

Mainor Ülemiste AS

CONSOLIDATED ANNUAL REPORT 2018

Beginning of financial year	01.01.2018
End of financial year	31.12.2018
Registry code	10348595
Address	Valukoja 8 11415 Tallinn, Harju county
Phone	+372 53 046992
Main business activity	Leased or owned real estate rent and operation
Auditor	Deloitte Audit Eesti AS
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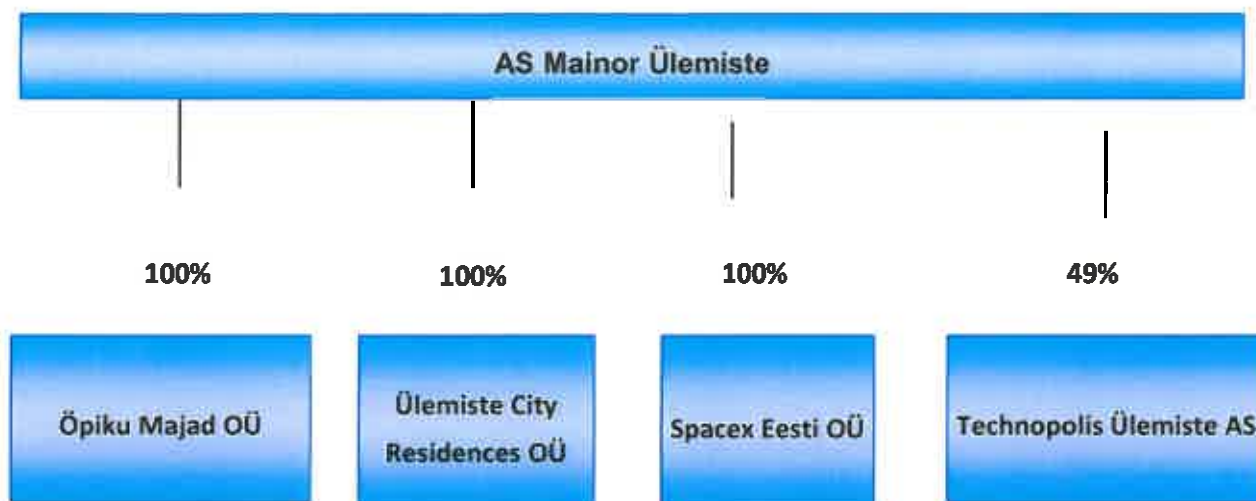
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Management report

Structure of consolidation group



In 2018, the entity was engaged in development of Ülemiste City office space, including construction of new buildings and renovation of existing buildings, renting premises, providing tenants with necessary services and developing these services, preparing new real estate projects. Mainor Ülemiste started preparations to construct nearly zero energy buildings in the near future.

In 2018, Öpiku Majad B building was finished, with which Öpik pair towers, which are linked with the gallery, became biggest office building in Estonia. The office building was built according to B-energy class and LEED Platinum certificate requirements. At that point, the office space of Ülemiste City will exceed 130 000 m², thus becoming the biggest office campus in the Baltics. Main tenant of Öpik B tower is Tele 2 Eesti AS; in addition, the International House was opened in the autumn of 2018, aiming to offer foreign specialists necessary information and services from one place to help them adapt smoother in Estonia. International House project was developed in collaboration with EAS foreign specialist involvement program Work in Estonia. New rooms for e-Estonia showroom and two conference rooms equipped with modern technology will be set up in the gallery connecting Öpik towers. There is now in the Öpiku Majad a well-equipped conference center with 7 different rooms.

Five-store parking house was built on property located in Sepise 8, where is 428 parking spots and a gallery connecting it with Öpiku II building. This is the first stage of parking house, during which historical Dvigatel production building will be expanded to 14 000 m² parking lot. The nearly 860-square-meter brick building, which was part of the old Dvigatel factory complex at the same address, was renovated into a modern IT house. On the ground floor of the same building, two restaurants were opened in the autumn of 2018.

Öpiku Majad OÜ, a subsidiary of Mainor Ülemiste AS, has signed a loan agreement with SEB Pank AS for the amount of EUR 39.5 million. In addition to designing a new educational complex and office building, we start designing and building an innovative health house in the city with the support of fresh funding, where all the necessary health-related services are concentrated under one roof, targeting both local people in the city as well as local specialists.

Öpiku Majad OÜ, a subsidiary of Mainor Ülemiste AS, entered into a credit agreement of EUR 10.7 million with OP Corporate Bank Plc Estonia, which refinances the existing loan from Nordea Bank and finances the construction of Lurich houses. Lurich Quarter 13-storey Houses and 8-storey office tower will be built at Valukoja Street 10 between old Dvigatel limestone walls. The planned completion date for the buildings will be in the first half of 2020, after which the modern city will become a 24-hour lifestyle. In cooperation with Fund Ehitus OÜ, the subsidiary Öpiku Majad OÜ started construction of 10 rental apartments and office buildings in Valukoja.

In 2018, Ülemiste City Residences OÜ, a wholly-owned subsidiary, was established with the aim of providing accommodation services in a 13-storey 82-apartment building in Valukoja 10.

The reconstruction of the Ülemiste City road network was continued and new parking areas were set up at the airport side.

In 2018, a total of 17 898 thousand euros was invested into the construction of buildings and improvement of equipment. A total of 24 634 thousand euros was taken as a loan in 2018 and 8 998 thousand euros of loan was repayed. To raise capital for the further development of Ülemiste City commercial district, the second phase of bond issue of 10 000 thousand euros was carried out in the amount of 7 380 thousand euros and bonds issued in 2015 were repaid in the amount of 5 000 EUR.

The average rental price for commercial premises increased by 5% in 2018. The fair value of real estate investments of Mainor Ülemiste AS is 122 630 thousand euros and it has increased compared to previous year by 20 560 thousand euros. The value of the 49% stake of Mainor Ülemiste AS in Technopolis Ülemiste AS is worth 37 748 thousand euros and it increased by 4 231 thousand euros during the year. The development concept of Ülemiste City will be further developed with the aim to make the district into a lively settlement with multiple purposes, which would be suitable for working, living and recreation. The goal of the district is to become the biggest knowledge based economic centre in Baltics and to grow into a multi-functional district by 2025 that is active around the clock, where studies, works and lives 20 000 people.

Together with Technopolis Ülemiste AS, Tallinn Airport AS and Ülemiste Center OÜ, the concept of the European square is being developed, which connects the travel terminal that is being built by Rail Baltic with shopping and entertainment centres, Tallinn Airport and other regional developments. Zoning plan for Valukoja 7 property was continued, which changes the purpose of the land use from production land to business land and to a detached part of the property, with address Valukoja 9, is planned construction of school building.

Two architectural competitions were conducted. Arhitektuuribüroo Pluss was the winner of the last limestone production building at Sepapaja 10 address. The solution they offer is to build an innovative o-star building with a gross volume of approximately 50,000 square meters, with the functionality of office, service and rental apartments. The second architectural competition was held with the desire of Valukoja 7, Sepapaja 11 and 12 to create a multifunctional quarter with an educational complex, an office building and residential buildings. In the final round of this architectural competition, there are 3 + 1 architects and Zaha Hadid architects.

In 2018, active IT development projects were carried out to improve the customer experience of people and visitors working in Ülemiste City. In cooperation with Europark Estonia OÜ, an artificial intelligence-based parking solution was introduced, which guides people to the nearest free parking space. In addition, a new web and service platform was launched for Ülemiste City.

Shareholders were paid dividends in amount of 1 015 thousand euros.

As of 31.12.2018 a total of 19 people were employed by Mainor Ülemiste AS, with a total salary of 624 thousand euros (2017: 594 thousand euros), of which salary expenses to members of the board and management consisted of 197 thousand euros (2017: 194 thousand euros). Also see notes 24 and 31.

Mainor Ülemiste AS consolidated turnover in 2018 amounted to 8 798 thousand euros (2017: 7 686 thousand euros), other operating income amounted to 2 811 thousand euros (2017: 1 465 thousand euros) and net income amounted to 9 334 thousand euros (2017: 8 522 thousand euros). The total equity of the company is 91 937 thousand euros.

On December 7, 2018, the Extraordinary General Meeting of Shareholders held a decision to decrease the share capital by 5.2% or EUR 1 000 000,20 to increase the return on equity to EUR 18 199 999,80.

Key financial ratios	31.12.2018	31.12.2017
Return on equity – ROE (%)	9,7%	9,7%
Return on assets – ROA (%)	5,5%	6,0%
Operating margin (%)	134,9%	136,4%
Net profit margin (%)	106,1%	110,9%
Dividend payout ratio (%)	14,5%	13,1%
Increase in revenue (%)	14,5%	34,2%

Formulas underlying the calculation of ratios:

Return on equity – ROE (%) = net profit / average equity for the reporting period x 100

Return on assets – ROA (%) = net profit / average assets for the reporting period x 100

Operating margin (%) = operating profit / revenue x 100

Net profit margin (%) = net profit / revenue x 100

Dividend payout ratio (%) = dividends paid / net profit for the previous year x 100

Increase in revenue (%) = (revenue for the reporting period / revenue for the previous year – 1) x 100

Management confirmation and signatures

The Management Board confirms the correctness and completeness of the consolidated financial statements as of 31.12.2018 disclosed on pages 7-60 of Mainor Ülemiste AS and its' related parties, in addition:

- The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- The consolidated financial statements presents a true and fair view of the financial position, cash flows and the results of operations;
- Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of the financial statements have been considered and stated in accordance with regulations;
- Mainor Ülemiste AS and its' subsidiaries are going concerns.

