INTERIM REPORT 3 MONTHS 2019

UPP Olaines OÜ

INTERIM REPORT FOR 3 MONTHS 2019 (UNAUDITED)

Reporting period: 01.01.2019 – 31.03.2019 ('3 months 2019')

Company name: UPP Olaines OÜ

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MANAGEMENT REPORT FOR 3 MONTHS 2019

General information

UPP Olaines OÜ (hereafter 'the company') was established for the purpose of funding, acquiring and managing the real estate investment of Olaines Logistics Park: (buildings and land) located at "Šarlotes", Olaines county, Olaines parish, Latvia, cadastre number 8080 003 0029, registered in the Land Register compartment No.5439 of the city of Olaine parish. The company was established in 24.08.2017 and had no economic activity until 15.12.2018, when it acquired the cold storage warehouse Olaines Logistics Park.

To finance the acquisition of the property, the company issued secured subordinated bonds in the total nominal value of 6.215 million euros. The bonds were listed and admitted to trading on Nasdaq Tallinn Bond List on 29.11.2018.

The business performance is not affected by seasonal factors. The activities of the company have no environmental or social impact.

As the company has been established solely for the purpose funding, acquiring and managing the property, no strategic changes in the business are planned.

The management board is aware of no trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the company's prospects for the period after the reporting period of this interim financial statement outside the course of its regular business activities.

UPP Olaines OÜ is a going concern.

Management commentary for the first quarter of 2019 ('Q1 2019')

Delayed audited annual report for 2018

UPP Olaines OÜ has delayed the publishing of its audited annual report for 2018 because UPP Olaines OÜ audited annual report for 2018 has not yet been completed.

The delay is mainly caused by the fact that UPP Olaines OÜ and its subsidiary companies in Latvia are being audited for the first time and the process has taken longer than initially expected. UPP Olaines OÜ group consists of the Issuer UPP Olaines OÜ, who controls a direct Latvian subsidiary Olaines Logistics SIA, who controls the property holding company Olaines Logistics Parks SIA. Auditing two Latvian companies under the Estonian Issuer for the first time has taken longer compared to regular, recurring auditing.

The management of UPP Olaines OÜ confirms that the delay in audited annual report for 2018 is not voluntary. The management of UPP Olaines OÜ confirms the delay is not caused by economic, financial or business activities of UPP Olaines OÜ, or its subsidiaries.

Operations

No significant events occurred in Q1 2019 and all regular operations of the premise are running smoothly, including duly and timely collection of rental and utilities payments from the tenants.

As of the end of Q1 2019, there is no vacancy in the premises.

Management board and supervisory board

The management board of UPP Olaines OÜ has one member: Marko Tali, the chairman of the management board.

The supervisory board of UPP Olaines OÜ has three members: Mart Tooming, Tarmo Rooteman, Hallar Loogma.

No remuneration or other benefits have been allotted to the members of the management board and supervisory board.

There are no employees in the company besides the members of the management and supervisory board.

Key indicators of financial performance and position for 3 months 2019

(in EUR)	Q1 2019	Q1 2018
Net rental income	**649,713**	**624,518**
Operating profit	**644,147**	**505,913**
Profit for the period	**267,473**	**214,715**

(in EUR)	31.03.2019	31.12.2018
Investment property	**30,762,000**	**30,762,000**
Interest-bearing loans	**29,390,632**	**29,656,633**
Interest-bearing loans less shareholder loan	**26,342,332**	**26,608,333**

	3 months 2019
ROA (Net profit / Average total assets)	**2.1%**
DSCR with shareholder loan (Operating profit / Loan principal and interest payments on interest-bearing loans)	**1.1**
DSCR without shareholder loan (Operating profit / Loan principal and interest payments on interest-bearing loans less shareholder loan principal and interest payments)	**1.2**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed consolidated interim statement of comprehensive income

(in EUR)	Note	Q1 2019	Q1 2018
Sales revenue	4	649,713	624,518
Net rental income		**649,713**	**624,518**
Administrative expenses	5	(5,566)	(118,605)
Operating profit		**644,147**	**505,913**
Financial income / (cost)	6	(376,674)	(291,198)
Profit before income tax		**267,473**	**214,715**
Profit for the period		**267,473**	**214,715**
Total comprehensive income for the period		**267,473**	**214,715**

