217
Income tax (paid)		(8)	(8)
Net cash flows from operating activities		**873**	**2,613**
Investing activities			
(Acquisition) of non-current assets	4	(23,578)	(17,250)
Net cash flows from investing activities		**(23,578)**	**(17,250)**
Financing activities			
Loans received	22	47,148	7,000
Loans (repaid)	22	(19,598)	(1,220)
Bonds issued	22	19,000	5,000
(Redeemed) bonds	22	(20,999)	-
Lease (payments)	22	(15)	(7)
Interest (paid)	22	(2,002)	(1,090)
Net cash flows from in financing activities		**23,534**	**9,683**
Net increase (decrease) in cash flows		**829**	**(4,954)**
Cash and cash equivalents at the beginning of the period		**2,009**	**6,963**
Cash and cash equivalents at the end of the period		**2,838**	**2,009**

(continued on the next page)

Consolidated statement of cash flows (continued)

	As at 31 December 2022	As at 31 December 2021
Additional information on cash flows:		
Non-cash investing activities:		
Acquisition of non-current assets not paid for in cash	1,650	4,919

The accompanying notes are an integral part of these financial statements.

Director of management company UAB CAPITALICA ASSET MANAGEMENT	Andrius Barštys		7 June 2023
Head of Accounting of UAB SBA Competence and Service Center	Milda Kiaušinytė		7 June 2023

Notes to the consolidated financial statements

1 General information

The closed-end investment undertaking for informed investors CAPITALICA BALTIC REAL ESTATE FUND I UAB (hereinafter – the Company) is a limited liability company registered in the Republic of Lithuania on 5 October 2016. Its registered office address is Upės st. 21-1, Vilnius.

The main activity of the Company – collective investment of informed investor assets in the real estate market in order to spread risks and earn profit for the Company's shareholders. On 22 October 2016 the Bank of Lithuania issued a licence No 03-202 to the Company to operate as an investment company under the Republic of Lithuania Law on Collective Investment Undertakings for Informed Investors. Before the issue of the licence the Company operated as a private limited liability company and its shareholders had all the rights and obligations determined by the Law on Companies of the Republic of Lithuania.

The goal of the Company is to ensure long-term growth of return to the shareholders by investing in the real estate market of the Baltic states, focusing on investing in commercial real estate. Investments in residential real estate are also possible. The Company invests in real estate objects which are in their early stages of development i.e. under construction, as well as in the already completed real estate objects.

The Company is able to operate not longer than 10 years from the day on which the Bank of Lithuania issued the licence to operate as an investment company. This term can be extended by 2 years.

The Company is managed by CAPITALICA ASSET MANAGEMENT UAB (hereinafter "the Management Company"), registered as of 4 May 2016, company code 304234719, registered office address Laisvės ave. 3, Vilnius. On 17 August 2016, license No 03-118 was issued to the Management Company by the Bank of Lithuania, enabling it to manage collective investment undertakings intended for informed investors operating under the Republic of Lithuania Law on Collective Investment Undertakings for Informed Investors.

As at 31 December 2022 and 2021, the shareholders of the Company were as follows:

Shareholder	Ownership interest as of 31 December 2022, %	Ownership interest as of 31 December 2021, %
SBA Grupė UAB	14.51	14.51
Minority shareholders	85.49	85.49
Total:	**100.00**	**100.00**

As at 31 December 2022 and 2021, the issued capital amounted to EUR 18,362,432, split into 18,362,432 units of ordinary registered shares, the nominal value of each was EUR 1. All the shares were fully paid.

The securities accounts of the investment company are managed by AB Swedbank, company code 112029651, registered office address Konstitucijos Ave. 20A, Vilnius, which is a direct participant of the Lithuanian Central Securities Depository, code No 962, and SEB Bank AB, company code 112021238, registered office address Konstitucijos ave. 24, Vilnius. AB Swedbank also provides depository services for the Company.

<u>The structure of the Group</u>

As at 31 December 2022 and 2021, the group of Closed-End Investment Undertaking Intended For Informed Investors CAPITALICA BALTIC REAL ESTATE FUND I UAB consisted of the Company and the following directly controlled subsidiaries (hereinafter "the Group"):

Company	Country	Part of shares held by the Group (%) as at 31 December 2022	Part of shares held by the Group (%) as at 31 December 2021	Main activities
PC Luizė UAB	Lithuania	100	100	Lease of real estate
Žaliakalnio Parkas UAB	Lithuania	100	100	Real estate lease and development
Verslo Centras 135 UAB	Lithuania	100	100	Lease of real estate
Hanza 14 SIA	Latvia	100	100	Real estate lease and development
UAB Hanza 14 LT**	Lithuania	100	100	Financial services activities

* Hanza 14 LT UAB is indirectly fully (100%) controlled through the subsidiary Hanza 14 SIA.

1 General information (continued)

In 2022 and 2021, there was 1 employee (Director) working in all the Group companies.

The Group's management approved these financial statements on 7 June 2023. The shareholders of the Group have the right to either approve these financial statements or not approve them and require the management to prepare a new set of financial statements.

2 Summary of accounting policies

2.1. Basis for preparing financial statements

These financial statements of the Group for the year ended 31 December 2022 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (hereinafter "the EU"). The Company's separate financial statements were prepared in accordance with Lithuanian Financial Reporting Standards (LFRS).

The Group has prepared these financial statements according to IFRS which are applicable to the periods starting from or after 1 January 2022. The applied accounting policies are described below.

Application of new and/or changed IFRS and interpretations issued by International Accounting Standards Board (IASB)

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as at 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**

The amendment applies to annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- ➢ **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB's Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- ➢ **IAS 16 Property, Plant and Equipment (Amendments**) prohibit a company from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it be capable of operating in the manner intended by management. Instead, a company recognizes such sales proceeds and related cost in profit or loss.
- ➢ **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- ➢ **Annual Improvements 2018-2020** make minor amendments to **IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture** and the Illustrative Examples accompanying **IFRS 16 Leases.**

These Amendments had no impact on the Group's financial statements.

- **IFRS 16 Leases-COVID 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorised for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The Group did not have such rent concessions.

Standards issued but not yet effective
The Group has not applied the following issued but not yet effective standards.

- **IFRS 17 Insurance Contracts**

The standard is effective, for annual periods beginning on or after 1 January 2023, with earlier application permitted, provided the entity also applies IFRS 9 Financial Instruments on or before the date it first applies IFRS 17. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretional participation contracts. The Group does not issue contracts in scope of IFRS 17; therefore its application will not have an impact on the Group's financial performance, financial position or cash flows.

2 Summary of accounting policies (continued)

2.1. Basis for preparing financial statements (continued)

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments):**

The amendment applies to annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The management has not made an assessment of the effect of application of the amendments on the Group's the financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The management has not made an assessment of the effect of application of the amendments on the Group's the financial statements.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The management has not made an assessment of the effect of application of the amendments on the Group's the financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The management has not made an assessment of the effect of application of the amendments on the Group's the financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendment applies to annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. The amendments are applied retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application of IFRS 16. The amendments have not yet been endorsed by the EU. The management has not made an assessment of the effect of application of the amendments on the Group's the financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not).