The annual report of Mainor Ülemiste AS for the year 2018 is signed:

(signature, date)
Margus Nõlvak
Juhatuses liige

(signature, date)
Rein Suurväli
Juhatuses liige

(signature, date)
Ursel Velve
Juhatuses liige

Consolidated Financial Statements

Consolidated Statement of Financial Position*(in thousands of euros)*

	Notes	31.12.2018	31.12.2017
ASSETS			
Investment property	6	122 630	102 070
Tangible assets	7	100	78
Intangible assets	8	53	5
Trade and other receivables	9	10 597	10 593
Inventories			
Financial investments	13	37 748	33 517
Cash and cash equivalents	14	9 620	9 400
TOTAL ASSETS		180 748	155 663
EQUITY			
Share capital at par value	15	19 200	19 200
Statutory capital reserve		1 920	1 920
Retained earnings		69 585	62 295
Profit for the financial year		9 334	8 522
TOTAL EQUITY		100 039	91 937
LIABILITIES			
Provisions	18	263	247
Borrowings	16	77 807	59 823
Derivatives		126	0
Trade and other payables	17	2 513	3 656
TOTAL LIABILITIES		80 709	63 726
TOTAL LIABILITIES AND EQUITY		180 748	155 663

Notes on pages 11 - 60 are an integral part of this financial statement.

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Consolidated Statement of Comprehensive Income*(in thousands of euros)*

	Note	2018	2017
Revenue	19	8 798	7 686
Cost of sales	21	-2 742	-2 513
Gross profit		6 056	5 173
Marketing expenses	22	-185	-149
Administration expenses	23	-2 257	-1 870
Revenues from financial investments	13	5 463	5 888
Other operating income	20	2 811	1 456
Other operating expenses	25	-15	-9
Operating profit		11 873	10 489
<i>Financial income and expenses</i>			
Interest income	26	422	473
Interest expense	27	-2 600	-2 010
Other financial income and expenses	28	-361	-240
Total financial income and expenses		-2 539	-1 777
Profit before tax		9 334	8 712
Income tax expense	30	0	-190
Net profit for the year		9 334	8 522
Total comprehensive income for the year		9 334	8 522
Attributable to the owners of the company		9 334	8 522

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Consolidated Statement of Cash Flows*(in thousands of euros)*

	Note	2018	2017
<i>Cash flows from operating activities</i>			
Net profit for the year		9 334	8 712
Adjustments:			
Depreciation and amortization of non-current assets	7,8	45	59
Profit (loss) from fixed asset sales and write-offs	7	0	2
Change in fair value of investment property	6	-2 777	-1 426
Other adjustments		438	253
Profit (loss) from financial investments	13	-5 463	-5 888
Other financial income and expenses		487	240
Interest paid and other financial expenses		2 052	1 537
Corporate income tax paid	30	0	-190
Changes in receivables from operating activities		-4	37
Changes in payables from operating activities		-1 260	176
Net cash generated by operating activities		2 852	3 512
<i>Cash flows from investing activities</i>			
Sales of property, plant and equipment	7	0	1
Payments for property, plant and equipment	7	-115	-14
Payments for investment property	6	-17 783	-15 571
Loans granted	9	-25	-9
Repayment of loans granted		0	441
Interest received		2	0
Dividends received	13,31	1 232	0
Net cash used in investing activities		-16 689	-15 152
<i>Cash flows from financing activities</i>			
Proceeds from borrowings	16	24 634	24 076
Repayment of borrowings	16	-8 998	-9 569
Issue of bonds	16	7 380	2 620
Redemption of bonds	16	-5 000	0
Capital lease payments		-31	-28
Interest paid		-2 696	-2 208
Dividends paid	15	-1 232	-840
Net cash from financing activities		14 057	14 051
Total cash flows		220	2 411
<i>Cash and cash equivalents at the beginning of the financial year</i>			
	14	9 400	6 989
Net change in cash and cash equivalents		220	2 411
Cash and cash equivalents at the end of the year	14	9 620	9 400

Notes on pages 11 - 60 are an integral part of this financial statement.

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Consolidated Statement of Changes in Equity*(in thousands of euros)*

	Share capital	Statutory reserve	Retained earnings	Total equity
Balance at 31.12.2016	19 200	1 920	63 135	84 255
Dividends declared	0	0	-840	-840
<i>Total comprehensive income for the year</i>	0	0	8 522	8 522
Balance at 31.12.2017	19 200	1 920	70 817	91 937
Dividends declared	0	0	-1 232	-1 232
<i>Total comprehensive income for the year</i>	0	0	9 334	9 334
Balance at 31.12.2018	19 200	1 920	78 919	100 039

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

Notes on pages 11 - 60 are an integral part of this financial statement.

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Notes to the consolidated financial statements

Note 1. Reporting entity

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

The financial year of Mainor Ülemiste AS financial statements is from 01.01.2018 to 31.12.2018, the comparison period is from 01.01.2017 to 31.12.2017.

The consolidated financial statements of the entity for the financial year ended on 31 December 2018 were signed by the Management Board.

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

The group’s consolidated financial statements for 2018 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS EU).


New and amended International Financial Reporting Standards (IFRS)

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards, amendments to standards and interpretations effective for annual periods beginning in or after 2018. In cases where the amendments are not in compliance with the provisions of previous standards, the group applies the standards provided they are also adopted by the EU.

New amendments and interpretations applied in the reporting period

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

- IFRS 9 “Financial Instruments”. Adopted by the EU on 22 November 2016, effective for annual periods beginning on or after 1 January 2018;
- IFRS 15 “Revenue from Contracts with Customers” and IFRS 15 further amendments. Adopted by the EU on 22 September 2016, effective for annual periods beginning on or after 1 January 2018;
- IFRS 4 “Insurance Contracts”. Applying IFRS 9 “Financial Instruments” with IFRS 4 “Insurance Contracts” – adopted by the EU on 3 November 2017, effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 is applied first time.
- IFRS 15 “Revenue from Contracts with Customers” – Clarifications to IFRS 15 “Revenue from Contracts with Customers” – adopted by the EU on 31 October 2017, effective for annual periods beginning on or after 1 January 2018.

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- IFRS 2 “Share-based Payment”. The amendments adopted by the EU on 26 February 2018, effective for annual periods beginning on or after 1 January 2018.
- IAS 40 “Investment Property” - effective for annual periods beginning on or after 1 January 2018.
- Annual Improvements to IFRSs 2014-2016 cycle. Annual Improvements to IFRSs (IFRS 1, IFRS 12 and IAS 28) made to eliminate inconsistency in IFRSs and clarify wording, adopted by the EU on 7 February 2018, amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018.
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” – adopted by the EU on 28 March 2018, effective for annual periods beginning on or after 1 January 2018.

The first implementation of these changes did not have important affect to group’s financial statements. IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers is first application is presented in a separate chapter below.

Amendments published by the IASB and adopted by the EU, not yet effective

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union have not yet come into force:

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

The Group has not analyzed the full effect of IFRS 16, but has assessed its potential impact as irrelevant as follows:

1. The Group has only some lease agreements, where the Group is a lessee and is mainly related to leasing cars and
 2. IFRS 16 continues in substantial part with the lessor’s accounting policies that were valid in IAS 17.
- IFRS 9 “Financial Instruments” – features of prepayments with negative benefits – amendments are adopted by the EU on 22. March 2018, effective for annual periods beginning on or after 1 January 2019;

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- IFRIC 23 “Recognition of tax risks” – adopted by the EU on 23. October 2018, effective for annual periods beginning on or after 1 January 2019.

The Group does not intend to apply these new standards and changes to existing standards prematurely. The management board does not expect the amendment will have a material impact on the group’s financial statements in the period they are first applied. Implementing new standards is planned to use retrospective change in a modified accounting policy (corrections for initial recognition and without conversion in 2018).

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

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

- IFRS 14 “Regulatory Deferral Accounts”- effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- IFRS 17 “Insurance Contracts” – effective for annual periods beginning on or after 1 January 2021;
- IFRS 3 “Business Combinations”- definition of business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);
- 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 (effective date was deferred indefinitely until the research project on the equity method has been concluded);
- IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”- definition of materiality (effective for annual periods beginning on or after 1 January 2020);
- IFRS 19 “Benefits to employees” – plan amendment, curtailment or settlement (effective for annual periods beginning on or after 1 February 2019);
- IAS 28 “Investments in Associates and Joint Ventures” – long term interests in associates and joint ventures- amendments are effective for annual periods beginning on or after 1 January 2019;
- Annual Improvements to IFRSs 2015-2017 cycle. Annual Improvements to IFRSs (IFRS 3, IFRS 11, IAS 12 and IAS 23) made to eliminate inconsistency and clarify wording. Amendments are effective for annual periods beginning on or after 1 January 2019;

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- Amendments to the Conceptual Framework of IFRSs- effective for annual periods beginning on or after 1 January 2020.

In the Group's view, the implementation of these standards and changes to existing standards and interpretations will not have a significant effect on the company's financial statements except IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 15 "Revenue from Contracts with Customers" an obligation to disclose additional information the underlying transactions.