Condensed consolidated interim statement of financial position

(in EUR)	Note	31.03.2019	31.12.2018
Cash and cash equivalents	7	523,170	426,691
Accounts receivable and prepayments	8	281,913	300,576
Total current assets		**805,083**	**727,267**
Investment property	9	30,762,000	30,762,000
Total non-current assets		**30,762,000**	**30,762,000**
TOTAL ASSETS		**31,567,083**	**31,489,267**
Accounts payable and other settlements	10	939,259	862,915
Loans and borrowings	11	1,064,000	1,064,004
Total current liabilities		**2,003,259**	**1,926,919**
Loans and borrowings	11	28,326,632	28,592,629
Total non-current liabilities		**28,326,632**	**28,592,629**
TOTAL LIABILITIES		**30,329,891**	**30,519,548**
Share capital		2,500	2,500
Retained earnings		1,234,692	967,219
TOTAL EQUITY		**1,237,192**	**969,719**
TOTAL EQUITY AND LIABILITIES		**31,567,083**	**31,489,267**

Condensed consolidated interim statement of cash flows

(in EUR)	Note	3 months 2019	3 months 2018
Operating profit		**644,147**	**505,913**
Adjustments:			
Decrease / (increase) in accounts receivable and prepayments	8	18,663	74,146
Increase / (decrease) in accounts payable and other settlements	10	2,719	(124,185)
Total cash flow from / used in operating activities		**665,529**	**455,875**
Total cash flow from / used in investing activities		**0**	**2**
Repayments of loans and borrowings		(266,001)	(74,126)
Interest paid		(303,049)	(336,046)
Total cash flow from / used in financing activities		**(569,050)**	**(410,172)**
Net increase / (decrease) in cash and cash equivalents		**96,479**	**45,705**
Cash and cash equivalents at the beginning of the period	7	426,691	381,336
Cash and cash equivalents at the end of the period	**7**	**523,170**	**427,041**

Condensed consolidated interim statement of changes in equity

(in EUR)	Share capital	Retained earnings	Total equity
Balance at 31.12.2018	2,500	967,219	969,719
Total comprehensive income		267,473	267,473
Balance at 31.03.2019	**2,500**	**1,234,692**	**1,237,192**

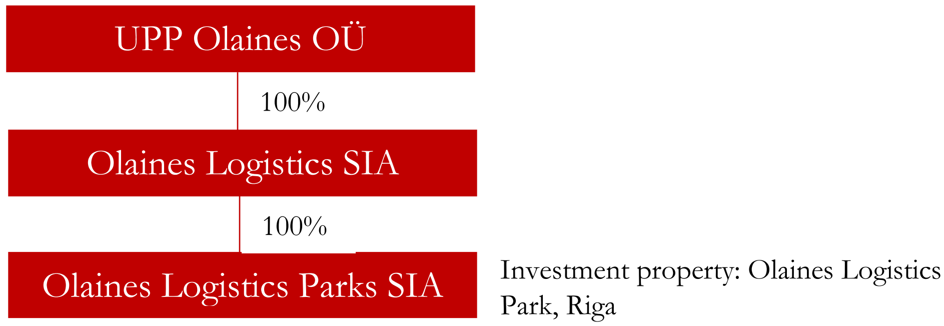
(in EUR)	Share capital	Retained earnings	Total equity
Balance at 31.12.2017	2,500	160,767	163,267
Total comprehensive income		214,715	214,715
Balance at 31.03.2018	**2,500**	**375,482**	**377,982**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Corporate information

UPP Olaines OÜ is a company established on 24.08.2017 and incorporated in Estonia.

The structure of UPP Olaines OÜ as of 31.03.2019 is as follows:



For more information on subsidiaries, see Note 3.

2. Basis of preparation

The unaudited condensed consolidated interim financial statements of UPP Olaines OÜ for 3 months 2019 have been prepared in accordance with IAS 34 Interim Financial Reporting.