2 Summary of accounting policies (continued)

2.1. Basis for preparing financial statements (continued)

A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group has no investments in associates or joint ventures, therefore, the adoption of these amendments will not impact the financial statements.

The Group plans to adopt the above-mentioned standards and interpretations on their effective date provided they are endorsed by the EU.

2.2. Presentation currency

The amounts in these financial statements are presented in the national currency of the Republic of Lithuania, euro. The amounts in financial statements are rounded to thousand EUR if it is not otherwise stated and may not reconcile in notes due to rounding up. Such rounding bias is immaterial in these financial statements.

2.3. Principles of consolidation

The consolidated financial statements of the Group include the Company and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year, using consistent accounting policies.

Control is obtained when the Group is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

Subsidiaries are consolidated from the date from which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. All intercompany transactions, balances and unrealised gains and losses on transactions among the Group companies are eliminated.

2.4. Intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Intangible assets are recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of asset can be measured reliably.

The useful lives of intangible assets are assessed to be either finite or indefinite.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the estimated useful lives.

Other intangible assets 4 years

Intangible assets are assessed for impairment whenever there is an indication that the intangible assets may be impaired.

The Group does not own any intangible assets with an indefinite useful life.

2.5. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur.

The Group capitalizes borrowing costs for all qualifying assets where acquisitions, construction or production was commenced on or after 1 January 2009.

In 2022, EUR 144,818 of borrowing costs were capitalised (2021: no borrowing costs were capitalised).

2 Summary of accounting policies (continued)

2.6. Investment property

Investment property at initial recognition is accounted for at acquisition cost including transaction costs. Subsequent to initial recognition, investment property is measured at fair value, which is based on market value.

The market value of the Group's investment property is derived from reports prepared by independent property appraisers having appropriate recognised professional qualifications and necessary experience in valuation of property at certain location and of certain category, or the value is estimated on the basis of discounted future cash flows or market price of similar assets. Rentals earned are recognised in sales revenue. Gains or losses arising from changes in the fair values of investment properties are recognized in the statement of comprehensive income as a separate line item.

Maintenance expenses of investment property are recognized in the statement of comprehensive income during the financial period in which they are incurred. Costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the asset can be reliably measured.

2.7. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and evaluation
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, at fair value through other comprehensive income (OCI), and at fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables and contract assets that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15.

Financial asset is classified and measured at amortised cost or fair value through other comprehensive income, where cash flows arising from financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is known as the SPPI test and is performed for each financial instrument.

The Group's business model for managing financial assets refers to how the Group manages its financial assets in order to generate cash flows. The business model determines whether cash flows will be generated by collecting contractual cash flows, by selling this financial asset or by using both options.

A regular way purchases or sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

After initial recognition, the Group measures a financial asset at:
(a) At amortised cost (debt instruments).
(b) At fair value through other comprehensive income with recycling of cumulative gains and losses upon derecognition (debt instruments). The Group did not have such items as at 31 December 2022 and 2021.
(c) At fair value through other comprehensive income with no recycling of cumulative gains and losses upon derecognition (equity instruments). The Group did not have a significant balance of such instruments as at 31 December 2022 and 2021.
(d) At fair value through profit or loss. The Group did not have such items as at 31 December 2022 and 2021.

<u>Financial asset at amortised cost (debt instruments)</u>

The Group measures financial assets at amortised cost if both of the following conditions are met:
(i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
(ii) Contractual terms and conditions of financial asset allow for obtaining cash flows, on certain dates, which are solely the payments of the principal or the interest on the outstanding principal.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method, less impairment losses. Gains or losses are recognised in the statement of comprehensive income when the asset is derecognised, replaced or impaired.

2 Summary of accounting policies (continued)

2.7. Financial instruments (continued)

The Group's financial assets at amortized cost includes trade, other current and non-current receivables, receivables and loans granted.

Impairment of financial assets

Following IFRS 9, in common case scenario, the Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

(a) Estimation of the impairment of trade receivables

For the purpose of the estimation of doubtful amounts receivable, the Group has established a matrix of expected loss rates based on historical credit loss analysis and adjusted to reflect future factors specific to borrowers and the economic environment (macroeconomic market indicators, employment rate, consumer price index, etc.).

Credit loss amount of trade receivables is accounted for through profit (loss) using a contrary account of doubtful receivables. A financial asset is derecognised when there is no reasonable expectation to recover contractual cash flows.

(b) Estimation of the impairment of loans granted

The Group grants loans to related entities with fixed term recovering conditions and takes into consideration respective loan market interest rates. In the case of a loan, in general, the expected credit loss for 12 months is assessed and accounted for. In subsequent reporting periods, in the absence of a significant increase in the credit risk associated with the borrower, the Group adjusts the balance of expected credit losses for 12 months against the outstanding amount of the loan at the assessment date. When it is determined that the borrower's financial position has significantly deteriorated compared to the situation at the time of the loan, the Group accounts for all expected credit losses for the loan period. When the ECL for loans' useful lives are calculated, such loans are considered as credit-impaired financial assets.

The Group considers a financial asset in default when contractual payments are 90 days past due or when indications exist that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Credit loss amount of receivable loans or trade receivables is accounted for through profit (loss) using a contrarian account of doubtful receivables. A financial asset is derecognised when there is no reasonable expectation to recover contractual cash flows.

Financial liabilities

Initial recognition and evaluation
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans received and payables. All financial liabilities are recognised initially at fair value and, in the case of loans received and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans repaid including bank overdrafts.

Subsequent measurement
Measurement of financial liabilities depends on their classification as described below.

<u>Loans received and other payables</u>

After initial recognition, loans and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised or amortised.

2 Summary of accounting policies (continued)

2.7. Financial instruments (continued)

Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is an enforceable right to settle the amounts recognized and is intended to be settled net, i.e. to realize the assets and fulfil their obligations at the same time.

2.8. Derecognition of financial assets and liabilities

<u>Financial assets</u>

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; and
- the Group has transferred their rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group transfers the rights to cash flows but neither transfers the related risk nor the control of the asset, the asset is recognized to the extent that the Group is still related to. The relation to the asset which was transferred is accounted as a guarantee at the lower of accounted value of the asset and the highest of the forecasted amount that the Group may have to pay.

<u>Financial liabilities</u>

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the respective balances is recognised in the statement of comprehensive income.

2.9. Cash and cash equivalents

Cash includes cash in the bank accounts. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of 3 months or less and that are subject to an insignificant risk of change in value.

In the statement of cash flows, cash and cash equivalents are considered to be cash in the current bank accounts and deposits the terms of which on the day of signing the contract are no less than three months.

2.10. Leases

A. Group as a lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line

2 Summary of accounting policies (continued)

2.10. Lease (continued)

basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Land lease rights – from 23 to 99 years.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the estimates of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group apply the short-term lease recognition exemption to its non-current-asset (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2.11. Provisions

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

Provisions are reviewed at each date of the statement of financial position and adjusted to reflect the most accurate recent assessments. When the impact of time value of money is significant, the amount of provision represents the present value of costs expected to be incurred for the settlement of the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognised as interest expenses.

2.12. Income tax

The Group companies are taxed individually, irrespective of the overall results of the Group. Income tax charge is based on profit for the year and considers deferred taxation. Income tax is accounted for in the statement of comprehensive income.