First application of IFRS 9

In the current year, the Group has implemented for the first time the standard IFRS 9 Financial Instruments (as these are adopted in EU on 22. November 2016) and the related consequential amendments to other IFRSs which are effective for annual periods beginning on or after 1 January 2018. When applying the standard for the first time, the Group decided not to adjust the comparative information for the classification and measurement of financial instruments.

IFRS 9 introduces new requirements:

- the classification and measurement of financial assets and financial liabilities;
- impairment for financial assets, and
- general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. The date of initial application (ie the date on which the Group has assessed its existing financial assets and financial liabilities in accordance with IFRS 9) is 1 January 2018. Consequently, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognized on 1 January 2018 and have not applied those requirements to instruments that were derecognised as of 1 January 2018.

Recognition and measurement - IFRS 9 introduces a new approach to classifying financial assets that are governed by contractual cash flow conditions and a business model that determines for which purpose the entity holds the financial asset. This principle-based approach replaces the existing IAS 39 rule-based approach. Changes in the measurement of different financial assets are not expected to have an effect on their residual value in the initial application of the accounting policy. The Group did not have any financial assets or financial liabilities classified at fair value through profit or loss previously classified under IAS 39 that should have been reclassified or reclassified to IFRS 9. On the date when IFRS 9 was first applied, the Group did not determine any financial assets or financial liabilities at fair value through profit or loss.

Impairment - IFRS 9 introduces a new model of expected loan loss that requires timely recognition of expected credit losses, not only credit losses incurred, as required by IAS 39. Specifically, the new standard requires an enterprise to recognize the expected credit loss immediately if the financial instrument is initially recognized and recognized in a timely manner for the credit loss expected over the lifetime. The management has assessed the Group's impairment testing principles for financial assets as of 31.12.2018, based on rationale and reasonable information that could be obtained without excessive costs and effort in accordance with the requirement of IFRS 9. As the result of the evaluation, management came to the conclusion that implementation of IFRS 9 has no significant

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impact on comparative information and therefore no additional write-downs were made to cover credit quality.

Hedge accounting - IFRS 9 imposes a significant part of the revised hedge accounting model, with additional disclosure requirements for company risk management. The new model includes a significant change in hedge accounting, which allows better accounting for risk management. As the Group does not use hedging instruments, the changes are expected to have no effect on the financial statements.

Given credit - IFRS 9 eliminates fluctuations in the income statement caused by the credit risk of liabilities recognized at fair value. Accounting means that the income generated by a company's credit risk deterioration is no longer recognized through profit or loss. This change does not have a presumed effect on the Group's financial statements.

The adoption of IFRS 9 did not have a material impact on the consolidated financial statements of the Group. If a material impact had been identified, the adjustment would have been applied retrospectively. Since the impact was not material, no restatements to the prior year balances were required as it relates to IFRS 9.

The classification and measurement of financial assets and liabilities under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018 is presented in the table below.

Financial asset/liability	Original Measurement Category (IAS 39)		New Measurement Category (IFRS 9)	
	Category	Gross carrying amount	Category	Gross carrying amount
Trade receivables (Note 10)	Loans and receivables	1 623	Financial liabilities at amortized cost	1 623
Cash and cash equivalents (Note 14)	Loans and receivables	9 620	Financial liabilities at amortized cost	9 620
Borrowings (Note 16)	Financial liabilities at amortized cost	77 807	Financial liabilities at amortized cost	77 807

First application of IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies how and when must recognise revenue as well as requirements for disclosure of useful and relevant information to users of the financial statements. The new standard supersedes IAS 18 "Revenue", "IAS 11 Construction Contracts" and several other sales-related guidelines. The implementation of the standard is mandatory and applies to almost all customer contracts, except for leases, financial instruments and insurance contracts.

IFRS 15 introduces a principles-based five-step model for recognizing revenue that focuses on the transfer of control of goods and services rather than the transfer of risks and rewards.

The management has analyzed the potential effects of the changes but has not recognized significant impact on the Group's financial statements. As the Group sales revenue consist mainly of rental income and the Group does not generally sell goods and services under one contract, no material impact on the financial position and financial performance of the Group has been identified, except require for disclosure of additional information on underlying transactions.

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Note 3. Significant accounting and reporting principles

3.1 Statement of compliance

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

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment, investment properties and financial instruments that are measured at revalue amounts or fair values, as explained in the accounting policies below. The acquisition cost is generally based on fair value, which is the fair value of the consideration paid for the asset. The financial statements are presented in thousands of euros, unless referred to another unit of measure.

The principal accounting policies are set out below.

3.3 Basis of consolidation

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

- has power over the investee;
- is exposed to variable returns from its involvement with the investee;
- has the ability to use its power to affect its return.

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

Consolidation of subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of subsidiaries acquired or disposed during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling

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interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

3.4 Business combinations

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

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

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

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest was disposed.

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

3.5 Foreign currencies

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

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

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

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3.6 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes).

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property. In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, based on the market price determined annually by independent appraisers, based on the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating income/other operating expenses". No depreciation is calculated on investment property recognised at fair value.

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

3.7 Property, plant and equipment

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

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

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

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

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

3.8 Intangible assets

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

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and impairment losses. Amortization is recognised on a straight-line basis. The amortization rate for intangible assets is 10% per annum, excluded the usage rights and intangible assets with indefinite useful lives. Usage rights are amortized on a straight-line basis and the maximum length of the amortization period is the period where the asset is being used. Intangible assets with indefinite useful lives that are acquired separately are carried at costs less accumulated impairment losses.

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

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

3.9 Impairment of tangible and intangible assets other than goodwill

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

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately as an expense.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined

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had no impairment loss been recognized for the asset (or cash-generating unit). A reversal of an impairment loss is recognised as a reduction of impairment loss expense of the reporting period.

3.10 Investments in subsidiaries

Investments in subsidiaries

Investments in subsidiaries that are not held for sale are recognised in the unconsolidated financial statements of the Parent company at cost and consolidated statements under the equity method. Receivables, liabilities, income, expenses and unrealized profits and losses arising from transactions between the parent and the subsidiary have been eliminated.

Investments in associates

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

The investment is initially recorded at cost under the equity method, which is adjusted in subsequent periods by the investee's equity arising from the acquisition of goodwill, amortization and possible write-downs arising from the acquisition and recognition of negative goodwill.

3.11 Cash and cash flows

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

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

3.12 Financial instruments

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

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

3.13 Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of asset within the time frame established by regulation or convention in the marketplace. All recognised financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the certain financial asset.

Classification

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

a) Financial assets measured at amortized cost

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

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised in profit or loss and is included in "Finance income".

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

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

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

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

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

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

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

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

The Group measures derivative financial assets at fair value through profit or loss unless they are designated as effective hedging instruments in a cash flow or net investment hedge relationships.

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

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

Available-for-sale financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Available-for-sale financial assets that are not traded in an active market are stated at fair value at the end of each reporting period, only if, the management considers that fair value can be reliably measured. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in

the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

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

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

Impairment of financial assets

The Group recognises a reserve to cover expected credit losses on investments in debt instruments that are measured at amortized cost and lease receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

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

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

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or

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- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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

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

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

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

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

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

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

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On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

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

3.15 Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities are classified as current when they are due within 12 months as from the reporting date or if the Group does not have an unconditional right to defer the payment for later than 12

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months after the reporting date. Loans and borrowings whose due date is within 12 months as from the reporting date but which are refinanced and, as a result, become non-current, or whose due date is extended beyond 12 months as from the reporting date but before the financial statements are authorized for issue are recognised as current. Loans and borrowings that the lender has the right to recall at the reporting date due to a breach of contractual terms are also classified as current.

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

Offsetting financial instruments

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

3.16 Derivatives

The Group's risk policy regulates that an entity may use interest rate swaps on derivatives to hedge the risks associated with changes in interest rates on financial liabilities. Such derivatives are recognised at fair value at the date of conclusion of the contract and subsequently revalued according to the change in the fair value of the instrument at the balance sheet date. A positive fair value derivative is recognized as an asset and, if not, a liability. The fair value of the interest rate swap is based on the bank quotations at the balance sheet date.

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

Cash flow hedge

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

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cumulative gain or loss recognised in other comprehensive income is immediately recognised in the statement of profit or loss.

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

3.17 Provisions

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

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

3.18 Contingent liabilities

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

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

3.19 Statutory reserve

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

3.20 Revenue recognition

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

Revenue

Net sales of the Group consists of rental income as well as revenues earned from utility services and other services. Revenue from sales is recorded on the accrual basis, when significant risks have been transferred to the buyer, and the sales income and costs incurred in respect of the transaction can be measured reliably.