Consolidated financial statements

The consolidated financial statements include the company and its subsidiaries.

The company controls a subsidiary when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The subsidiaries use the same accounting policies in preparing their financial statements as the parent company. Inter-company balances and transactions, including unrealised profits and losses, are fully eliminated in consolidation.

Business combinations are accounted for in the consolidated financial statements using the acquisition method. The cost of a business combination accounted for using the acquisition method is allocated to the fair value of assets, liabilities and contingent liabilities as at the date of acquisition. The difference between the cost of acquisition and the fair value of acquired assets, liabilities and contingent liabilities is recognised as goodwill. If fair value exceeds cost, the difference (negative goodwill) is immediately recognized as income of the period.

Investment property

Investment property is property (land or building or both) held or developed to earn rental income or for capital appreciation, rather than for the use in the production or supply of goods or services or for administrative purposes; or sale in ordinary course of business.

An investment property is initially recognized in the balance sheet at cost, including any expenditure items directly attributable to the acquisition of the property (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs necessary for the completion of the acquisition). After initial recognition, investment property is measured at fair value at each balance sheet. The fair value is determined by independent appraisers, being the price that would be received to sell an asset in an orderly transaction between market participants at the date of measurement.

In determining the fair value, the method of discounted cash flows is used. In order to calculate the present value of a property's future cash flows, the appraiser has to forecast the property's future rental income (including rent per 1 square meter and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate, which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure, not asset structure. The discounted cash flow method is used to determine the value of investment properties that generate stable rental income.

Gains and losses arising from changes in the value of investment property are recognized in profit or loss in the period in which they arise under the 'Gain / loss from revaluation of investment property'.

An investment property is derecognized from the balance sheet on disposition or when the property is permanently withdrawn from use and the asset is expected to generate no future economic benefits. Gains and losses arising from the derecognition of investment property are recognized in profit or loss in the period of derecognition (in Other income and other expenses, respectively).

When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the group where the item has been transferred are applied. For a transfer from investment property to property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

Financial liabilities

All financial liabilities (trade payables, borrowings, accrued expenses and other current and non-current liabilities) are initially measured at cost that also includes all directly attributable expenditure incurred in the acquisition. Subsequent measurement is at amortized cost.

The amortized cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the balance sheet in their net realizable value. Non-current financial liabilities are initially recognized at fair value less transaction costs incurred. Subsequently, these non-current financial liabilities are measured at amortized cost using the effective interest rate method. Interest expenses on financial liabilities are recognized on the line 'Interest income' and 'Interest expense' in the income statement on an accrual basis.

A financial liability is classified as current if it is due within 12 months from the balance sheet date or if the company does not have an unconditional right to postpone payment of the liability more than 12 months after the balance sheet date. Loans with due date 12 months after the balance sheet date which are refinanced as non-current after the balance sheet date but before the financial statements are authorized for issue, are recognized as current.

A financial liability is derecognized from the balance sheet when the obligation under the liability is settled, cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents are cash and short (up to 3 months from the moment of acquisition) high-liquidity investments that are readily convertible into a known amount of cash for up to three months from the actual transaction date and which are subject to insignificant risk of changes in market value.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from transactions. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the group and the revenue can be measured reliably.

Rental income from investment properties is recognized on a straight-line basis over the lease term.

Income from intermediation of services (utility fees of tenants, leases, and other intermediated services) the company acts as an agent, which means that such revenues are not presented in gross method, but are offset against the expense on services purchased.

Finance income is recognized on an accrual basis, using the effective interest rate method.

Financial assets

All financial assets are initially recognized at cost, which is the fair value of the consideration paid for the financial asset. Acquisition costs are any costs that are directly attributable to the acquisition of the financial asset, including fees and commissions paid to agents and advisers, as well as any non-recoverable levies, taxes and duties.