The charge for taxation included in these financial statements is based on the calculation made by the management in accordance with tax legislation of the Republic of Lithuania and foreign countries where subsidiaries of the Group operate. The standard income tax rate in Lithuania was 15% in 2022 and 2021. The company operating in Latvia is subject to 0% income tax rate, unless the profit is distributed in the form of dividends, then 20% income tax rate applies. Based on the requirements of Article 12 of the Law on Income Tax of the Republic of Lithuania, the Company is not subject to income tax.

Tax losses in Lithuania can be carried forward for indefinite period, except for the losses incurred as a result of disposal of securities and/or derivative financial instruments. Such carrying forward is disrupted if the entity changes its activities due to which these losses incurred except when the entity does not continue its activities due to reasons which do not depend on the entity itself. The losses from disposal of securities and/or derivative financial instruments can be carried forward for five consecutive years and can only be used to reduce the taxable income earned from the transactions of the same nature. Starting from 1 January 2014, tax losses may be set off against not more than 70% of the current year’s taxable profit. In Latvia, the procedure for loss carry forward does not apply starting from 2018.

2 Summary of accounting policies (continued)

2.12. Income tax (continued)

Deferred taxes are calculated using the liability method. Deferred tax is recognized, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured at a tax rate which will (as expected) be applied for the period during which the assets will be realized and the liability covered, based on the tax rates which were adopted or essentially adopted on the date of the statement of financial position.

Deferred tax assets are recognized in the statement of financial position to the extent that the management expects it to be realized in the near future, based on the taxable profit forecasts. If it is likely that part of the deferred tax is not going to be realised, this part of the deferred tax asset is not recognised in the financial statements.

In accordance with the amended Latvian Income Tax Act of 1 January 2018, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2022 was 20/80 of the amount distributed as the net dividend (20/80 in 2021). The company has undistributed profit in Latvia, accrued after 1 January 2018, which would be taxed upon distribution. In accordance with paragraph 39 of IAS 12, the Group shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates except the cases than recognition exception apply. The Group has determined that the recognition exception in paragraph 39 of IAS 12 does apply to it because it is not probable that the temporary difference will reverse in the foreseeable future, i.e. no distribution of undistributed profits in Latvia are planned in the foreseeable future.

2.13. Sales revenue

The Group is engaged in lease and development of investment property.

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of the revenue can be measured reliably. Sales revenue is recognised less VAT and discounts.

Revenue from services is recognized when the services are rendered and when the control of services is transferred to the customer at the amount that the Group expects to receive as consideration for services, yet, such transactions are rear and insignificant.

Operating lease income from investment property is recognised in revenue on a straight-line basis over the lease term.

The Group earns major part of revenue from acting as lessor in operating leases which do not transfer substantially all of the risks and rewards incidental to ownership of an investment property. All lease agreements are long-term and for the majority of lessees the rent is indexed on January 1 of each year based on the Harmonised Indices of Consumer Prices (HICP) or the Consumer Price Index (CPI).

In relation to the Group's business model besides what is discussed in this note, management has not made any other important accounting judgements, valuations or assumptions related to recognition of revenue from contracts with customers, except as disclosed in Note 2.19.

2.14. Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from such transactions and from the translation of balances of assets and liabilities denominated in foreign currencies at the reporting date are recognised in the statement of comprehensive income. These balances are translated using the closing rate.

2.15. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2 Summary of accounting policies (continued)

2.15. Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses measurement techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Measurements are performed by the Group management at each reporting date. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of asset or liability and the level of the fair value hierarchy as explained above.

2.16. Impairment of assets

Financial assets

Financial assets are reviewed for impairment at each balance sheet date.

For financial assets carried at amortized cost, whenever it is probable that the Group will not collect all amounts due according to the contractual terms of loans or receivables, an impairment or bad debt loss is recognized in the statement of comprehensive income. The reversal of impairment loss previously recognised is recorded when the decrease in impairment loss can be justified by an event occurring after impairment recognition. Such reversal is recorded in the statement of comprehensive income. However, the increased carrying amount is only recognised to the extent it does not exceed the amortised cost that would have been had the impairment not been recognised.

Other assets

Other assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the statement of comprehensive income. Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased significantly. The reversal is accounted for in the same caption of the statement of comprehensive income as the impairment loss.

2.17. Contingencies

Contingent liabilities are not recognized in the financial statements, except for contingent liabilities associated with business combinations. They are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow or economic benefits is probable.

2.18. Events after the reporting period

Events after the end of the reporting period that provide additional information about the Group’s position at the statement of financial position date (adjusting events) are reflected in the financial statements. Events after the reporting period that are non-adjusting events are disclosed in the notes when material.

2 Summary of accounting policies (continued)

2.19. Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of these financial statements are discussed below:

Leases

Determination of the lease term

As a lessor, the Group enters into lease agreements that contain options to terminate or to extend the lease. These options are generally exercisable after an initial period of 4 to 6 years. At commencement date, the Group (supported by the advice of the independent valuation expert) determines whether the lessee is reasonably certain to extend the lease term or not to terminate the lease. To make this analysis, the Group takes into account any difference between the contract terms and the market terms, any significant investments made by the lessee in the property, costs relating to the termination of the lease and the importance of the underlying asset to the lessee's operations. In many cases, the Group does not identify sufficient evidence to meet the required level of certainty.

Property lease classification – the Group as lessor

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

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determination of performance obligations

In relation to the services provided to tenants of investment property (such as cleaning, security, landscaping) as part of the lease agreements into which the Group enters as a lessor, the Group has determined that the promise is the overall property management service and that the service performed each day is distinct and substantially the same. Although the individual activities that comprise the performance obligation vary significantly throughout the day and from day to day, the nature of the overall promise to provide management service is the same from day to day. Therefore, the Group has concluded that the services to tenants represent a series of daily services that are individually satisfied over time, using a time-elapsed measure of progress, because tenants simultaneously receive and consume the benefits provided by the Group.

Principal versus agent considerations – services to tenants

The Group arranges for certain services provided to tenants of investment property included in the contract the Group enters into as a lessor, to be provided by third parties (e.g. property maintenance services, repair works). The Group has determined that it controls the services before they are transferred to tenants, because it has the ability to direct the use of these services and obtain the benefits from them. In making this determination, the Group has considered that it is primarily responsible for fulfilling the promise to provide these specified services because it directly deals with tenants' complaints and it is primarily responsible for the quality or suitability of the services. In addition, the Group has discretion in establishing the price that it charges to the tenants for the specified services.

Therefore, the Group has concluded that it is the principal in these contracts. In addition, the Group has concluded that it transfers control of these services over time, as services are rendered by the third-party service providers, because this is when tenants receive and, at the same time, consume the benefits from these services.