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

1. Identify the contract(s) with customer- for all customer contracts to which IFRS 15 applies, is thought how to reflect changes to the agreement resulting in a change duration of the contract or transaction cost. Under certain criteria, it may happen that an amendment to a contract is treated as a separate contract;
2. Identify the performance obligations in the contract – at the inception of the contract, the group assesses the goods and services and identifies performance obligation 2.1) a good or service that is distinct or 2.2) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer;
3. Determine the transaction price – the following factors are taken into account when determining the transactions costs: 3.1) variable fees and variable remuneration estimates, 3.2) the existence of a substantial financing component, 3.3) non-monetary payments, 3.4) amounts due to the customer.
4. Allocate the transaction price to the performance obligations in the contract – to allocate the transaction price to the performance obligations in the contract by reference to their relative standalone selling prices, at the inception of the contract the group finds out every distinct good or service transaction cost and allocates transaction costs proportional to standalone selling prices. The standard provides some suitable methods to estimate the cost of a standalone selling price, which the entity should choose the most appropriate. The group uses excepted cost plus a margin approach, where the costs incurred to meet the contractual obligations are assessed and added to the margin on the appropriate margin.
5. Recognise revenue when (or as) the entity satisfies a performance obligation – at this stage group assesses, if the revenue is recognized either over time or at a point in time

The main types of revenue recognized under the group customer contracts are:

- Incidental costs
- Conference room service
- Parking in the outdoor
- Advertising
- Other one-off services

The following are principles for recognizing revenue under main type of customer contracts.

Utilities and administration services are considered as incidental costs, including cost of utilities consumed by the tenant (electricity, water and sanitation, heating, ventilation and cooling) and proportional share of the costs associated with the use and maintenance of the property, building and the rental area. In the contracts concluded, the client has no possibility to choose the utilities and administration providers. The Group has an obligation to fulfill its obligations to its customers, on the basis of which the Group has to provide the goods and services itself, therefore the Group acts as the principal seller of the sales transaction. When executing an operating obligation, the Group recognizes the revenue in the gross amount of the consideration that the Group considers to be entitled to receive the goods or services transferred. The side costs are divided into two: fixed incidental costs

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and costs calculated on the basis of actual consumption. Revenue from incidental costs is recognised during the period when the customers use the services, using a time-based measurement of the performance obligation, as the customer can use the benefits equally throughout the contract period. Payment is made after the service is provided.

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

Other rental income is mainly classified as rental income, which is earned from property lease agreements and is recognised as income on a straight line basis during the rental period.

Other income

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

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably). Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.21 Expenses

Cost of sales

Cost of sales includes real estate rental, development and management expenses, and costs related to utility services which are recorded in income statement under "Cost of sales".

Marketing expenses

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

Administration expenses

Administrative expenses include personnel and office management expenses, research and development expenses, and depreciation and amortization charges.

Other expenses

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

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Finance cost

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

3.22 Leasing

The Group as lessee

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

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

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

The Group as lessor

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

3.23 Taxation

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. This will have the same effect if the corporation tax rate of retained earnings is zero, but the rate of income tax on the profits and / or retained earnings or part thereof paid out in the distribution of dividends would be higher. In accordance with IAS 12, the company's deferred tax assets and liabilities are measured at a tax rate of 0% applied to retained earnings in Estonia.

Dividend which are paid out of retained earnings are generally taxed at the rate of 20/80 the amount of dividends to be distributed (equal to 20% of the gross amount of the profit distributed). From year 2019, a lower tax rate (14/86) applies to part of dividends paid by the Estonian resident company regularly. Dividend payments are considered regular when the profit distributed in a calendar year is

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smaller than or equal to the average distributed profit of the previous three calendar years on which entity has paid income tax in Estonia. Tax rate 14/86 can be applied before 2021 as follows: (i) In 2019, it can be applied to one third of the profits distributed in 2018, which have been subject to income tax and (ii) in 2020, it can be applied to one-third of the profits distributed in 2018 and 2019, which have been subject to income tax.

Dividend distributions to owners are recognized as a liability in the period in which the owner declares the dividend. Dividend income tax is payable when distributing profits and / or retained earnings. The resulting tax effect is recognized as a dividend income tax expense in the period when the dividends are declared because the tax consequences of dividends are more directly related to past events and the transactions that led to the liability than payment to owners. Dividend tax liability is recognized in the period in which the dividends are declared, regardless of the period in which they are actually paid. In Estonia, the taxation period is a calendar month and income tax payments are calculated and made for the corresponding period.

3.24 Related parties

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

- owners (parent company and its controlling parent or entities with significant influence over the company, as well as other persons having significant influence over the entity);
- other group companies in Mainor AS group;
- CEOs and senior management;
- persons and their immediate family members, the entities owned by them or where they have significant influence of the aforementioned entities.

3.24 Subsequent events

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

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

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

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

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The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of investment property

As of balance sheet date the property investments are valued at their fair value. In determination of the fair value estimations of management, and opinion of independent certified real estate appraisers are used. In determination of the fair value discounted cash flow method is used. More information about investment property value in Note 6.

Collection risk of receivables

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

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

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

More information about the worth of receivables in Note 9.

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Note 5. Financial instruments and risk management

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk. The objective of financial risk management is to reduce the volatility of financial results. The company's risk management is based on the notion that economic success depends on ongoing monitoring, accurate measurement and skilful handling. The main objective of risk management is to prevent damage that could endanger the equity of Mainor Ülemiste AS and business continuity.

Financial instruments by category:

<i>In thousands of euros</i>			31.12.2018	
Class of financial instruments	Note	Category	Book value	Fair value
FINANCIAL ASSETS				
Trade receivables	10	Financial assets at amortized cost	874	874
Other receivables	9	Financial assets at amortized cost	9 723	9 723
Cash and cash equivalents	14	Financial assets at amortized cost	9 620	9 620
Total financial assets			20 217	20 217
FINANCIAL LIABILITIES				
Trade payables	17	Financial assets at amortized cost	1 174	1 174
Loans and borrowings	16	Financial assets at amortized cost	77 807	77 807
Deriatives	17	Financial assets at fair value	126	126
Other payables		Financial assets at amortized cost	1 339	1 339
Total financial liabilities			80 446	80 446

<i>thousands of euros</i>			31.12.2017	
Class of financial instruments	Note	Category	Book value	Fair value
FINANCIAL ASSETS				
Trade receivables	10	Financial assets at amortized cost	1 023	1 023
Other receivables	9	Financial assets at amortized cost	9 570	9 570
Cash and cash equivalents	14	Financial assets at amortized cost	9 400	9 400
Total financial assets			19 993	19 993
FINANCIAL LIABILITIES				
Trade payables	17	Financial assets at amortized cost	2 597	2 597
Loans and borrowings	16	Financial assets at amortized cost	59 823	59 823
Other payables		Financial assets at amortized cost	918	918
Total financial liabilities			63 338	63 338

Due to the fact that most of the financial instruments have variable interest rates, contracts are not signed a long time ago and taken into consideration that 21% of loans are hedged with SWAP contracts, the fair values of financial assets and liabilities do not differ from their amortized cost.

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Credit Risk

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

Maximum sum exposed to credit risk:

	Note	31.12.2018	31.12.2017
Current accounts	14	9 620	9 395
Trade receivables	10	874	1 023
Other receivables	9	9 723	9 570
Total		20 217	19 988

Credit risk management is primarily focused on avoiding accumulated significant credit risk concentrations. Credit risk prevention and minimization involves monitoring and routing of clients' payment behaviour, which allows to apply necessary measures. To minimize credit risk, customers pay a deposit which is usually a two month's rent that is refundable at the end of the contract or netted with their debt or they provide a bank guarantee. As of 31.12.2018 the company has received deposits in the amount of 619 thousand euros (01.01.2017: 376 thousand euros) from tenants. The maximum exposure to credit risk are receivables from non-group purchasers, with a breakdown by maturity date as at the reporting date were as follows:

	31.12.2018	31.12.2017
Not expired receivables	643	444
Overdue 1-30 days	162	162
Overdue 31-90 days	17	84
Overdue more than 91 days	52	333
Total	874	1 023

To reduce the credit risk in 2018, the entity qualified receivables as doubtful in the amount of 438 thousand euros (31.12.2017: 325 thousand euros). From receivables that were qualified as doubtful in previous years, the entity did not receive any and 5 thousand euros of receivables were qualified as unrecoverable. The Group applies a simplified method for recognizing expected credit losses on trade receivables according to IFRS 9, which permits the provision of expected credit losses during the life of the allowance reserve. In order to estimate expected credit losses, the Group has analyzed past periods and based on the results obtained it has concluded that the expected monthly credit loss of receivables from buyers is approximately 0.5% of rental income.

For other claims (including loan claims), the Group recognizes an impairment loss in the amount of 12 months expected credit losses if the credit risk is not significantly increased after initial recognition. When there is a significant increase in credit risk, the Group recognizes a credit loss equivalent to the expected credit losses over its lifetime. As of 31.12.2018 the credit risk has not increased significantly.

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Liquidity Risk

The entity's liquidity or solvency reflect its ability to fulfil its financial obligations to creditors in timely manner. In 2018 the company's liquidity was most affected by additional signed loan agreements with OP Corporate Bank plc Estonian branch in the amount of 897 thousand euros, LHV Pank AS in the amount of 2 300 thousand euros, Coop Bank AS in the amount of 200 thousand euros, Nordea Bank Abp in the amount of 13 925 thousand euros, Luminor Bank AS in the amount of 7 312 thousand euros and also affected by new bonds in the amount of 7 380 thousand euros to ensure the completion of the new office buildings on Sepise 9/Valukoja 8 and Valukoja 10, payment for improving existing office and industrial buildings and repayment of previously signed loans in the amount of 14 003 thousand euros.

Liquidity risk arises if a company does not have enough current assets and is unable to pay their financial commitments on time. With the signed loan agreements, the company has committed itself to ensuring that the debt service coverage ratio (DSCR) is at least 1.2 and the loan collateral value (LTV) cannot at any time exceed 70%. As at 31.12.2018, the company met the aforementioned ratios. To ensure compliance with the commitments the company has set collaterals, which are mortgages on all company-owned land plots (Note 6).