Upon initial recognition, financial assets in the scope of IAS 39 are classified in one of the following four categories of financial assets, with a principle of measurement detailed next to each:

a) Financial assets at fair value through profit or loss – fair value
b) Loans and receivables – amortized cost
c) Held-to-maturity investments – amortized cost
d) Available-for-sale financial assets – fair value or cost in case of equity instruments, the fair value of which cannot be reliably measured

Financial assets are derecognized when the company loses the right to cash flow from the financial assets and also when a liability arises to transfer these cash flows in full extent without material delay to third parties, to whom most of the risks and benefits related to the financial assets are transferred.

Derivative instruments

The company may use interest rate swaps to hedge risks related to changes in interest rates of loans and borrowings. Such derivative instruments are initially recognized in the balance sheet at the fair value upon entering the contract and are subsequently revaluated in accordance with the change in the fair value of the instrument at the balance sheet date. A derivative instrument with a positive fair value is recognized as an asset and a derivative instrument with a negative fair value is recognized as a liability. To determine fair value of interest rate swaps, bank quotations at the balance sheet date are used as a basis. Derivative instruments are measured at fair value through profit or loss.

Taxation

The company and taxation in Estonia

According to the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends. The tax rate on (net) dividends is 20/80. Income tax arising from dividend distribution is expensed when dividends are declared (when the liability arises).

Subsidiaries in Latvia

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax (15%). Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 01.01.2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Transitional provisions of the law allow for reductions in the income tax payable on dividends, if the entity has unused tax losses or certain provisions recognized by 31.12.2017.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia.

Leases

Leases, which transfer substantially all the risks and rewards incidental to ownership to the lessee are classified as finance leases. Other leases are classified as operating leases.

Assets subject to operating leases are recognized in the lessor's balance sheet. Operating lease payments received and made are recognized as income and expenses, respectively, on a straight-line basis over the period of the lease.

Measurement of fair values

The company measures certain non-financial assets such as investment property at fair value at the end of each reporting period.

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

- In the principal market for the asset or liability;

Or

- In the absence of a principal market, in the most advantageous market at the measurement date.

The company must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs significant to the fair value measurement as a whole:

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

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

3. Subsidiaries

The company has a controlling interest in the following entities:

Name	Immediate parent entity	Place of incorporation	Ownership interest		Activity
			31.03.2019	**31.12.2018**	
Olaines Logistics SIA	UPP Olaines OÜ	Latvia	100%	100%	Holding company
Olaines Logistics Parks SIA	Olaines Logistics SIA	Latvia	100%	100%	Asset holding company

4. Sales revenue segment information

By regions	Q1 2019	Q1 2018
(in EUR)		
Latvia	649,713	624,518
Total	**649,713**	**624,518**

By activities	Q1 2019	Q1 2018
(in EUR)		
Rental income	649,713	624,518
Total	**649,713**	**624,518**

5. Administrative expenses

	Q1 2019	Q1 2018
(in EUR)		
Consulting services	0	(100,000)
Legal services	0	(9,627)
Banking services	(161)	(3,321)
Accounting services	(1,535)	(4,212)
Securities services fees	(2,267)	(1,445)
Salaries (including taxes)	(1,603)	0
Total administrative expenses	**(5,566)**	**(118,605)**

6. Financial income (cost)

	Q1 2019	Q1 2018
(in EUR)		
Interest expense on bonds	(108,763)	(108,762)
Interest expense to United Partners Property OÜ	(45,724)	(45,499)
Interest expense on bank loan	(150,935)	(136,937)
Change in fair value of interest rate swap instrument	(71,434)	0
Other financial income	182	0
Total financial income / (cost)	**(376,674)**	**(291,198)**

7. Cash and cash equivalents

	31.03.2019	31.12.2018
(in EUR)		
Demand deposits	523,170	426,691
Total cash and cash equivalents	**523,170**	**426,691**

8. Accounts receivable and prepayments

	31.03.2019	31.12.2018
(in EUR)		
Customer receivables	117,895	134,724
Prepaid expenses	164,018	165,852
Total accounts receivable and prepayments	**281,913**	**300,576**

9. Investment property

As of 31.03.2019, the company has made investments to the following property:

Name	Location	Area (m2)	Year of construction	Market value at 31.03.2019
(in EUR)				
Olaines Logistics Park	Olaine region in Riga, Latvia	37,204	2007	30,762,000

The valuation of the investment property as of 31.03.2019 is based on the valuation report dated 08.05.2019, conducted by an accredited and independent appraiser dated and commissioned for the annual 2018 audited report of UPP Olaines OÜ.