Investment company and consolidation

The management of the Group has assessed its activities to meet the definition of an investment company in the context of IFRS 10, and considers that Capitalica Baltic Real Estate Fund I does not meet the definition of an investment company as it has the characteristics of a real estate company rather than a pure investment company. Although investors in the Company expect both capital appreciation and operating profit from their capital investment, the Company also carries a significant amount of development risk in its investments, which is specific to a typical real estate company. An investment firm should also make direct investments in companies that are measured at fair value in accordance with IFRS 10. For the parent company of Capitalica Baltic Real Estate Fund I fair value measurement is indirect, the fair value is the value of assets held

2 Summary of accounting policies (continued)

2.19. Use of estimates in preparation of financial statements (continued)

in subsidiaries, resulting in the fair value of the subsidiary not necessarily being the ultimate market price of the subsidiary. The Group also estimates its financial performance on the basis of rental income, profit margins, volume of assets and other financial indicators of the real estate business, which cannot be measured solely by the fair value of the subsidiary.

Other significant areas of estimation used in the preparation of the accompanying financial statements relate to determination of the fair value of investment property (Notes **Error! Reference source not found.** and 4), assessment of application of going concern basis (Note 2.21), assessment of off-balance sheet liabilities and contingencies (Note 21). Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

2.20. Offsetting

When preparing financial statements, the assets and liabilities, revenue and expenses are not set-off, except the cases when certain standard specifically requires such set-off.

2.21. Going concern

As at 31 December 2022, the Group's current liabilities exceeded its current assets by EUR 35 million. Part of the current liabilities (EUR 8 million) relates to placed bonds maturing on 30 October 2023. The latter bond issue is scheduled to be redeemed through a new bond issue. In the opinion of the management, the market is highly active, another company managed by CAPITALICA ASSET MANAGEMENT UAB has already successfully placed an unsecured bond issue, therefore no problem of refinancing is expected. The current economic situation determines that the capital price of the new issue placed will be higher than the current issue placed, however, a higher capital price is acceptable to the investment company. The Company has started preparation for the placement of a new issue, which is expected to be fully effected through two placements by 30 October 2023.

Hanza 14 SIA liabilities to suppliers for construction works amounted to EUR 7 million as at 31 December 2022. These liabilities will be settled using the loan from SEB Banka AS, EUR 26 million of which is intended to finance the construction works. As at 31 December 2022, the portion of the loan drawn amounted to EUR 7.2 million.

The current liabilities also include the loan of PC Luizė UAB in amount of EUR 3.5 million with repayment date on 31 December 2023, this loan is expected to be refinanced during 2023. Following the completion of the construction, which is scheduled at the end of 2023, Hanza 14 SIA can borrow up to EUR 15 million under the written contract with SEB Banka AS, and this portion can be on-lent to the other Group companies.

As at 31 December 2022, Žaliakalnio Parkas UAB did not comply with some financial debt covenants provided for in the loan agreement with AB SEB Bank (Note 11). As result, the non-current portion of the bank loan (EUR 18,600 thousand) was reclassified from non-current to current liabilities as at 31 December 2022. On 6 April 2023, Žaliakalnio Parkas UAB received a waiver from AB SEB Bank confirming that the Bank will not impose a contractual penalty for this non-compliance and does not intend to terminate the loan agreement.

The management plans to continue earning profit in 2023 and believes that the Group will earn sufficient revenue and cash flows in order to carry out its activities and cover its current liabilities, therefore these financial statements were prepared based on the assumption of going concern.

3 Intangible assets

	Other intangible assets	Computer software	Total
Cost:			
Balance as at 1 January 2021	34	-	34
Additions	32	4	36
Write-offs	-	-	-
Balance as at 31 December 2021	66	4	70
Additions	6	-	6
Balance as at 31 December 2022	72	4	76
Amortisation:			
Balance as at 1 January 2021	8	-	8
Amortisation during the year	8	1	9
Balance as at 31 December 2021	16	1	17
Amortisation during the year	15	1	16
Balance as at 31 December 2022	31	2	33
Net book value as at 31 December 2022	41	2	43
Net book value as at 31 December 2021	50	3	53
Net book value as at 1 January 2021	26	-	26

The Group has not capitalized any internally generated intangible assets. Amortisation of intangible assets is included in the statement of comprehensive income under operating expenses.

As at 31 December 2022, the Group had fully amortised intangible assets still used in operations with an acquisition value of EUR 8 thousand (as at 31 December 2021, the Group did not have any fully amortised intangible assets still used in operations).

4 Investment property

	Land	Buildings	Investment property under construction	Total
Cost:				
Balance as at 1 January 2021	5,060	53,561	3,450	62,071
Additions	-	15	22,120	22,135
Gain (loss) arising from changes in fair value	761	5,585	-	6,346
Balance as at 31 December 2021	5,821	59,161	25,570	90,552
Additions	-	332	24,802	25,134
Reclassification	-	38,104	(38,104)	-
Gain (loss) arising from changes in fair value	1,548	13,451	-	14,999
Balance as at 31 December 2022	7,369	111,048	12,268	130,685
Depreciation:				
Balance as at 1 January 2021	-	904	-	904
Depreciation for the year	-	-	-	-
Balance as at 31 December 2021	-	904	-	904
Depreciation for the year	-	-	-	-
Balance as at 31 December 2022	-	904	-	904
Net book value as at 31 December 2022	7,369	110,144	12,268	129,781
Net book value as at 31 December 2021	5,821	58,257	25,570	89,648
Net book value as at 1 January 2021	5,060	52,657	3,450	61,167

4 Investment property (continued)

As at 31 December 2022 and 2021, the Group had no fully depreciated investment property still in use.

In 2022, the Group's rental income from investment property (Note 17) amounted to EUR 3,774 thousand (2021: EUR 3,657 thousand).

The fair value of investment property (shopping centre PC Luizė) estimated by independent appraiser Newsec Valuations UAB as at 31 December 2022 amounted to EUR 6,720 thousand (Level 3 in fair value hierarchy). The fair value of investment property estimated by independent appraiser Newsec Valuations UAB as at 31 December 2021 amounted to EUR 6,350 thousand (Level 3 in fair value hierarchy). The value of assets as at 31 December 2022 and 2021 was estimated using the income method, assessing revenue from lease agreements, expecting annual revenue increase of 5.3–8.3% (depending on the type of lessee) due to indexation in the first year, and 1.8 – 2.2% in subsequent years (as at 31 December 2021, 1.7–4.0% throughout the entire period). Occupancy rate applied was 91% in the first year, 95% in subsequent years (2021: 96% and 95%, respectively). As at 31 December 2022 and 2021, capitalisation rate used in valuation was 8.0%, and discount rate – 10.7% and 9.75%, respectively. Assuming the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2022 the fair value of the investment property would decrease by EUR 230 thousand (as at 31 December 2021 – decrease by EUR 210 thousand). Assuming 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property as at 31 December 2022 and 2021 would decrease by EUR 360 thousand and EUR 300 thousand, respectively.

The fair value of investment property (business centre 135) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 21,280 thousand as at 31 December 2022 (Level 3 in fair value hierarchy). The fair value of investment property (business centre 135) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 20,390 thousand as at 31 December 2021 (Level 3 in fair value hierarchy). The value of assets was estimated using the income method, assessing revenue from lease agreements, expecting annual revenue increase of 4.4–5.9% (depending on the type of lessee) due to indexation in the firs year, and 1.8–2.3% in subsequent years (as at 31 December 2021, 1.5–3.25% throughout the entire period). In 2022 and 2021, actual occupation of the object was 95% in the first year and subsequently. As at 31 December 2022 and 2021, capitalisation rate used in valuation was 6.5%, and discount rate – 8.5% and 7%, respectively. Assuming 0.5% increase of the discount rate leaving the rest of the assumptions used for estimating discounted cash flows unchanged, value of investment property as at 31 December 2022 and 2021 would decrease by EUR 750 thousand and EUR 730 thousand, respectively. Assuming 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property as at 31 December 2022 and 2021 would decrease by EUR 1,110 thousand and EUR 890 thousand, respectively.