Below is the company's short- and long-term liabilities breakdown by realizable maturities. All presented amounts are payable contractual undiscounted cash flows. The value of payables, 12 months from the end of the reporting period, is equal to their carrying value (except for interest-bearing liabilities). Bank loans are the usual source of financing and their completion and extension is part of the business activity and financing. In the beginning of 2018 Nordea Bank Abp loans were refinanced in the amount of 7 732 thousand euros. Additional loan agreements are signed with SEB Bank AS in the amount of 39 500 thousand euros, as of 31.12.2018 these loans are not used.

In November 2018, the maturity date of the 5 000 thousand euro bond issue was redeemed and in 2018 the new 10 000 thousand euro bond issue started in 2017 was completed in the amount of 7 380 thousand euros.

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

Financial liabilities based on their contractual redemption deadlines:

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

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31.12.2017	Note	Within 1 month	1-3 months	3-12 months	1-5 years	over 5 years	Total
Secured borrowings	16	270	548	2 607	49 433	2 950	55 808
Bonds		0	88	5 408	583	2 723	8 802
Finance lease liability	16	3	6	26	139	0	174
Other loans	16	22	43	195	4 282	0	4 542
Trade payables	17	1 244	1 343	9	0	0	2 596
Other accruals		376	62	133	347	0	918
Total		1 915	2 090	8 378	54 784	5 673	72 840

Interest Rate Risk

Interest rate risk arises from changes in interest rates in the money markets, which may result in the need to re-evaluate the company's financial resources and take into account the increasing cost of financing in the future. The company's bank loans and finance lease liabilities are tied to Euribor. As at 31.12.2018, the company had interest-bearing liabilities in the amount of 77 807 (31.12.2017: 59 823 thousand euros), of which approximately 82% have floating interest rate (the interest rate is linked to 6 months Euribor and will be changed every six months), see Note 16.

For short-term interest rate risk management, the company compares on a regular basis the potential losses arising from changes in interest rates with their hedging expenses. To hedge interest rate risk, "OTC Interest Rate SWAP" contracts have been signed associated with three loans in the amount of 16 835 (2017: 17 455) of which as of 31.12.2018 has taken into use 15 731 (2017: 16 541) thousand euros. If in the next 12 months, the interest rate would be one percentage higher, the impact on equity and net profit would be -706 thousand euros (to 2017 profit -575 thousand euros).

As at 31 December 2018, the breakdown of interest-bearing financial debt was as follows:

	31.12.2018	31.12.2017
Fixed rate liabilities (12+ months)	14 050	6 620
Fixed rate liabilities (1-12 months)	26	5 000
Variable rate liabilities (1-12 months)	1 970	1 551
Variable rate liabilities (12+ months)	61 761	46 652
Fixed rate receivables (1-12 months)	6 940	6 940

Currency risk

Entities belonging to the Group perform transactions in euros, currency risk arises in case of exchange currency transactions, which are performed with currencies not related to euro. To hedge the currency risk, all the relevant contracts in the Group are signed in Euros. Thus the main currency risk is related with devaluation of currencies related to euro, against which the Group is not protected.

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

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Capital risk management

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

	31.12.2018	31.12.2017
Equity to total assets	55%	59%
Debt to total assets	45%	41%

Debt financing is planned and obtained on project- by- project basis. Prior to application for external finance company constructs budget for the project in question, considers the effect such additional financing, as well as interest rate risks. If any special conditions are set in external financing agreement (rental income, ratio of rented/vacant space, etc.), the company seeks to meet them yet before the agreement is signed.

External loans are to be approved by the Company's council prior to the assumption of loan obligations. Short term overdrafts may be used to smooth out the seasonality of company's business and to maintain cash balances that are adequate for operating levels.

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

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

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

According to the statutes currently effective in Mainor Ülemiste AS, the company's minimum share capital is 12 800 thousand euros and the maximum share capital is 51 200 thousand euros. As of 31.12.2018 the share capital of Mainor Ülemiste AS was 19 200 thousand euros and net assets were 100 039 thousand euros, thus the share capital and equity requirements established in the Republic of Estonia were met.

The capital management is being guided by the principle of maintaining the credibility of the company, to sustain the development and shareholder's value through the economic cycle. To achieve this, Mainor Ülemiste AS monitors the company's equity to assets ratio, which should be at least 35% at all times (31.12.2018: 55,3% and 31.12.2017: 59,1%).

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Note 6. Investment property*(in thousands of euros)*

The Group presents investment property as office and production building which are either rented out or real estate with development potential but without defined exact future purpose. All the property investments are located in Tallinn in a business district Ülemiste City. Total volume of premises rented out as at 31.12.2018 is 98,5 thousand m² (31.12.2017: 96 thousand m²).

	Note	Investment property
Balance at 31.12.2016		84 810
Additions		15 821
Reclassification of fixed assets		13
Gain/(loss) on property revaluation	20	1 426
Balance at 31.12.2017		102 070
Additions		17 783
Gain/(loss) on property revaluation	20	2 777
Balance at 31.12.2018		122 630

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

Valuations of the Group's properties are being made by independent and qualified experts using residual valuation approach by using discounted cash flows (DCF) method. There has been no changes in valuation approach during the financial year, the same principles were applied also for comparative financials. The Company provides valuers with the following information: purpose of a property, development plans, estimated construction costs and estimated sales or rental prices if available. Valuers also use assumptions and valuation models, which are typically market related such as discount rates and exit yields. Valuation reports are reviewed and accepted by the Management of the Company.

Total value of investment property belonging to Mainor Ülemiste AS and locating in Ülemiste City is 122 630 thousand euros as at 31.12.2018 (31.12.2017: 102 070 thousand euros), split as follows: the value of actively rented out property is 93 710 thousand euros (2017: 76 390 thousand euros) and the value of property developed in the future is 28 920 thousand euros (2017: 25 680 thousand euros).

Actively rented out property has the following characteristics: total rentable area 115,1 thousand m², based on current rental fees of 1,55 – 22,0 EUR/m², vacancy up to 7% , discount rate of 8,8-9,5%, capitalisation rate of 7,6% - 10% and total length of cash flow projection up to 15 years.

Future development projects have total rentable area of 267 thousand m² with a development timeline of 2019 – 2032. Construction costs vary from 550 euros/m² for the construction of industrial premises to 910 euros/m² for the construction of office spaces. Corresponding rental rates are 5,35 euros/m² and 11,5 euros/m². After the completion of the building, the vacancy rate will be approximately 50%, which gradually decreases over time to an average of 5%. Discount rate of 9,5%, capitalisation rate of 8% for offices and 8,5% for industrial buildings is used.

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The following table illustrates possible changes to fair value of investment property given changes in main unobservable inputs as presented in Colliers valuation reports:

<i>in thousand euros</i>	Fair value	Change in rental price/m ²		Change in capitalization rate	
		5%	-5%	5%	-5%
Valuated through rental cash flows	93 710	97 493	89 970	90 541	97 258
Valuated through building rights	28 920	36 773	21 060	24 152	34 184
TOTAL	122 630	134 266	111 030	114 693	131 442

The Group earned rental income during the accounting period from existing property investments in the amount of 6 334 thousand euros (Note 19) and on the previous accounting period in the amount of 5 483 thousand euros (Note 19). Direct management cost of investment property was 2 834 thousand euros on reporting period and 2 442 thousand euros on the previous accounting period.

17 783 thousand euros (including capitalized loan interests in the amount of 313 thousand euros, which is 20% of interest expenses) were invested into the improvement of existing property investments in 2018. In the previous period the respective amount was 15 922 thousand euros (including capitalized loan interests in the amount of 250 thousand euros, which is 11% of interest expenses). Information about investment property pledged as collaterals is disclosed in Note 16.

Note 7. Property, plant and equipment

(in thousands of euros)

	Machinery and equipment	Equipment and fixtures	Total
01.01.2017-31.12.2017			
Carrying amount at 01.01.2017	20	77	97
Acquisition and improvements	0	14	14
Purchased under finance lease terms	31	0	31
Reclassification into investment property	-13	0	-13
Depreciation of reclassified fixed assets	2	0	2
Disposals	-16	-11	-27
Sales	0	-1	-1
Depreciation of sold and disposed assets	13	12	25
Depreciation	-5	-45	-50
Carrying amount at 31.12.2017	32	46	78
incl. acquisition cost	37	142	179
incl. accumulated depreciation	-5	-96	-101

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	Note	Machinery and equipment	Equipment and fixtures	Total
01.01.2018-31.12.2018				
Carrying amount at 01.01.2018		32	46	78
Acquisition and improvements		0	66	66
Disposals		0	-5	-5
Depreciation of sold and disposed assets		0	5	5
Depreciation		-7	-37	-44
Carrying amount at 31.12.2018		25	75	100
incl. acquisition cost		37	203	240
incl. accumulated depreciation		-12	-128	-140

Note 8. Intangible assets*(in thousands of euros)*

	Note	Computer software	Other intangible assets	Total
01.01.2017-31.12.2017				
Balance at 01.01.2017		5	9	14
Disposal of intangible assets		0	-79	-79
Depreciation of disposed intangible assets		0	79	79
Amortization		0	-9	-9
Balance at 31.12.2017		5	0	5
incl. acquisition cost		5	0	5
incl. accumulated amortization		0	0	0
01.01.2018-31.12.2018				
Balance at 01.01.2018		5	0	5
Purchase of intangible assets		49	0	49
Amortization		-1	0	-1
Balance at 31.12.2018		53	0	53
incl. acquisition cost		54	0	54
incl. accumulated amortization		-1	0	-1

Intelligent parking solutions include artificial intelligence as an intangible asset.