As of 31.03.2019					
Property	**Fair value**	**Valuation method**	**Discount rate**	**Exit yield**	**Annual rental revenue**
Olaines Logistics Park	30,762,000	DCF	8.7%	8%	2,549,904

Independent expert valuation in regards to the fair value of investment property is based on the following:

- Rental income: real growth rates and rents under current lease agreements are used;
- Discount rate: Calculated using the weighted average cost of capital (WACC) associated with the investment property
- Exit yield rate: based on the estimated level of return at the end of the estimated holding period, taking into consideration the forecasted market conditions and the individual characteristics and risks of the property

The table below contains information about significant unobservable inputs used 31.03.2019 in measuring investment properties categorized to Level 3 fair value hierarchy.

Type of asset class	**Valuation method**	**Significant unobservable input**	**Range of estimates**	**Fair value measurement sensitivity to unobservable inputs**
Investment property	DCF	Exit yield	7.5%-8.5%	An increase in exit yield in isolation would result in a lower value of Investment property.
		Discount rate	8.2%-9.2%	An increase in discount rate in isolation would result in a lower value of Investment property.
		Rental growth p.a.	0-3.0%	An increase in rental growth in isolation would result in a higher value of investment property.
		Long term vacancy rate	0-5%	An increase in long-term vacancy rate in isolation would result in a lower value of investment property.

10. Accounts payable and other settlements

	31.03.2019	**31.12.2018**
(in EUR)		
Payables to suppliers	172,638	164,308
Tax payables	51,923	56,313
Prepayments from customers	162,347	162,347
Interest payables	63,158	60,788
Derivative instruments	488,313	416,879
Other short-term liabilities	880	2,280
Total accounts payable and other settlements	**939,259**	**862,915**

Derivative instruments denote an interest rate swap used to hedge interest rate risk stemming from floating component of bank loan interest rate. Derivative instruments are measured and presented at fair value.

11. Loans and borrowings

31.03.2019	Short-term part	Long-term part	Total	Currency	Interest rate	Due date
(in EUR)						
Bank loans	1,064,000	19,063,332	20,127,332	EUR	3m Euribor+2,4%	30.11.2022
Bonds	0	6,215,000	6,215,000	EUR	7%	10.11.2022
Shareholder loan	0	3,048,300	3,048,300	EUR	6%	Not specified
Total loan liabilities	**1,064,000**	**28,326,632**	**29,390,632**	EUR		

12. Transactions with related parties

Parent entities

The company is controlled by the following entities:

Name	Type	Place of incorporation	Ownership interest	
			31.03.2019	**31.12.2018**
United Partners Property OÜ	Immediate parent entity	Estonia	100%	100%
United Partners Group OÜ	Ultimate parent entity and controlling party	Estonia	100%	100%

During 3 months 2019, related party transactions occurred regarding the loan granted by United Partners Property OÜ to UPP Olaines OÜ, as detailed below:

Loans from United Partners Property OÜ	3 months 2019
(in EUR)	
Beginning of the period	3,048,300
Loans advanced	0
Loan repayments made	0
Interest charged	(45,724)
Interest paid	(43,354)
End of the period	3,048,300

STATEMENT OF THE MANAGEMENT BOARD

The CEO and member of the management board confirms that financial and other information published in this interim report of UPP Olaines OÜ for the 3 months ended 31st March 2019 provides a true and fair view of the company's business development, financial performance and financial position.

According to the Terms and Conditions of UPP Olaines OÜ Subordinated Note Issue section 3.5.3 and 3.5.4, the Management confirms that the Company's debt service coverage ratio on consolidated level is greater or equal than 1.1 for the 3 months 2019 and that there has been no occurence of an Extraordinary Early Redemption Event in 3 months 2019.

Signed digitally,

Marko Tali

Chairman and Member of the Management Board of UPP Olaines OÜ

04.06.2019, Tallinn