The fair value of investment property (business centre Kauno Dokas) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 32,860 thousand as at 31 December 2022 (Level 3 in fair value hierarchy). The fair value of investment property (business centre Kauno Dokas) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 32,420 thousand as at 31 December 2021 (Level 3 in fair value hierarchy).
The value of assets was estimated using the income method, assessing revenue from lease agreements, expecting annual revenue increase of 5.6–8.3% due to indexation in the firs year, and 2–2.4% in subsequent years (as at 31 December 2021, 1.7–3.1% throughout the entire period). In 2022 and 2021, actual occupation of the object was 100% and 95%, respectively. In 2022 and 2021, capitalisation rate used in valuation was 7%, and discount rate – 8.9% and 8.1%, respectively. Assuming the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2022 the fair value of the investment property would decrease by EUR 1,110 thousand (as at 31 December 2021 – decrease by EUR 1,130 thousand). Assuming 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property as at 31 December 2022 and 2021 would decrease by EUR 1,550 thousand and EUR 1,700 thousand, respectively.

The fair value of investment property (land located at Roberta Hirša iela 1, Riga, Latvia, in which the business centre will be developed) was estimated by the independent appraiser Colliers International Latvia and amounted to EUR 65,100 thousand as at 31 December 2022. The fair value of investment property (land located at Roberta Hirša iela 1, Riga, Latvia, in which the business centre will be developed) was estimated by the independent appraiser Newsec Valuations UAB and amounted to EUR 29,820 thousand as at 31 December 2021 (Level 3 in fair value hierarchy). In 2022, the value of assets was estimated using the income method, assessing revenue receivable from the lease agreements of the developed business centre, expecting annual revenue increase of 2.1–2.8% (2021: 1.85–2%) due to indexation. The following occupancy rate applied in 2022: 82% in the first year for the first building and 0% for the second building, 88% in the second year for the project as a whole, and subsequently 100% for the project as a whole. The following occupancy rate applied in 2021: 75% in the first year, 95% in the second year for the first building and 75% for the second building, and subsequently – 95% for the project as a whole. As at 31 December 2022 and 2021, capitalisation rate used in valuation was 5.5% and 6.5%, respectively, and discount rate – 10% and 7.55%, respectively. Assuming the discount rate, applied to discounted future cash flows, increase by 0.5%, leaving the rest of the assumptions used for estimating discounted cash flows unchanged, as at 31 December 2022 the fair value of the investment property would decrease by EUR 1,655 thousand (as at 31 December 2021 – decrease by EUR 1,700 thousand). Assuming 5% decrease of the rent price used for estimating discounted cash flows, the fair value of investment property as at 31 December 2022 would decrease by EUR 4,304 thousand (as at 31 December 2021, decrease by EUR 2.350 thousand).

4 Investment property (continued)

As disclosed in Note 11, a shopping centre Luizė and a land plot (owned by PC Luizė UAB), a shopping centre Kauno Dokas (owned by Žaliakalnio Parkas UAB), a shopping centre 135 (owned by Verslo Centras 135 UAB) and a land plot (owned by Hanza 14 SIA) were pledged to banks as collateral for loans received.

5 Receivables from contracts with customers

	As at 31 December 2022	As at 31 December 2021
Receivables from contracts with customers, gross	523	267
Less: impairment of doubtful amounts receivable under contracts with clients	-	(16)
	523	251

Change in allowance for doubtful receivables was included in operating expenses.

Movement of impairment of the Group's receivables from contracts with customers:

	Individually impaired
Balance as at 1 January 2021	21
Write-offs	(5)
Impairment for the year	-
Balance as at 31 December 2021	16
Write-offs	(16)
Impairment for the year	-
Balance as at 31 December 2022	-

The ageing analysis of the Group's receivables from contracts with customers:

	Receivables from contracts with customers neither past due nor impaired	Receivables from contracts with customers past due but not impaired					
		Less than 30 days	30–60 days	60–180 days	180–360 days	More than 360 days	Total
As at 31 December 2021	195	33	7	4	-	12	251
As at 31 December 2022	348	133	27	2	12	1	523

Trade receivables are non-interest bearing and are collectible on 20–30 days term.

6 Other receivables

	As at 31 December 2022	As at 31 December 2021
Taxes receivable, except for prepaid income tax	136	47
Other trade receivables, gross	2	-
	138	47
Less: impairment of doubtful other receivables	-	-
	138	47

The Group's other receivables include taxes and amounts receivable from accountable persons.

7 Prepayments

	As at 31 December 2022	As at 31 December 2021
Deferred expenses	551	91
Prepayments to suppliers	93	3
	644	94

8 Cash and cash equivalents

As at 31 December 2022 and 2021, cash and cash equivalents comprised cash at banks.

As explained in Note 11, accounts at banks are pledged to banks as collateral for loans. As of 31 December 2022 and 2021, the Group did not have any restricted cash.

9 Capital

All 18,362 thousand of shares with the par value of EUR 1 each are ordinary and as at 31 December 2022 and 2021 were fully paid. There were no changes in the issued capital during 2022 and 2021.

10 Reserves

Legal reserve

The legal reserve is mandatory under the legislation of the Republic of Lithuania. Annual transfers of not less than 5% of net profit are required until the reserve reaches 10% of the issued capital. As at 31 December 2022 and 2021, not all the Group companies complied with this requirement. During 2022, EUR 308 thousand were transferred to the legal reserve (2021: EUR 94 thousand).

11 Loans

	As at 31 December 2022	As at 31 December 2021
Non-current loans:		
Bank loans	59,615	32,065
Current portion of non-current loans	(23,427)	(29,440)
	36,188	2,625

All borrowings of the Group are denominated in euros.

All borrowings of the Group are with variable interest rate which depends on EURIBOR. In 2022 and 2021, the period of repricing of variable interest rate of majority of the loans was every 3 and 6 months.

Weighted average interest rates of borrowings outstanding at the year-end were as follows:

	As at 31 December 2022	As at 31 December 2021
Non-current loans	3.32	0.16
Current loans	1.93	2.44

Terms of repayment of non-current borrowings are as follows:	As at 31 December 2022	As at 31 December 2021
Within one year	23,427	29,440
After one but no later than five years	36,188	2,625
	59,615	32,065

11 Loans (continued)

On 24 February 2022, Verslo Centras 135 UAB and Žaliakalnio Parkas UAB concluded the loan refinancing agreements/made amendments to the loan agreements with SEB Bank AB, on the basis of which the maturity of the loans is extended until 24 February 2027.

On 15 July 2022, Hanza 14 SIA signed a loan agreement with SEB Banka AS for the grant of financing of EUR 60 million. The loan will be released in installments until 30 December 2023, and for payments to contractors under retention guarantee – until 30 December 2026. The final term of the loan repayment is 14 July 2027. As at 31 December 2022, the balance of the loan received but not yet repaid was EUR 26,207,860.