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Note 9. Receivables and prepayments*(in thousands of euros)*

	Note	31.12.2018	Due within 1 year
Financial assets			
Trade receivables	10	1 623	1 623
Allowance for doubtful receivables	10	-749	-749
Receivables from other entities in Mainor AS group	30	9 609	9 609
Total financial assets		10 483	10 483
Non-financial assets			
Prepaid taxes	11	82	82
Other receivables and prepayments		32	32
Total non-financial assets		114	114
Total receivables and prepayments		10 597	10 597
	Note	31.12.2017	Due within 1 year
Financial assets			
Trade receivables	10	1 339	1 339
Allowance for doubtful receivables	10	-316	-316
Receivables from other entities in Mainor AS group	30	9 347	9 347
Total		10 370	10 370
Non-financial assets			
Prepaid taxes	11	201	201
Other receivables and prepayments		22	22
Total non-financial assets		223	223
Total receivables and prepayments		10 593	10 593

Receivables from the parent company Smart City Group AS against Group entities of the Mainor AS group in amount of 9 117 thousand euros (31.12.2017: 8 909 thousand euros). In 2018 the interest for the claim was 208 thousand euros (the interest on the claim is 3%).

Additional information in Note 31.

Risks related with financial instruments are disclosed in Note 5.

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Note 10. Trade receivables*(in thousands of euros)*

	Note	31.12.2018	31.12.2017
Trade receivables	9	1 623	1 339
Doubtful receivables	9	-749	-316
Total		874	1 023
Doubtful receivables			
Doubtful receivables at the beginning of the period		-316	-137
Receivables classified as doubtful		-438	-325
Doubtful receivables classified as uncollectible		5	146
Doubtful receivables at the end of period	9	-749	-316

Related with the initiation of the bankruptcy of E-Profil AS in early 2018, a claim of 415 thousand euros was unlikely in 2018 to mitigate the risks of Mainor Ülemiste AS.

The estimated fair value of receivables corresponds to their carrying values and the entity does not see any significant credit risk exposure.

Risks related to financial instruments are disclosed in Note 5.

Note 11. Prepaid taxes and taxes payable*(in thousands of euros)*

	Note	31.12.2018		31.12.2017	
		Prepayment	Payable	Prepayment	Payable
Value added tax		82	5	201	29
Personal income tax		0	24	0	21
Social tax		0	42	0	37
Other taxes		0	6	0	6
Total	9,17	82	77	201	93

Note 12. Shares in subsidiaries*(in thousands of euros)*

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

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Subsidiary registry code	Company	Core business	Ownership interest (%) 31.12.2018	Ownership interest (%) 31.12.2017
12804904	Õpiku Majad OÜ	Real estate activities	100%	100%
14578228	Ülemiste City Residences OÜ	Real estate activities	100%	0%
12783421	Spacex Eesti OÜ	Real estate activities	100%	34%

Shares in subsidiaries at cost value

Company	31.12.2017	Acquisition	31.12.2018
Õpiku Majad OÜ	10 250	0	10 250
Ülemiste City Residences OÜ	0	2	2
Spacex Eesti OÜ	1	0	1
Total	10 250	2	10 252

Shares in subsidiaries by equity method

Company	31.12.2017	Acquisition	Profit by equity method	31.12.2018
Õpiku Majad OÜ	15 600	0	3 838	19 438
Ülemiste City Residences OÜ	0	2	0	2
Spacex Eesti OÜ	0	0	0	0
Total	15 600	2	3 838	19 440

In October 2018, the subsidiary Ülemiste City Residences OÜ was established and in May 2018 the 100% shareholding of the associated company Spacex Eesti OÜ was acquired. According to the decision of the Management Board, Spacex Eesti OÜ will not be consolidated into the Group's report because the company will not have any economic activity since June 2018.

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The statement of financial position of the subsidiary Öpiku Majad OÜ

<i>in thousands of euros</i>	31.12.2018	31.12.2017
ASSETS		
Investment property	70 080	51 440
Property, plant and equipment	2	3
Trade and other receivables	536	563
Cash and cash equivalents	303	378
TOTAL ASSETS	70 921	52 384
EQUITY		
Share capital at par value	3	3
Share premium	10 247	10 247
Retained earnings	5 350	3 145
Profit for the financial year	3 838	2 205
TOTAL EQUITY	19 438	15 600
LIABILITIES		
Borrowings	47 292	32 500
Trade and other payables	4 191	4 284
TOTAL LIABILITIES	51 483	36 784
TOTAL LIABILITIES AND EQUITY	70 921	52 384

The income statement of the subsidiary Öpiku Majad OÜ

<i>in thousands of euros</i>	31.12.2018	31.12.2017
Revenue	4 048	2 640
Cost of sales	-1 065	-654
Gross Profit	2 983	1 986
Marketing expenses	-30	-10
Administration expenses	-95	-129
Other operating income	2 798	1 641
Other operating expenses	-1	0
Operating profit (loss)	5 655	3 488
Interest expense	-1 693	-1 283
Other financial income and expense	-124	0
Profit before tax	3 838	2 205
Net profit for the period	3 838	2 205

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Note 13. Shares in associate companies*(in thousands of euros)*

Shares in associate companies, general information

Affiliates registry code	Name of associate	Primary activity	Participation rate (%) 31.12.2018	Participation rate (%) 31.12.2017
11978111	Technopolis Ülemiste AS	Real Estate activities	49 %	49 %

Shares in associate companies, detail information

Company	31.12.2017	Dividends	Profit (loss) from equity method	31.12.2018
Technopolis Ülemiste AS	33 517	-1 232	5 463	37 748
TOTAL	33 517	-1 232	5 463	37 748

As of 31.12.2018 the capital of Technopolis Ülemiste AS is 77 036 thousand euros and Mainor Ülemiste AS holds 37 748 thousand euros. According to the Technopolis Ülemiste AS shareholders' agreement, Mainor Ülemiste AS has a right to a put option where the entity has a right to demand that Technopolis OY buys the shares held by Mainor Ülemiste AS within 6 months of the demand. As an annex to the shareholders' agreement it is stated that the sales price of the shares is the share of net asset value of the company but not less than the net asset value as of the end of last quarter.

Key financial indicators of affiliated companies as of 31.12.2018:

<i>in thousands of euros</i>	Technopolis Ülemiste AS
Current assets	3 191
Non-current assets	154 449
Liabilities	80 804
Equity	77 036
Revenue	18 112
Operating profit	12 795
Profit (loss) before tax	11 776
Total comprehensive income	11 148

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Note 14. Cash and cash equivalents*(in thousands of euros)*

	31.12.2018	31.12.2017
Current accounts with banks	9 620	9 395
Cash on hand	0	5
Total	9 620	9 400

Risks related to financial instruments are disclosed in Note 5.

The bank account of Mainor Ülemiste AS at SEB Bank is included into the group account of AS Mainor, the parent company of Mainor Ülemiste AS.

Note 15. Share capital

	31.12.2018	31.12.2017
Number of shares	32 000 000	32 000 000
Nominal value of shares <i>(in euros)</i>	0,60	0,60
Share capital <i>(in thousands of euros)</i>	19 200	19 200

The share capital of Mainor Ülemiste AS consists of 32 000 000 ordinary shares with a face value of 0,60 cents, which is divided as follows:

- Smart City Group, which owns 26 827 581 shares
- LOGIT Eesti AS, which owns 5 172 419 shares

All shares have been paid for in full.

Each ordinary share gives the shareholder the right to receive dividends, in case they are announced, and to participate in voting at general shareholders' meetings of the entity with one vote per share. The Entity has not issued any preference shares.

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

In 2018 the shareholders were paid dividends in the amount of 1 232 thousand euros (2017: 840 thousand euros) out of 2017 years' net profit, which means that dividend per share was 3,8 eurocents (in 2017 it was 2,6 eurocents per share).

On December 7, 2018, the Extraordinary General Meeting of Shareholders held a decision to decrease the share capital by 5,2% or EUR 1 000 000,20 to increase the return on equity to EUR 18 199 999,80. As of 31.12.2018 the reduction of share capital is not registered in the Commercial Register.

According to Mainor Ülemiste AS statutes and Commercial Code, the company's reserve capital requirement is 1/10th of the share capital, which is formed from annual net profit allocations. Each financial year, the shareholders decide upon the amount entered in the reserve capital, considering

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the statutory requirement to carry at least 1/20th of the annual net profits into the statutory reserve. As shareholders' decision, the reserve capital may be used to cover losses.