In order to secure repayment of the loans, the Group has pledged to banks 100% of shares in the Company's subsidiaries PC Luizė UAB, Žaliakalnio Parkas UAB, investment property of Verslo Centras 135 UAB and Hanza 14 SIA (Note 4), claim to receivables and cash at banks (Note 5). Also, land lease rights of the Group companies' Žaliakalnio Parkas UAB and Verslo Centras 135 UAB are pledged to banks.

Compliance with covenants

According to the loan agreements, during all loan period the Group has to comply with financial debts to EBITDA ratio (earnings before taxes, interest expense, depreciation, amortization and non-typical expenses), debt service coverage ratio and debt to total assets ratio, calculated based on the Group's consolidated financial statements. As at 31 December 2022 and 2021, the Group complied with these covenants, except for Žaliakalnio Parkas UAB, which failed to maintain a sufficient cash balance in the bank account as at 31 December 2022. On 6 April 2023, a waiver was received from AB SEB Bank regarding non-compliance with financial debt covenants, by which the Bank decided not to impose any sanctions for non-compliance (Note 25). As at 31 December 2022, the bank loan granted to Žaliakalnio Parkas UAB was reclassified from non-current to current liabilities.

As at 2022 and 2021, the Group companies were in compliance with the covenant requiring to execute certain volume of cash transactions through the bank accounts.

In 2021, the Group obtained additional loan of EUR 2,000 thousand (the loan to Verslo Centras 135 UAB from AB SEB bank). The latest term of the loan repayment is 24 February 2027.

12 Issued bonds

On 2 May 2019, a bond distribution agreement was signed between the Group company and Šiaulių Bankas AB, company code 112025254, registered office address Tilžės st. 149, Šiauliai. On the basis of this agreement, it was decided to issue 49,990 bonds at a rate of 5% annual interest and with maturity of 3 years, each with a nominal value of EUR 100. In May 2022, 19,990 bonds were redeemed, and remaining 30,000 bonds were refinanced by AB Šiaulių Bankas through new issue of 2-year bonds, each with a nominal value of EUR 100. The bonds earn 5.0% annual interest.

On 10 September 2020, a commitment was signed between the Company, Šiaulių Bankas AB, company code 112025254, registered address Tilžės st. 149, Šiauliai, and Luminor Bank AS, company code 11315936, registered address Liivalaia 45, Tallinn, on the basis of which 30,000 units of bonds with a nominal value of EUR 100 were issued. These 3-year bonds earn 6.5% annual interest. Additional 50,000 bonds were issued in 2021 under the same bond distribution agreement.

	As at 31 December 2022	As at 31 December 2021
Non-current bonds:		
Bonds	11,100	13,073
Current portion of non-current bonds	(8,100)	(5,073)
	3,000	8,000

The Company is committed that the total amount of the Group's borrowings will not exceed 75–85% of the total Group's assets. As at 31 December 2022 and 2021, the Company was in compliance with this requirement.

The Company confirms that during 2022 and 2021 the Company did not grant loans to third parties, did not provide guarantee or warranty for the fulfilment of the obligations of third parties, nor did it provide assurance for the fulfilment of the obligations of third parties by pledging or mortgaging the Company's assets, except for securing the fulfilment of obligations of legal entities controlled by the Company.

13 Other non-current liabilities

A success fee is paid to CAPITALICA ASSET MANAGEMENT, the management company, if the annual return of the Company's investments exceeds 10%. In such case, 15% of the amount by which the minimum Company's investment return exceeds the minimum threshold is paid as a fee. The success fee is paid after the period of duration of the Company expires or 50% of accrued success fee can be paid in advance. During 2022, the paid success fee amounted to EUR 323,002, and the repaid – EUR 85,000 (the success fee of EUR 53,857 paid in advance was repaid on 23 March 2021).

	As at 31 December 2022	**As at 31 December 2021**
Accrued success fee	2,371	853
	2,371	853

14 Right-of-use assets, lease and lease liabilities

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Land	**Structures**	**Other property plant and equipment**	**Total**
As at 1 January 2021	99	-	-	99
Additions	-	-	8	8
Effect of change in contract period	25	-	-	25
Depreciation expenses	(6)	-	(1)	(7)
As at 31 December 2021	118	-	7	125
Additions	-	434	-	434
Depreciation expenses	(6)	(7)	(2)	(15)
As at 31 December 2022	**112**	**427**	**5**	**544**

EUR 15 thousand of depreciation of the right-of-use assets was recognised in the cost of sales.

Set out below are the carrying amounts of lease liabilities and their change during the period:

	2022	**2021**
Balance as at 1 January	**126**	**99**
Additions	434	8
Effect of change in contract period	-	25
Increase in interest	5	3
Payments	(18)	(9)
Balance as at 31 December	**547**	**126**
Current	86	7
Non-current	461	119

The maturity analysis of lease liabilities is disclosed in Note 22 .

The following amounts are recognised in profit (loss):

	2022	**2021**
Depreciation expenses of right-of-use assets	15	7
Lease liability interest expenses	5	3
Total recognized in profit (loss)	**20**	**10**

The Group's lease payments totalled EUR 20 thousand in 2022 (EUR 10 thousand in 2021).

15 Trade payables

Conditions for trade payables are the following: for current trade payables, interest is not applicable and they are usually settled within a period of 30 days. Non-current loans to suppliers, paid following an agreed schedule, are accounted as non-current payables.

16 Other current liabilities

	As at 31 December 2022	As at 31 December 2021
Accrued expenses	2,084	1,444
Taxes payable	161	144
Other payables and current liabilities	3	38
	2,248	1,626

Interest is not charged for other payables and they are usually paid for within 1 month.

17 Sales revenue

	2022	2021
Lease income	3,774	3,657
Income from resale of utility services	1,647	1,210
Income from conference arranging services	162	72
Income from parking services	78	68
Income from marketing services	57	57
Income from other services	37	24
	5,755	5,088

18 Cost of sales

	2022	2021
Utilities	1,306	691
Assets maintenance expenses	348	258
Tax expenses	190	162
Stationery, office equipment and other administrative expenses	169	152
Conference attendance expenses	115	63
Marketing expenses	31	33
Depreciation expenses	16	7
	2,175	1,366

19 Operating expenses

	2022	2021
Services from other companies	2,390	1,252
Intermediary services	297	77
Wages and social security	123	51
Marketing, representation expenses	85	59
Consultation services	56	18
Taxes (other than income tax)	55	53
Services of financial institutions	52	39
Audit services	38	37
Trainings, other employee-related expenses	33	-
Costs of premises	27	51
Insurance (except for car insurance)	17	15
Depreciation and amortisation	15	8
Other	13	7
Communications and information technologies	10	6
Penalties and default interest	1	206
Allowance for receivables	-	3
	3,212	1,882

20 Income tax

	2022	2021
Income tax expenses comprised as follows:		
Current income tax expenses	8	7
Deferred income tax expenses	474	1,203
Income tax expenses charged to statement of comprehensive income	482	1,210

	As at 31 December 2022	As at 31 December 2021
Deferred tax assets		
Tax losses	1,078	835
Deferred income tax asset before valuation allowance	1,078	835
Less: valuation allowance	-	-
Deferred tax asset, net	1,078	835
Deferred tax liability		
Investment property	(6,475)	(5,759)
Deferred tax liability	-	-
Deferred income tax, net	(5,397)	(4,924)

Deferred income tax assets and liability, related to the entities of the Group operating in Lithuania, were accounted at 15% rate as at 31 December 2022 and 2021.

The income tax amount from continued operations can be reconciled to income tax expenses, calculated by applying the statutory income tax rate to the Group's profit before income tax as follows:

	2022	2021
Income tax expenses computed at rate of 15%	1,946	1,063
Permanent differences	520	147
Effect of lower tax rates in other countries (Latvia) (Note 2.12)	(1,984)	-
Income tax expenses charged to statement of comprehensive income	482	1,210

21 Off-balance sheet liabilities and contingencies

Operating lease liabilities – Group as a lessor

The Group has leased premises (investment property) under non-cancellable operating lease agreements. As at 31 December 2022, the remaining lease periods under effective agreements are 1–10 years. Receivable lease fees are either variable depending on the lease term or are revised annually depending on the consumer price index change.

Future minimal lease payments receivable according to the signed lease contracts are as follows:

	2022	2021
Within one year	4,140	3,435
From one to five years	7,424	6,351
After five years	2,797	260
	14,361	10,046

21 Off-balance sheet liabilities and contingencies (continued)

The tax inspection of Verslo Centras 135 UAB identified that loan interest are deductible for tax purposes, and, therefore, the Company must pay to the state budget additional income tax of EUR 49,674. The Company disagrees with such a conclusion of the tax authority and appealed the decision to the Vilnius Regional Administrative Court. As at the reporting date, the appointment of the hearing is pending. The management anticipates a decision favourable to the Company, therefore, no related provisions were recognised in these financial statements.

22 Financial assets and liabilities and risk management

The Group faces various financial risks when performing its activity. Risk management is conducted by the Board.
The main financial risk management procedures applied in the Group's activity were as follows:

Interest rate risk

The Group's loans consist of loans received with a variable interest rate, which is linked to EURIBOR and creates interest rate risk (Note 11). The Group did not have any financial instruments with the purpose to manage interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, of the Group's profit before tax. Except for the current year's profit, there is no impact on the equity of the Group.

	Increase/decrease in basis points	Impact on profit before tax
2022		
EUR	+50	(298)
EUR	-10	60
2021		
EUR	+50	(160)
EUR	-10	32

Foreign exchange risk

The Group's operations and transactions are denominated in euros, therefore the Group is not exposed to foreign exchange risk.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its obligations at a given date in accordance with its strategic plans. The Group's liquidity (current assets / current liabilities) and quick ratios ((current assets – inventory) / current liabilities) as at 31 December 2022 were 0.10 and 0.10 (0.06 and 0.06 as at 31 December 2021, respectively). The level of these indicators was affected by the reclassification to the current portion of bonds, and the bank loan of PC Luizė UAB, which will be refinanced during 2023, as well as non-compliance of Žaliakalnio Parkas UAB with contractual covenants. Please refer to Note 2.21 for more information.

22 Financial assets and liabilities and risk management (continued)

The table below summarizes the maturity profile of the Group's financial liabilities as at 31 December 2022 and 2021 based on contractual undiscounted payments:

	On demand	Less than 3 months	From 3 to 12 months	From one to five years	More than 5 years	Total
Lease liabilities	-	22	108	452	219	801
Interest bearing loans	-	788	7,433	63,515	-	71,736
Non-current bonds issued	-	109	8,473	3,063	-	11,645
Trade payables	3,511	1,035	27	-	-	4,573
Other current payables	-	1,992	-	-	-	1,992
Balance as at 31 December 2022	**3,511**	**3,946**	**16,041**	**67,030**	**219**	**90,747**
Lease liabilities	-	2	21	44	153	220
Interest bearing loans	-	18,559	11,234	2,671	-	32,464
Non-current bonds issued	-	157	5,451	8,520	-	14,128
Trade payables	1,979	1,770	1	-	-	3,750
Other current payables	-	8	22	-	-	30
Balance as at 31 December 2021	**1,979**	**20,496**	**16,729**	**11,235**	**153**	**50,592**

It is not expected that the cash flows presented in the term analysis can appear early or that their amounts can differ significantly.

Changes in financial liabilities:

	As at 1 January 2022	Received	Interest charged	Payments	Effect of change in contract period	As at 31 December 2022
Loans	32,065	47,148	940	(20,538)	-	59,615
Issued bonds	13,073	19,000	1,083	(22,056)	-	11,100
Leases	126	434	5	(20)	-	545
Total	**45,264**	**66,588**	**2,028**	**(42,614)**	**-**	**71,260**

	As at 1 January 2021	Received	Interest charged	Payments	Effect of change in contract period	As at 31 December 2021
Loans	26,284	7,000	724	(1,943)	-	32,065
Issued bonds	8,052	5,000	386	(365)	-	13,073
Leases	99	8	3	(9)	25	126
Total	**34,435**	**12,008**	**1,113**	**(2,317)**	**25**	**45,264**

Fair value of financial assets and liabilities

The Group's principal financial instruments not carried at fair value are trade and other receivables, trade and other payables, non-current and current borrowings.

The following methods and assumptions are used to estimate the fair value of each class of financial assets and liabilities:

(a) The carrying amount of current trade and other accounts receivable, current accounts payable and current borrowings (granted/received at arm's length transactions) approximates fair value (estimated based on Level 3 of fair value hierarchy);

(b) The fair value of non-current debt is based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. The carrying amount of non-current borrowings as at 31 December 2022 approximates their fair value, because they are already measured at a floating rate in line with market conditions. The fair value of bonds with fixed interest rates estimated using discount rate of 8.5%, would amount to EUR 10,573 thousand as at 31 December 2022 (estimated based on Level 3 of fair value hierarchy).

23 Capital management

"Capital" in the meaning of IAS 1 comprises the equity presented in the financial statements.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes of capital management during the years ended 31 December 2022 and 2021.

The Company is obliged to keep its equity at not less than 50% of its share capital, as imposed by the Law on Companies of the Republic of Lithuania. As at 31 December 2022 and 2021, all the Group companies operating in Lithuania complied with the aforementioned requirement for equity.

The Group monitors capital using debt to equity ratio. The capital consists of ordinary shares, reserves, and retained earnings. The management of the Group has not set a specific target for debt to equity ratio, but below presented actual figures are assessed as rather good performance indicators:

	As at 31 December 2022	As at 31 December 2021
Non-current liabilities	47,417	16,521
Current liabilities	39,552	40,656
Total liabilities	**86,969**	**57,177**
Equity	**47,546**	**35,054**
Liabilities to equity ratio	**1.83**	**1.63**

24 Related party transactions

Parties are considered related when one party has the possibility to control the other one or have significant influence over the other party in making financial and operating decisions. The related parties of the Group are as follows:

- SBA Grupė UAB (the main shareholder of the Company)
- Other companies managed by SBA group

Transactions with related parties during 2022 and 2021, and balances as at 31 December 2022 and 2021:

2022	**Purchases**	**Sales**	**Receivables**	**Payables**
SBA Grupė UAB	-	1	1	-
Other companies managed by SBA Group	972	-	-	492
	972	1	1	492

2021	**Purchases**	**Sales**	**Receivables**	**Payables**
SBA Grupė UAB	-	-	-	-
Other companies managed by SBA Group	894	-	-	338
	894	-	-	338

There were no guarantees or pledges given or received in respect of the related party payables and receivables. Related party receivables and payables are expected to be settled in cash or set-off against payables / receivables to / from a respective related party.