Note 16. Borrowings

(in thousands of euros)

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

	31.12.2017	Breakdown by residual maturity		
		Within 12 months	Within 1-5 years	Over 5 years
Bank loans	48 071	1 519	45 679	873
Bonds	7 620	5 000	0	2 620
Other long-term liabilities	4 000	0	4 000	0
Finance lease liabilities	132	32	100	0
Total	59 823	6 551	49 779	3 493

The following claims are included in long-term borrowings:

- Luminor Bank AS 8 281 thousand euros (2017: 969), of which the short-term part is 78 thousand euros (2017: 0 thousand euros);
- Coop Bank AS 2 746 thousand euros (2017: 2 696 thousand euros), of which the short-term part is 166 thousand euros (2017: 151 thousand euros);
- Nordea Bank Abp 30 221 thousand euros (2017: 24 600 thousand euros), of which the short-term part is 1 120 thousand euros (2017: 912 thousand euros);
- AS LHV Bank 14 251 thousand euros (2017: 12 040 thousand euros), of which the short-term part is 130 thousand euros;
- OP Bank Estonian branch 8 208 thousand euros (2017: 7 766 thousand euros), of which the short-term part is 471 thousand euros (2017: 456 thousand euros).

Interest of the bank loans range is 1,85%-4,5%.

In 2018, Mainor Ülemiste AS and its subsidiary Öpiku Majad OÜ received a loan of 24 634 thousand euros from financial companies (2017: 20 076 thousand euros) and repaid loans in amount of 8 998 thousand euros (2017: 9 569 thousand euros).

In 2018 was completed in November 2017 started new 10 000 thousand euros bond issue with the interest rate of 5,5%, of which 2 620 thousand euros was realized as of 31.12.2017. The second phase of the issue, in the amount of 7 380 took place in April 2018.

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A loan from Merko Ehitus Eesti AS is reflected in other loans in the amount of 4 000 thousand euros with maturity date January 2020 and with interest of 6,5%. The parent company AS Mainor has given a guarantee to AS Merko Eesti in the amount of 2 200 thousand euros.

The maturity date of non-convertible bonds in amount 5 000 thousand euros issued by Mainor Ülemiste AS in 2015 is 26 November 2018, these bonds were redeemed early on May 26, 2018. The interest rate is 7%.

Loans are secured by Mainor Ülemiste AS, Öpiku Majad OÜ properties with carrying value of 122 630 thousand euros (31.12.2017: 102 070 thousand euros) and Technopolis Ülemiste AS shares with carrying value as of 31.12.2018 was 37 748 thousand euros (31.12.2017: 33 517 thousand euros). The total carrying amount of guarantees is 160 378 thousand euros (31.12.2017: 135 587 thousand euros).

Note 17. Payables and prepayments

(in thousands of euros)

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

	Note	Breakdown by residual maturity		
		31.12.2017	12 months	1-5 years
Financial liabilities				
Trade payables		2 597	2 597	0
Other payables		222	222	0
<i>incl. interest payable</i>		81	81	0
<i>Incl. other accruals</i>		141	141	0
Liabilities to companies in Mainor AS group		162	162	0
Total financial liabilities		2 981	2 981	0

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Non-financial liabilities				
Payables to employees		40	40	0
Taxes payable	11	93	93	0
Prepayments received		409	62	347
Future expenses		133	133	0
Total non-financial liabilities		675	328	347
Total payables and prepayments		3 656	3 309	347

Risks related to financial instruments are disclosed in Note 5.

Note 18. Provisions

(in thousands of euros)

	31.12.2017	Formation/ Adjustments	31.12.2018
Compensation for loss of ability to work	247	16	263
incl. short-term	47	3	50
Incl. long-term	200	13	213

Provisions have been recognised for former employees of AS Dvigatel for incapacitation benefits and personal pension payment obligations. The balance as of 31.12.2018 includes a short-term portion in the amount of 50 thousand euros and a long-term portion in the amount of 213 thousand euros (as of 31.12.2017 it was 47 and 200 thousand euros). The long-term part of the provision has been discounted with a rate of 9,5%.

Note 19. Sales revenue

(in thousands of euros)

	Lisa	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Revenue from contracts with customer			
Other revenue		377	407
Revenue from administrative services		2 087	1 796
Total revenue from contracts with customer		2 464	2 203
Revenue from other sources			
Rental income from operating leases	29	6 334	5 483
Revenue from parking service in garage		63	5
Total revenue from other sources		6 334	5 483
Total revenue		8 798	7 686

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<i>(in thousands of euros)</i>	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Revenue from contracts with customer			
Fixed incidental costs		117	40
Incidental costs		1 970	1 718
Conference room service		72	116
Parking in the outdoor		67	43
Advertising		18	17
Other one-off services		156	264
Total revenue from contracts with customer		2 464	2 203
Revenue from other sources			
Shared office rent		138	78
Office rent		3 530	2 865
Industrial rent		2 008	2 076
Other rent		658	464
Parking in the garage		63	5
Total revenue from other sources		6 334	5 483
Total revenue		8 798	7 686

Note 20. Other operating income*(in thousands of euros)*

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Gain/loss from change in fair value from investments in properties	6	2 777	1 426
Other income		34	30
Total		2 811	1 456

Note 21. Cost of Sales*(in thousands of euros)*

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Electricity	-1 193	-1 358
Heating	- 289	- 182
Water- and sewage expense	-197	-171
Security costs	-72	-71
State and local taxes	-73	-71
Property maintenance	-553	-510
Other	-365	-150
Total	-2 742	-2 513

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Note 22. Marketing expense*(in thousands of euros)*

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Personnel expenses	24	-56	-58
Advertisement, PR		-129	-91
Total		-185	-149

Note 23. Administration expenses*(in thousands of euros)*

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Various office expenses		-25	-26
Investigatory and development expenses		-10	-20
Business trip expenses		-13	-15
Training expenses		-27	-27
Expenses from doubtful claims		-420	-283
Personnel expenses	24	-799	-744
Amortization and depreciation	7,8	-45	-59
Legal expenses		-65	-68
Insurance expenses		-37	-34
Management expenses		-300	-120
Consultation expenses		-63	-84
Bank fees expense		-65	-51
IT expenses		-36	-43
Compensation expense for incapacitation		-53	-37
Other		-299	-259
Total		-2 257	-1 870

Note 24. Salary expenses*(in thousands of euros)*

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Salary expense	-624	-594
Social- and unemployment tax expense	-209	-199
Pension expense	-14	-14
Social tax on pensions	-5	-4
Vacation reserve	-3	9
Total	-855	-802
Average number of full-time employees	19	18

Paid fees for board members are brought out in the Note 31.

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Note 25. Other operating expenses*(in thousands of euros)*

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Loss on disposal of fixed assets	0	-2
Other operating expenses	-15	-7
Total	-15	-9

Note 26. Interest income*(in thousands of euros)*

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Interest income from Mainor AS group companies	394	345
Interest income from other receivables	2	170
Doubtful interest receivables	0	-42
Interest income from bonds	26	0
Total	422	473

Note 27. Interest expenses*(in thousands of euros)*

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Interest expenses from loans	-1 830	-1 567
Interest expense from financial lease	-3	-3
Interest rate fixation fee	-69	-69
Interest expenses from other liabilities	-2	0
Interest expense from bonds	-570	-371
Interest expenses from derivatives	-126	0
Total	-2 600	-2 010

Note 28. Other financial income and expense*(in thousands of euros)*

	Note	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
Other interest expenses from Mainor group liabilities		-157	-65
Other financial income		0	22
Other finance expense		-158	-151
Risk fee		-46	-46
Total	9,31	-361	-240

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Note 29. Operating lease*(in thousands of euros)*Entity as a lessee

Mainor Ülemiste AS had leased office furniture for clients under operating lease.

	2018	2017
Rental expenses for the reporting period	-5	-5
Succeeding periods operating lease cost from active contracts:		
Short-term portion of payment up to 12 months	5	5
Long-term portion of payment up to 2-5 years	4	9

Entity as a lessor

The entity has leased office and production premises.

	Note	2018	2017
Income from operating lease	19	6 334	5 483
Succeeding periods operating lease profit from active contracts:			
Within 12 months		7 332	6 050
1 to 5 years		21 974	18 993
Over 5 years		3 382	9 430
Carrying amount of assets leased	6	122 630	102 070

Mainor Ülemiste AS has leased office and production premises.

Lease contracts concluding by the entity are typically 1-5 years in duration. In some exceptional cases, when it comes to large-scale contracts, the lease period is 10-15 years.

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

After each calendar year after signing the agreement, the rental price will increase automatically once per year without any supplementary agreements. The increase in rent price corresponds to the agreed on the contract or last calendar years' consumer price index, which is published by the Statistics Estonia.