Remuneration to management and other benefits

The Group's management is considered to be directors of all subsidiaries.

The Group's management remuneration amounted to EUR 2 thousand in 2022 (in 2021: EUR 2 thousand).

24 Related party transactions (continued)

In 2022 and 2021, the management of the Group did not receive any loans, guarantees, no other significant payments made or accrued, no property transfers were made.

25 Events after the reporting period

On 6 April 2023, Žaliakalnio Parkas UAB received a waiver from AB SEB Bank for non-compliance with some financial debt covenants as at 31 December 2022 (Note 11). AB SEB Bank confirmed a waiver of penalties for non-compliance.

There were no other significant subsequent events after the financial year-end in the Group.

ANNUAL REPORT FOR 2022 OF CLOSED-END INVESTMENT UNDERTAKING INTENDED FOR INFORMED INVESTORS CAPITALICA BALTIC REAL ESTATE FUND I UAB

GENERAL INFORMATION

Closed-end investment undertaking intended for informed investors CAPITALICA BALTIC REAL ESTATE FUND I UAB (hereinafter – the Company) was incorporated on 5 October 2016. The Company's issued capital as at 31 December 2021 amounted to EUR 18,362,432, split into 18,362,432 units of ordinary registered shares with nominal value of EUR 1 each. 14.51% of the Company was controlled by SBA Grupė UAB. The remaining shares are controlled by minority shareholders, each holding less than 10% of all shares.

The main activity of the Company – collective investment of informed investor assets in the real estate market in order to spread risks and earn profit for the Company's shareholders. On 22 December 2016, the Bank of Lithuania issued a licence to the Company to operate as an investment company. Before the issue of the licence, the Company operated as a private limited liability company.

The Company is managed by CAPITALICA ASSET MANAGEMENT UAB (hereinafter – Management Company), which on 17 August 2016 gained a permit to act as a management company of collective investment subjects for informed investors, issued by the Bank of Lithuania.

As at 31 December 2022, the Company had control over the following subsidiaries: PC Luizė UAB, Žaliakalnio parkas UAB, Verslo Centras 135 UAB and Hanza 14 SIA and Hanza 14 LT UAB.

I. Objective overview of the Group position, operations and development, description of the key risks and contingencies faced by the Group.

Information about financial risk of the Group is disclosed in financial statements.

II. The analysis of the Group's financial and non-financial operating results and information related to environment and personnel

The Group's consolidated sales in 2022 amounted to EUR 5,755 thousand, consolidated gross profit was EUR 3,580 thousand. Having assessed the operating expenses and loss from investment activities, consolidated profit before tax amounted to EUR 12,974 thousand.

In 2022, the Group earned EUR 12,492 thousand of net profit.

As at 31 December 2022, the Group's consolidated assets amounted to EUR 134,515 thousand.

In 2022, there was 1 employee working in all the Group companies, and 2 employees in Hanza 14 UAB.

III. References and additional explanations on the data provided for in the annual financial statements.

References and additional explanations are stated in Notes to the consolidated annual financial statements.

IV. The Company and the Group companies did not hold any shares of the Company in 2022.

V. Significant events after the end of the financial year.

There were no significant events after the financial year-end, except for the ones disclosed in Note 25 to the financial statements.

VI. The Group did not perform any research and development activities.

VII. As at 31 December 2022, the Group had no derivatives.

VIII. Plans and forecasts of operations of the Group.

In 2023, the Group will continue to develop the controlled businesses, pursuing sustainable and profitable growth.

Hanza 14 SIA, the Group company, intends to complete the second building stage of business centre Verde during 2023. The business centre is being built in an effort to meet the BREEAM Excellent standard.

IX. Other managing positions of the Company's manager and members of the Board

The head of the Company Andrius Barštys also serves as the Chair of the Board of the Company, and the Chair of the Investment committee of KŪB Koinvesticinis Fondas, company code 304537659, address Konstitucijos ave. 7, Vilnius. He also holds managerial positions in the following companies: UAB Fox Holdings, company code 303016870, address Šiaulių st. 97, Bajorų village. Vilnius city municipality, UAB PC Luizė, company code 302761548, address Šiaurės ave. 15-1, Klaipėda, UAB Žaliaklanio parkas, company code 304287223, address K. Donelaičio st. 62-1, Kaunas, Verslo Centras 135 UAB, company code 301733282, address Žalgirio st. 135, Vilnius, Hanza 14 SIA, company code 40203157541, address Valdemara st. 33-19, Riga. He also serves as a member of the Board of TanaHub OU, company code 16402226, address Harju maakond, Tallinn, Põhja-Tallinna linnaosa, Põhja pst 25 and S911 OU, company code 16219640, address Harju maakond, Tallinn, Põhja-Tallinna linnaosa, Põhja pst 25, Marupe Hub SIA, company code 40203396790, address Audeju iela 15-4, Riga and Dreilini HUB SIA, company code 40203461770, address Audeju iela 15-4, Riga.

The member of the Board Jolanta Grašienė is also the member of the Boards of UAB SBA Urban, company code 302675889, address Upės g. 21-1, Vilnius, UAB SBA Modular, company code 305283904, address Upės st. 23, Vilnius, UAB SBA Grupė, company code 132206739, address Upės st. 21-1, Vilnius, UAB SBA Home, company code 242131620, address Joniškės st. 21, Klaipėda and the Chair of Board of UAB SBA Competence and Service Center, company code 304960328, address Upės st. 23, Vilnius. The main position of Jolanta Grašienė is the vice president of UAB SBA Grupė, company code 132206739, address Upės st. 21-1, Vilnius.

The member of the Board Adam Saulius Vaina is also the member of the Board of UAB SBA Grupė, company code 132206739, address Upės st. 21-1, Vilnius, UAB GAUMINA, company code 224497630, address Gedimino ave. 27 Vilnius, UAB Mobilios Aplikacijos, company code 303105746, address Gedimino ave. 27, Vilnius, UAB Mediapark Grupė, company code 304050320, address Gedimino ave. 27, Vilnius, UAB ME investicija , company code 302489393, address Račių st. 1, Vilnius, OU Civitta International, company code 12241708, address Ria tn 24a, Tartu. Adam Saulius Vaina is also a partner of UAB CIVITTA, company code 302477747, address Gedimino ave. 27, Vilnius, he is also the head of VŠĮ Civitta foundation, company code 303363287, address Gedimino ave. 27, Vilnius, UAB Kavija, company code 303091773, address Gedimino ave. 27, Vilnius, UAB Mediapark Grupė, company code 304050320, address Gedimino ave. 27, Vilnius, UAB Entra holdings, company code 302790286, address Gedimino ave. 27, Vilnius.

Director of management company CAPITALICA ASSET MANAGEMENT UAB Andrius Barštys

7 June 2023