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Note 30. Income tax

<i>(in thousands of euros)</i>	2018	2017
Retained earnings	78 919	70 817
Profit of the year	9 334	8 712
Profit before tax	88 253	79 529
Estimated income tax calculated at 14% tax rate	0	0
Estimated income tax calculated at 20% tax rate	17 651	15 906
Calculated income tax	17 651	15 906
Dividends declared and paid during the reporting period	1 232	840
Further paid tax-exempt dividends	1 232	78
Taxable dividends	0	762
Estimated income tax calculated 20% tax rate	0	-190
Income tax expense for the period	0	-190
Effective income tax rate	0%	2,2%

The company's retained earnings as of 31.12.2018 amounted to 88 253 thousand euros (31.12.2017: 79 529 thousand euros). As of the 1 January 2019 according to the income tax law (TuMS) § 4 lg 5 ja § 50¹ lower tax rate 14% (14/86) applies to dividends paid on a regular basis. Thus, a resident company can be subject to a lower tax rate of 14/86 and a standard rate of 20/80 for the taxation of dividends. A resident company can apply a lower tax rate of 14/86 in 2019 to one third of the profit distributed in 2018 from which a resident company has paid income tax. When dividends are paid to owners, the income tax expense is partly due to 14/86 and partly 20/80 of the amount paid out as net dividend. The maximum income tax liability that would arise if all of the undistributed profits were distributed would be 17 651 thousand euros (31.12.2017: 15 906 thousand euros), therefore the net dividend that could be paid out is 70 602 thousand euros (31.12.2017: 63 623 thousand euros). In 2018, no additional income tax was paid on the dividends paid by Mainor Ülemiste AS, because the amount of dividends to be paid out was equal to the dividends received from Technopolis Ülemiste AS. Income tax on dividends was previously paid by the affiliated company, so no additional income tax liability arose. The amount of dividends declared in 2017 was 840 thousand euros, of which 78 thousand euros were tax-exempt dividends and the taxable dividends were 762 thousand euros, of which the income tax was 190 thousand euros.

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Note 31. Related party transactions*(in thousands of euros)*

Mainor Ülemiste AS related parties are:

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

Balances with related parties	Receivables 31.12.2018	Liabilities 31.12.2018	Receivables 31.12.2017	Liabilities 31.12.2017
Parent company	9117	0	8 909	0
Other companies in Mainor AS consolidation group	492	157	438	165
Affiliated companies	34	21	3	4
Members of the management board and council, their family members and significant shareholders	15	1	3	6

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

Transactions with related parties in 2017	Purchases	Sales	Granted loans	Loan repayments
Affiliated companies	43	139	0	0
Other companies in Mainor AS consolidation group	1 638	190	9	441
Members of the management board and council, their family members and significant shareholders	81	91	0	0

Companies, who belongs to Mainor AS consolidation group, and with whom has made transactions in 2018, are follows: Eesti Ettevõtluskõrgkool Mainor AS, Dvigatel-Energeetika AS, Doranova Baltics OÜ, Mairenestal OÜ, Spacex Eesti OÜ, Tallinn International School OÜ and Mainor AS.

Companies related to Supervisory Council and the Management Board, their intermediate families and the companies in which they hold control or have significant influence, and with whom has made transaction in 2018, are follows: Kristosten AS, Nets OÜ, RVVE Grupp OÜ, Disain Pluss OÜ, RS Büroo OÜ, Flennert OÜ, Lasteharidus OÜ, Tallinn International School OÜ ja SK Kehra Käsipall.

Mainor AS is the company controlling the parent Smart City Group Ltd. with a participation rate of 83.84%.

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Affiliated companies, with whom has made transactions in 2018, are Technopolis Ülemiste AS and SpaceX Eesti OÜ. Mainor Ülemiste AS acquired 100% stake in the associated company SpaceX Eesti OÜ and the company has no real economic activity since June 2018 due to the expiry of the lease agreement with Ekast AS.

The services included in the real estate investment were purchased from consolidation group companies in the amount of 156 thousand euros and in the previous financial year 342 thousand euros.

Accrued interest income for the grant of guarantees to the ultimate parent company's and receivable from immediate parent company was 393 thousand euros (2017: 350 thousand euros).

Associate Technopolis Ülemiste AS paid dividends in the amount of 1,232 thousand euros, in 2017 no dividends were received from the associated company.

Remuneration for the members of the board during the reporting year was in the amount of 197 thousand euros and in 2017: 191 thousand euros.

Note 32. Events after the balance sheet date

In January 2019 Mainor Ülemiste AS refinanced Nordea Bank Abp and Luminor Bank AS loans with SEB Pank AS loan in amount of 32 377 thousand euros and Merko Eesti AS loan in amount of 4 000 thousand euros.

The Extraordinary General Meeting of Shareholders decided to reduce the share capital by 5,2% or EUR 1 000 000,20 to increase the return on equity to EUR 18 199 999,80. This change was registered in the Commercial Register on 01.04.2019.

Note 33. Unconsolidated Statement of Financial Position

(in thousands of euros)

	31.12.2018	31.12.2017
ASSETS		
Investment properties	52 550	50 630
Property, plant and equipment	98	75
Intangible assets	53	5
Trade and other receivables	26 650	25 477
Financial investments into subsidiaries	10 252	10 250
Financial investments in equity method	37 748	33 517
Cash and cash equivalents	9 315	9 022
TOTAL ASSETS	136 666	128 976
EQUITY		
Share capital	19 200	19 200
Statutory reserve	1 920	1 920
Retained earnings	64 235	59 150
Profit (loss) for the financial year	5 496	6 317
TOTAL EQUITY	90 851	86 587

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LIABILITIES		
Provisions	263	247
Borrowings	44 457	41 284
Trade and other payables	1 095	858
TOTAL LIABILITIES	45 815	42 389
TOTAL LIABILITIES AND EQUITY	136 666	128 976

Note 34. Unconsolidated Statement of Comprehensive Income*(in thousands of euros)*

	2018	2017
Revenue	5 012	5 237
Cost of sales	-1 844	-1 895
Gross profit	3 168	3 342
Marketing expenses	-155	-139
Administrative expenses	-2 272	-1 896
Revenues from financial investments	5 462	5 888
Other revenues	13	30
Other costs	-14	-224
Operating profit	6 202	7 001
<i>Financial income and expenses</i>		
Interest income	1 578	1 284
Interest expense	-1 939	-1 538
Other financial income and expenses	-345	-240
Total financial income and expenses	-706	-494
Profit before tax	5 496	6 507
Income tax expense	0	-190
Net profit for the year	5 496	6 317
Total comprehensive income for the year	5 496	6 317

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Note 35. Unconsolidated Statement of Cash Flows

	2018	2017
<i>Cash flows from operating activities</i>		
Net profit for the year	5 496	6 507
Adjustments:		
Depreciation and amortization of non-current assets	45	59
Profit (loss) from fixed asset sales and write-offs	0	2
Change in fair value of investment property	-9	215
Profit (loss) from financial investments	-5 462	-5 888
Other financial income and expenses	-1 233	-1 044
Interest paid and other financial expenses	1 939	1 538
Other adjustments	435	313
Income tax on dividends	0	-190
Changes in receivables from operating activities	-107	-374
Changes in payables from operating activities	141	-69
Net cash from operating activities	1 245	1 069
<i>Cash flows from investing activities</i>		
Sales of property, plant and equipment	0	1
Payments for property, plant and equipment	-115	-12
Payments for investment property	-1 911	-1 280
Acquisition of a subsidiary	-2	0
Loans granted	-1 456	-6 207
Repayment of loans	1 450	591
Interest received	132	0
Dividends received	1 232	0
Net cash used in investing activities	-670	-6 907
<i>Cash flows from financing activities</i>		
Proceeds from borrowings	8 625	16 613
Repayment of borrowings	-7 827	-9 016
Issuance of bonds	7 380	2 620
Bond redemption	-5 000	0
Principal payments of finance lease	-5	-2
Interest paid	-1 863	-1 494
Other financial expense	-361	0
Dividends paid	-1 232	-840
Net cash used in financing activities	-283	7 881
Total cash flows	293	2 043
<i>Cash and cash equivalents at the beginning of the financial year</i>	9 022	6 979
Net change in cash and cash equivalents	293	2 043
<i>Cash and cash equivalents at the end of the year</i>	9 315	9 022

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Note 36. Unconsolidated Statement of Changes in Equity

	Share capital	Statutory reserve	Retained earnings	Total
Balance 31.12.2016	19 200	1 920	59 990	81 110
Adjusted unconsolidated equity at 31.12.2016	19 200	1 920	63 135	84 255
Dividends declared	0	0	-840	-840
Comprehensive income for the year	0	0	6 317	6 317
Balance 31.12.2017	19 200	1 920	65 467	86 587
Value of interests under control and significant influence under the equity method	0	0	15 600	15 600
Cost value of interests under control and significant influence	0	0	-10 250	-10 250
Adjusted unconsolidated equity at 31.12.2017	19 200	1 920	70 817	91 937
Dividends declared	0	0	-1 232	-1 232
Comprehensive income for the year	0	0	5 496	5 496
Balance as of 31.12.2018	19 200	1 920	69 731	90 851
Value of interests under control and significant influence under the equity method	0	0	19 440	19 440
Cost value of interests under control and significant influence	0	0	-10 252	-10 252
Adjusted unconsolidated equity at 31.12.2018	19 200	1 920	78 919	100 039

Signed for identification purposes:

Jul

AS Deloitte Audit Eesti

[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mainor Ülemiste AS:

Opinion

We have audited the consolidated financial statements of Mainor Ülemiste AS and its subsidiaries (hereinafter „the Group“), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and consolidated notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Accounting Act and International Financial Reporting Standards as adopted in the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Management Board is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (EE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

2 May 2019



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

Profit allocation proposal

Mainor Ülemiste AS Board of Directors will propose during the general meeting of shareholders to allocate the 2018 net profit in the amount of 9 334 thousand euros as follows:

1. Dividends	1 400
2. Retained earnings	7 934
TOTAL	9 334

Mainor Ülemiste AS sales revenue according to EMTAK 2008

EMTAK	Field of activity	01.01.2018- 31.12.2018
68201	Leased or owned real estate renting and operating	6 521
68329	Other activities related to real estate management	2 277
	Total sales revenue	8 798